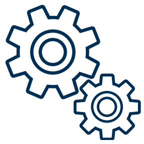
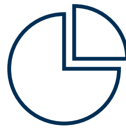
ANNUAL REPORT

DEFINITY

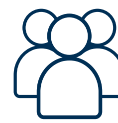
Publicly listed in 2021, Definity Financial Corporation is the parent company to some of Canada's most long-standing and innovative property and casualty insurance companies and brands, including Economical Insurance, Sonnet Insurance, Family Insurance Solutions, and Petline Insurance. By investing in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



Over
150
years
of Operations in Canada



6th
Largest
P&C Insurance Carrier in Canada[1]



3rd
Largest
Carrier in Broker Channel in Canada[1]

Award-winning Digital Platforms

Driven by
Advanced data analytics capabilities and a passion for innovation

Profitable Growth

GWP[2] CAGR of **12%**

Underwriting Income[3] Improvement of
~$263M
in 2019-2023

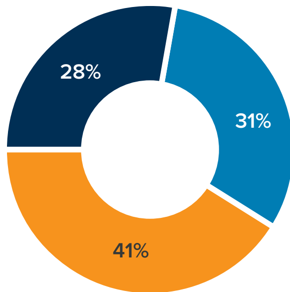
definity. economical INSURANCE | sonnet INSURANCE | petline INSURANCE | family INSURANCE

1. As of December 31, 2022, based on direct written premiums ("DWP") from MSA Research. Market share of Canadian P&C insurance industry DWP of $73.2 billion for the twelve months ended December 31, 2022, excluding accident and sickness insurance and policies for insurance written outside of Canada, Canada Guaranty Mortgage Insurance Company, Genworth Financial Mortgage Insurance Company, Green Shield Canada, Insurance Corporation of British Columbia, Lloyd's Underwriters Canada, Saskatchewan Auto Fund, and Saskatchewan Government Insurance.
2. Restated under current GWP definition. GWP is a supplementary financial measure. Refer to Section 13 — Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios in the Q4-2023 MD&A for further details.
3. 2019 under IFRS 4 and 2023 under IFRS 17. This is a non-GAAP financial measure. Refer to Section 13 – Supplementary Financial Measures and non-GAAP Financial Measures and Ratios in the Q4-2023 MD&A for further details.

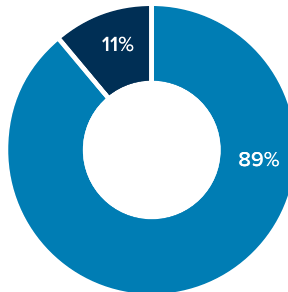
OUR BUSINESS

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

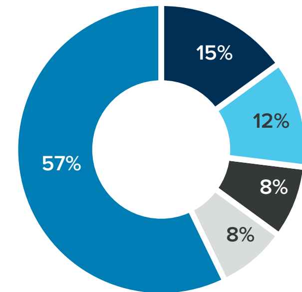
$4.0B in Gross Written Premiums (GWP)[2] in FY-2023[1]



- Personal Auto
- Personal Property
- Commercial Lines



- Broker
- Direct

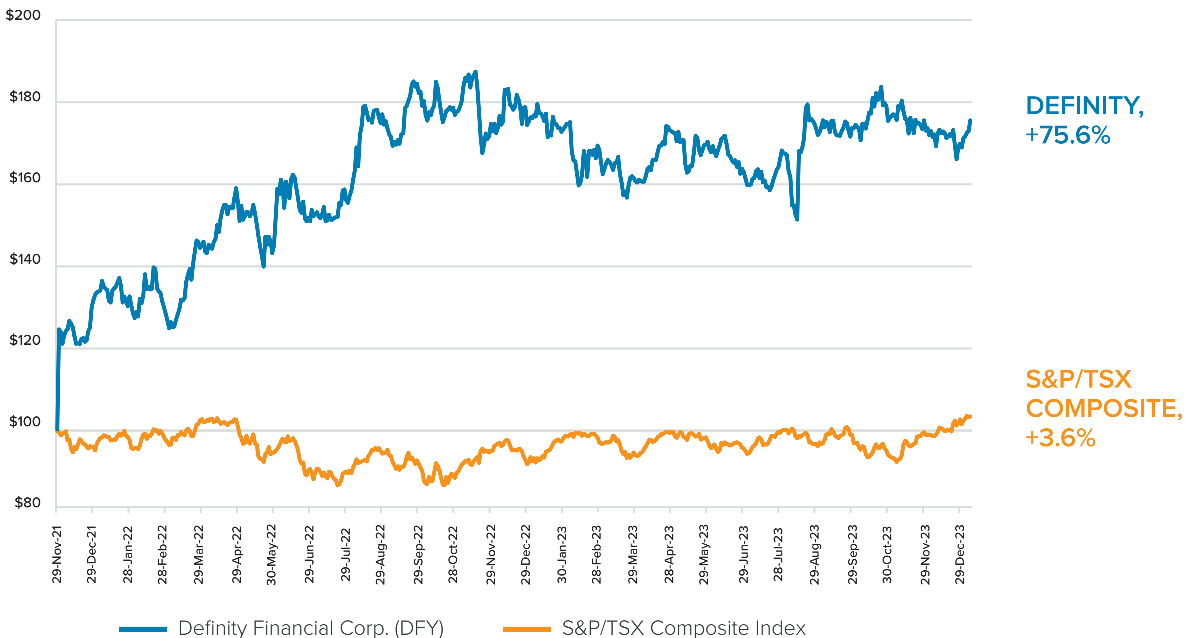


- Ontario
- Alberta & Prairies
- British Columbia
- Atlantic
- Québec

SHARE PRICE PERFORMANCE

Our ambition is to be one of Canada's leading and most innovative P&C insurers by helping our communities adapt and thrive, and in the process to generate long-term value for our shareholders.

Total Cumulative Return (assuming $100 investment)



The above line graph compares the total cumulative return of $100 invested in Definity Financial Corporation Common Shares with the total cumulative return of the S&P/TSX Composite Index for the period between November 18, 2021 and December 31, 2023. Definity's total shareholder return, including reinvested dividends, of 75.6% for this period was higher than the S&P/TSX Composite Index's total shareholder return of 3.6%.

1. 2023 GWP breakdown by business line, distribution channel, and region.
2. Restated under current GWP definition. GWP is a supplementary financial measure. Refer to Section 13 — Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios in the Q4-2023 MD&A for further details.

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

WE
ARE ALL
OWNERS

WE INSPIRE
CUSTOMER
CONFIDENCE

WE WORK
TOGETHER TO
WIN TOGETHER

Deeply Engaged Team

~3,500 employees

in **13 regional offices** and a national network of over **600 independent brokerages firms**

definity. INSURANCE
111 WESTMOUNT ROAD SOUTH
SHIPPING & RECEIVING
VISITOR & EMPLOYEE PARKING
RECEPTION

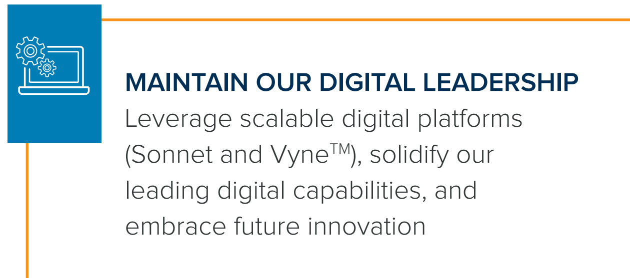
OUR STRATEGY

STRATEGIC OBJECTIVES

Our strategy is based on the achievement of the following four objectives over the coming years.

BECOME ONE OF THE FIVE LARGEST P&C INSURERS IN CANADA

Leverage organic and inorganic growth to further our current scale and market position



MAINTAIN OUR DIGITAL LEADERSHIP

Leverage scalable digital platforms (Sonnet and Vyne™), solidify our leading digital capabilities, and embrace future innovation

CONSISTENTLY DELIVER DISCIPLINED FINANCIAL MANAGEMENT

Deliver on our operational plans to ensure we achieve our financial targets, while maintaining focus on strategic capital management

POSITION DEFINITY AS A PURPOSE-DRIVEN SUSTAINABILITY LEADER

Make a positive impact by delivering on our climate change and diversity and inclusion commitments

STRATEGIC PILLARS

Our strategic pillars remind us how we build sustainable competitive advantage over the medium and long term.

COMBINE SOUND FUNDAMENTALS WITH EXCEPTIONAL EXPERIENCES

Deliver superior customer and broker experiences while maintaining a disciplined focus on fundamentals such as analytics, underwriting, pricing, and service excellence

DRIVE INDUSTRY-LEADING AGILITY AND PRODUCTIVITY THROUGH INNOVATION AND SCALABLE PLATFORMS

Ensure our processes and systems are efficient and flexible to fuel long-term growth in an ever-changing industry while meeting our sustainability commitments

STRENGTHEN OUR PRESENCE IN DISTRIBUTION

Drive growth and synergies for the national broker platform while meeting more of our customers' insurance needs directly

AUGMENT ORGANIC GROWTH AND DIVERSIFICATION INORGANICALLY

Actively pursue acquisitions in relevant domains and prepare for integration and synergy realization

EMPOWER TOP TALENT WITH AN INCLUSIVE CULTURE THAT DELIVERS ON OUR BRAND

Build an engaging values-based culture where customer focus, operational excellence, innovation, and collaboration help us deliver on our promise

ENVIRONMENTAL, SOCIAL, & GOVERNANCE[1]

Helping our clients and communities adapt and thrive

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 is responsible for the development of sustainability strategies and implementation plans, and provides day-to-day oversight, thought leadership, and execution support for our business lines and corporate functions. Several cross-functional groups support the day-to-day development and execution of ESG-related priorities.

Materiality

A biennial materiality assessment is used to identify the ESG issues that could influence Definity s ability to execute on our strategy, financial performance, and valuation. As part of this process, we engage employees, suppliers, brokers, customers, senior management, Board of Directors, and investors through direct consultation and surveys. We also use a third party service to assess the frequency and importance of material topic mentions in traditional media, social media, peer reporting, regulations, voluntary standards, and frameworks for our sector. The key output of this assessment is the identification of the ESG issues that we consider most material to our business, including climate change, data security, responsible investing & financing, diversity & inclusion, customer practices, and innovation & technology.

1. See www.definityfinancial.com/sustainability for our most recent ESG disclosures.

Climate Change Priorities

PRODUCTS, PRICING & CLAIMS
Targeted integration of sustainability factors in product, pricing, and claims to manage climated-related risks and opportunities

OPERATIONS
Advance key initiatives toward net-zero objective

ADVOCACY & ENGAGEMENT
Work with community leaders and partners to support climate adaption and resiliency

CLIMATE CENTRE OF EXCELLENCE
Develop key capabilities to manage climate-related risks and opportunities

INVESTMENTS & FINANCE
Incorporate climate risks and opportunities as core elements of investment decision-making

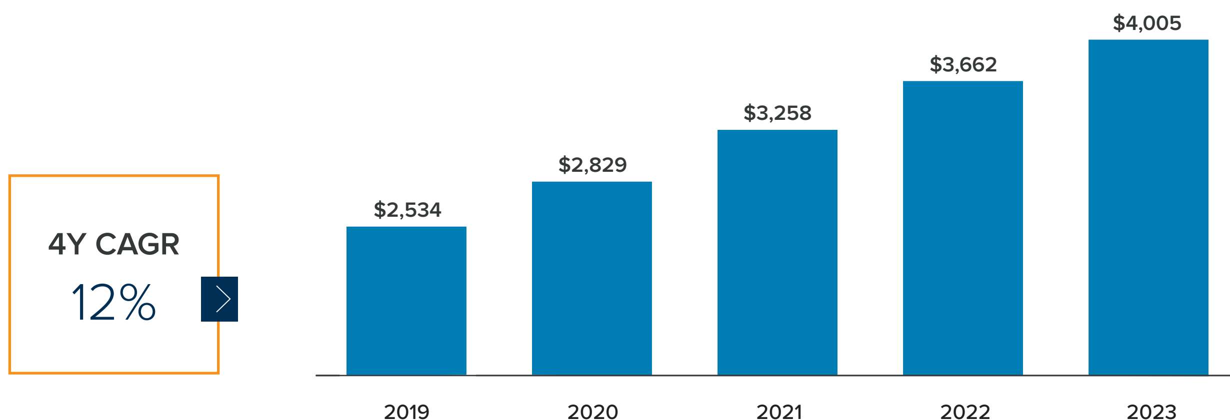
RISK & ACTUARIAL
Provide risk management and expertise to inform enterprise actions to manage physical and transition risks impacting the industry

GOVERNANCE & REPORTING
Ensure regulatory requirements and disclosure needs are met

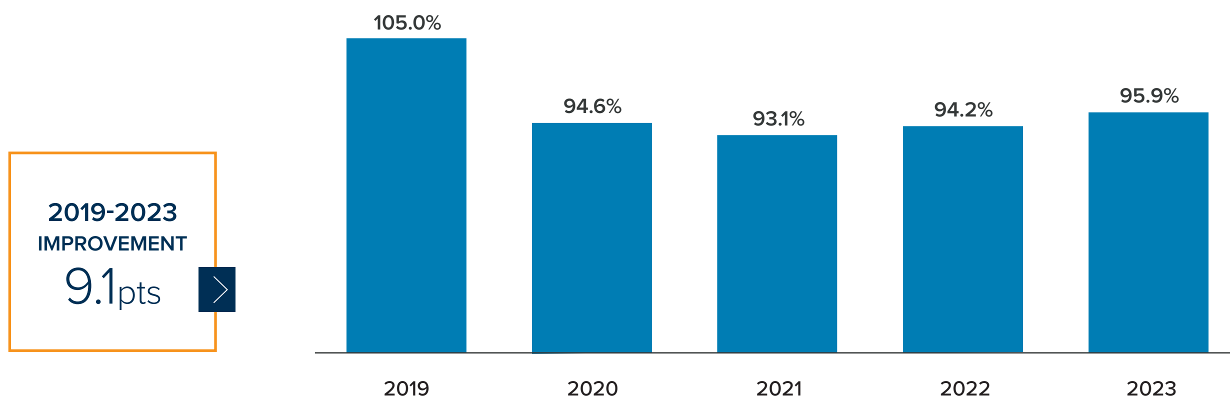
FINANCIAL TARGETS

Over the next year, our financial targets are to:

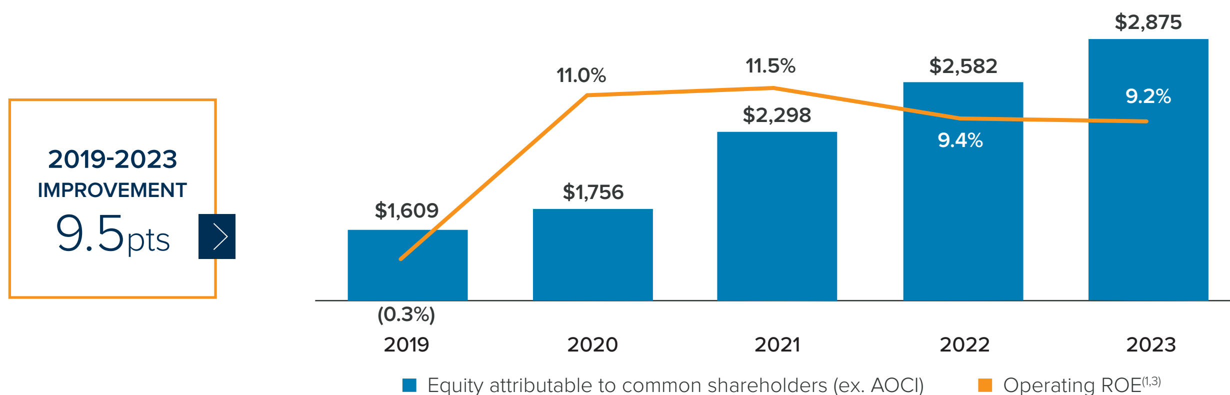
Grow GWP[1,2] at a rate of upper single digit to approximately 10%



Maintain a full year combined ratio[1] in the mid-90s



Generate a full year operating ROE[1,3] in the range of 10% to below teens

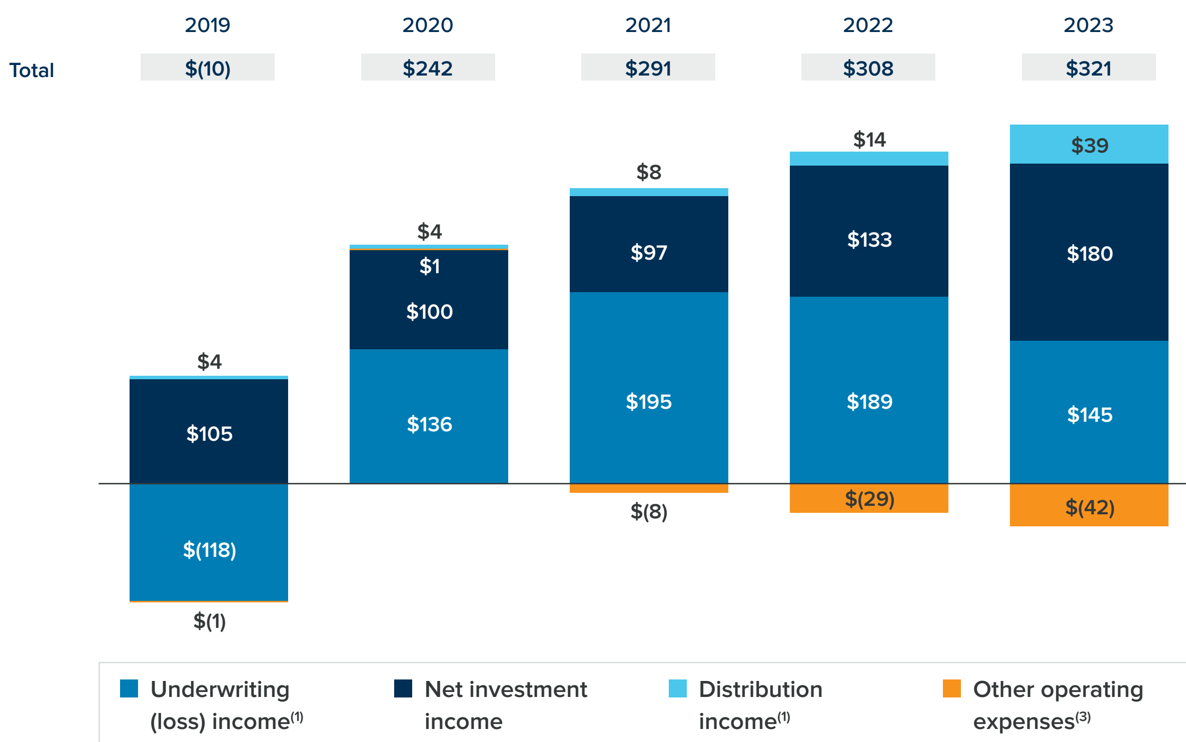


Note: Figures in millions, unless otherwise noted. The years 2019-2021 are under IFRS 4 and 2022-2023 are under IFRS 17.

1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 13 –Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2023 MD&A for further details.
2. Restated under current GWP definition.
3. We expect to achieve further improvements to operating ROE over time, targeting the low teens, through future capital optimization and the benefits of increased scale.

PERFORMANCE AT A GLANCE

Operating Income (Loss)[1]



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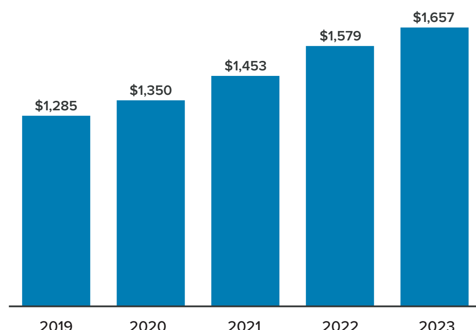
1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 13 –Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2023 MD&A for further details.
2. Dividend declared February 15, 2024.
3. Includes public company expenses, interest expense, non-controlling interests, and other.

UNDERWRITING PERFORMANCE

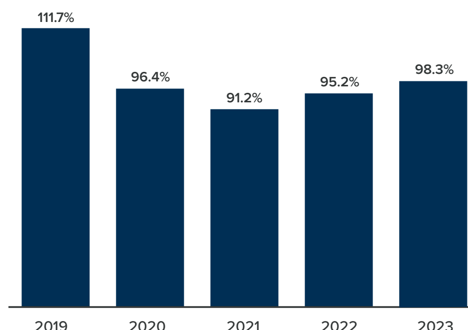
Personal Auto GWP[1,2] Growth

6.6% 4-Year CAGR[3]



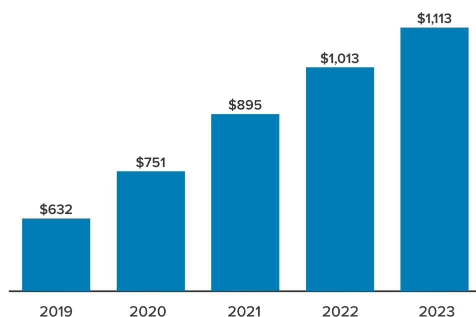
Personal Auto Combined Ratio[2,4]

13.4-point improvement in Combined Ratio[2]



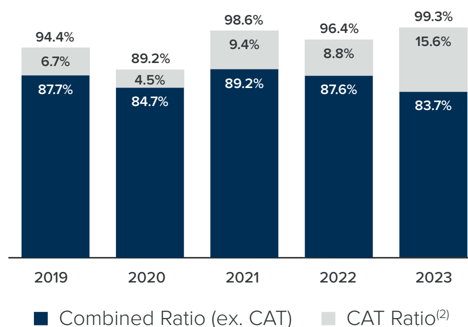
Personal Property GWP[2] Growth

15.2% 4-Year CAGR[3]



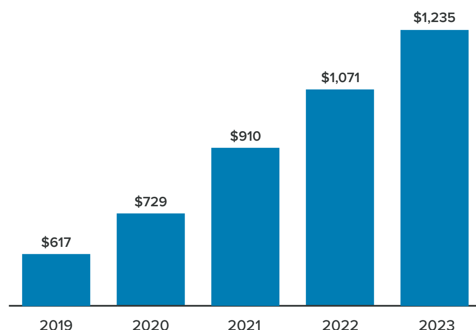
Personal Property Combined Ratio[2,4]

4.0-point improvement in Combined Ratio[2] (ex. CAT)



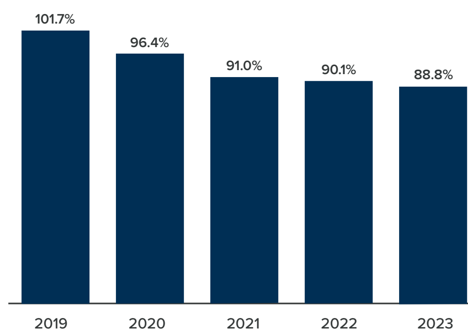
Commercial Insurance GWP[2] Growth

18.9% 4-Year CAGR[3]



Commercial Insurance Combined Ratio[2,4]

12.9-point improvement in Combined Ratio[2]



Note: Figures in millions, unless otherwise noted.

1. Restated under current GWP definition.
2. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 13 –Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2023 MD&A for further details.
3. 4Y CAGR from 2019-2023.
4. The years 2019-2021 are under IFRS 4 and 2022-2023 are under IFRS 17.

STRONG BALANCE SHEET AND SIGNIFICANT FINANCIAL FLEXIBILITY

Financial Capacity[1]	Total Excess Capital	Cash & Investments
$1,270M	$382M	$5.1B

Financial Strength Ratings

A- (excellent) — AM BEST

A — DBRS

Catastrophe Reinsurance Protection[2]

Approximately $2B

Capital Deployment 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 SHAREHOLDERS 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 market. To fund these transactions, we expect to utilize excess capital, increase leverage, and, if required, access the capital markets.

SHARE BUYBACKS
We will consider the use of share buybacks as a flexible capital management tool.

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 13 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2023 MD&A for further details.
2. As at January 1, 2024.

LETTER FROM THE BOARD CHAIR

Dear shareholders,

I am pleased to share my reflections on another important year for Definity. Throughout 2023, we remained focused on our ambition to be one of Canada's leading and most innovative insurers and on our promise of making insurance better for our customers, our employees, our broker partners, and our communities. As we continue to deliver on our commitments, a compelling growth story is unfolding. Our inorganic growth agenda gained great momentum in 2023, as the national broker platform we've built now represents approximately $1 billion in insurance premiums while driving earnings growth and diversification for Definity. The next stages of that agenda are well supported by our new corporate structure under the Canada Business Corporations Act, which puts us on an equal footing with our major competitors as we pursue our goal of becoming one of the five largest property and casualty insurers in Canada.

We have demonstrated our ability to build sustainable competitive advantages over the medium and long term, with a focus on pairing sound fundamentals with exceptional experiences for our valued broker partners, customers, and employees. At the same time, we continue to drive industry-leading agility and productivity through efficient, flexible, and scalable processes to fuel our long-term growth in a dynamic competitive environment. All of this is complemented by an inclusive culture where customer focus, operational excellence, innovation, and collaboration drive high-performance in support of our long-term plans.

Industry dynamics continue to be impacted by climate change, which underscores the importance of our purpose – to build a better world by helping our clients and communities adapt and thrive. We continue to manage the impact of severe weather across the full range of our operations: our products, services, claims management processes, actuarial insights, risk management practices, and stakeholder engagement. We have diversified our investment portfolio across industries and regions and have adopted targets to reduce the financed emissions intensity of our equity and corporate bond investments as a means of managing climate-related risk to our investments. And when severe weather strikes, our exceptional catastrophe response teams are on the ground to be there for our customers when they need us most. Our full year combined ratio of 95.9% demonstrates the strength and resilience of our operating model, which delivered on our mid-90s combined ratio target despite 6.2 points of catastrophe losses.

As a longstanding Canadian insurance provider, we remain committed to giving back to the communities where we live and work. A cornerstone of that commitment is the pledge we made as part of our demutualization in 2021 – to contribute 1% of net profit before taxes from our insurance operations to the Definity Insurance Foundation until at least 2026. In 2023, this amounted to a contribution of $2.45 million, underscoring our dedication to our purpose of building a better world by helping our clients and communities adapt and thrive.

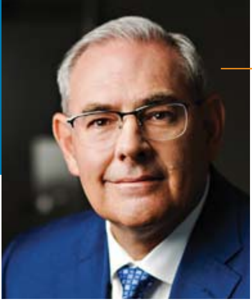
We have demonstrated our ability to build sustainable competitive advantages over the medium and long term, with a focus on pairing sound fundamentals with exceptional experiences for our valued broker partners, customers, and employees.

I'd like to thank my fellow Board members for their continued support and guidance, particularly in navigating the challenging and dynamic environment of our industry. I would also like to extend gratitude to Barbara Fraser, who is retiring from our Board following a tenure of more than a decade. Definity has benefitted greatly from Barbara's significant contributions to the Board, thoughtful perspectives, and valuable insights over the years.

Our strong leadership, organizational resilience, and deep bench strength of top-tier talent have been instrumental in steering the company through a challenging year for the industry. My confidence remains high in our ability to achieve great success as we look to the future. I am excited about the opportunities that lie ahead and Definity remains committed to delivering sustainable value for our shareholders, customers, and communities alike.

JOHN BOWEY

Board Chair



LETTER FROM THE CEO

Dear shareholders,

Looking back on the year 2023, I am proud of the strong results Definity achieved. We continued to deliver on our commitments and financial goals while striving to make insurance better for our customers, our employees, our broker partners, and our communities. 2023 was a year that saw the lingering effects of supply chain challenges, a concerning rise in auto theft, and significant severe weather events that truly underscored the importance of our commitment to be there when our customers need us most.

Our overall results for the year reflect the strength of our organization and the focus on our goal of becoming one of the five largest P&C insurers in Canada. We had solid overall premium growth of 9.4% in 2023, ending the year with annual premiums exceeding $4 billion for the first time. Our full year combined ratio of 95.9% helped generate a full year operating ROE of 9.2% with 11.1% growth in book value per share.

Going forward, we see continued strength in underwriting profitability combined with expansions in investment and distribution income supporting an increase in operating ROE to 10% or more in 2024. The confidence in our outlook is demonstrated by the more than 16% increase in our quarterly dividend, which delivers on our objective to consistently grow our dividend over time. While still early in our life as a public company, we've now increased the dividend by a cumulative 28% from its starting point at IPO.

OPERATING HIGHLIGHTS

Personal Auto

In our Personal Auto business, our early and deliberate action on rate increases helped our top-line growth to reach nearly 5% for the year with a combined ratio in the high 90s. We are well positioned for 2024 and we continue to see strong retention in the broker business. Auto claims frequency and the rate of inflation for auto physical damage have stabilized now that driving patterns and loss severity trends have normalized to pre-pandemic levels.

Even so, industry-level challenges persist in this line of business, including the impact of auto theft and lingering cost pressures from inflation and supply chain issues that continue to drive up the cost of repairs, replacement cars, and rentals. In addition, rate intervention in Alberta has created a headwind to profitability, particularly for our digital direct business. The regulatory restrictions that have been imposed position industry pricing well below severity and inflationary trends in the auto environment (which are significantly different than broad-based measures of inflation generally), and will inevitably lead to fewer insurance options for Albertans and price volatility over time. While we are committed to working with government on appropriate solutions, the recent rate intervention requires us to carefully consider how we deploy capital in the province, and we expect to restrict Sonnet's activities in Alberta for the foreseeable future.

Personal Property

Premium growth in our personal property business for 2023 was close to 10%, reflecting continued firm market conditions and the impact of portfolio transfer activity on our volumes. Our focus on disciplined underwriting and proactive rate actions have enabled us to earn an underwriting profit in 2023 despite 15.6 points of catastrophe losses. I want to thank our dedicated and professional catastrophe response teams who were on the ground helping our customers in their communities. We continue to target a mid-90s combined ratio for the personal property line of business on an annual basis.

Commercial Insurance

In our Commercial Insurance business, strong results reflect a mix of internal and external factors, including firm market conditions, our underwriting capabilities, and our comprehensive value proposition that's well supported by our valued broker partners across Canada. With an annual performance achieving 15% premium growth and a high 80s combined ratio, Commercial Insurance is an important engine for driving our ambition to become a top-five player. We are scaling small business by leveraging our SME Pathway tool that allows brokers to quote and bind more than half of their business digitally. In specialty lines, we have strong momentum in Directors and Officers, Errors and Omissions, Surety, and large account capabilities. Looking ahead, we anticipate maintaining double-digit to low-teens growth in 2024 while sustainably delivering annual combined ratios in the low 90s.

National Broker Platform

Our national broker platform is now a thriving part of our business. In 2023, we completed two notable broker acquisitions which enabled us to accretively expand the platform's reach. McDougall, McFarlan Rowlands, and Drayden Insurance have been valued partners for many years, and our investments in these companies have improved our access to high-quality portfolios with reliable distribution income. In a short period of time, we have built a broker platform with over $1 billion in annual premiums and have meaningfully increased the earnings contribution from our distribution operations to help balance the volatility inherent in insurance results and our overall weighting toward regulated lines of business.

Investments

Net investment income increased to $180 million, a robust growth of 35% compared to 2022, driven primarily by higher interest income that was enhanced by our active management of the investment portfolio in the rising interest rate environment. Growth is expected to slow in 2024 as the yield environment is expected to moderate, resulting in expected full year net investment income exceeding $190 million.

We continue to enhance our strategic partnerships, explore new relationships to enable growth in target segments, promote innovation, access new markets, and facilitate the development of new capabilities.

DELIVERING ON OUR CORPORATE STRATEGY

I am incredibly proud of the ways we've continued to deliver on our strategic objectives throughout 2023. In our journey to become one of the five largest P&C insurers in Canada, we now stand sixth. We are making great progress, and our organic growth remains ahead of the industry. We continue to enhance our strategic partnerships, explore new relationships to enable growth in target segments, promote innovation, access new markets, and facilitate the development of new capabilities. Moving forward, we expect to grow GWP at an upper single digit to approximately 10% rate.

We are maintaining our digital leadership in the industry, with the leading digital P&C insurance carrier in Canada in Sonnet. In 2023, we introduced Sonnet Shift, a usage-based insurance offering that is the first of its kind to allow customers quarterly price adjustments based on their driving. Our work to transition our core insurance platform to Guidewire Cloud made us the first three-time Canadian winner of the Guidewire Innovation Award in 2023. This work positions us well to leverage future trends with our partner and innovation network, including our Google partnership leveraging advanced data systems, and our AI-powered crop insurance solution in partnership with Agi3 Risk Services.

Definity is delivering on our performance targets while maintaining a focus on strategic capital and disciplined financial management. As we look ahead, we target growing premiums at an upper single digit to approximately 10% rate, a full year combined ratio in the mid-90s and an annual operating ROE in the range of 10% to below teens.

Against that backdrop, we remain committed to positioning Definity as a purpose-driven sustainability leader, making a positive impact by delivering on our climate change and diversity and inclusion commitments. Our goals include:

- Achieving net-zero greenhouse gas emissions in our operations and investment portfolio by 2040 or sooner
- By 2026, at least 30% of roles at the combined vice-president and Executive Leadership Team levels will be held by women and at least 15% will be held by [individuals who identify as] Black, Indigenous, People of Colour (BIPOC), LGBTQ+, and/or persons with [dis]abilities

We are making good progress as we embed these priorities into our business operations and develop integral partnerships. This includes our continuation as a proud member of Climate Proof Canada, advocating for the timely and ambitious implementation of Canada's National Adaptation Strategy, which identified key targets to move Canada forward with a "whole of society" approach.

As a P&C insurer, our business is centered on supporting customers when they need us most. When a customer suffers a loss, it's our time to deliver on our promise of making insurance better. We are transforming claims management by leveraging data and advanced analytics to deliver superior customer experiences consistently, while prudently managing our claims costs. In 2023, we welcomed Craig Richardson to Definity as Senior Vice-President and Chief Claims Officer. With more than 25 years of leadership experience in auto and property claims, Craig is responsible for delivering strategies and capabilities for our Claims function, including overseeing our multi-year claims transformation effort focused on delivering a superior claims experience while prudently managing claims costs.

All of this progress is made possible by the engaged and high-performing teams we are fortunate to have across Definity. Our employees embrace innovation, teamwork, and an ownership mindset which are all integral to how we deliver on our commitments today and in the years to come. Our investment in talent has strengthened our leadership pipeline and our winning culture of high-performance.

The insurance industry has always weathered various external dynamics to maintain operations. I believe we are well positioned to continue managing our company with resilience and stability through:

- Growing customer and broker expectations and a higher demand for digital experiences
- Continued industry consolidation with M&A across carriers and distributors
- Environmental and social changes in the response to climate change and improvements in diversity and inclusion
- The war for talent in high-demand roles
- Transformation and reimagination to continue innovating and providing tech-enabled capabilities for core insurance capabilities

With the practical and thoughtful guidance from our Board of Directors and the dedication of our passionate and capable leadership team at Definity, I am confident in our future. The partnership of brokers across Canada, and the commitment of our employees every day, are key contributors to the successful organization we are today. Together, we are building a clear path towards a bright future as an independent, competitive Canadian insurer.

ROWAN SAUNDERS

President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

February 15, 2024

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, 2023, compared to the corresponding periods in 2022. This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2023. Comparative information for 2022 has been restated in this MD&A for the impacts of International Financial Reporting Standards ("IFRS") 17 – *Insurance Contracts* ("IFRS 17") and IFRS 9 – *Financial Instruments* ("IFRS 9") which became effective on January 1, 2023, unless otherwise noted. 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 15, 2024.

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 as at and for the year ended December 31, 2023 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:

Supplementary Financial Measures:	Book value per share, catastrophe losses, financial capacity, gross written premiums, and leverage capacity.
Non-GAAP Financial Measures:	Core accident year claims and adjustment expenses, distribution income, net claims and adjustment expenses, net commissions, net underwriting expenses, net underwriting revenue, non-operating gains (losses), operating income, operating net income, prior year claims development, and underwriting income.
Non-GAAP Ratios:	Claims ratio, combined ratio, expense ratio, return on equity ("ROE"), operating return on equity ("operating ROE"), operating earnings per common share ("operating EPS"), and certain other ratios.

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 audited consolidated financial statements, see Section 13 — "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 continue to offer competitive pricing or product features or services that are attractive to customers;
- 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, that of our industry, or that of our customers;
- 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 collect, store, transfer, and dispose 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 the scope of regulatory oversight, effective income tax rates, risk-based capital guidelines, and accounting standards;
- failure to design, implement and maintain effective controls 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 administering 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;
- general business, economic, financial, political, and social conditions, particularly those in Canada;
- the emergence or continuation of widespread health emergencies or pandemics, and their impact on local, national, or international economies, as well as their heightening of certain risks that may affect our business or future results;
- the competitive market environment and cyclical nature of the P&C insurance industry;
- the introduction of disruptive innovation or alternative business models by current market participants or new market entrants;
- 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;
- the discontinuance, modification, or failure to complete Definity's normal course issuer bid ("NCIB");
- 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;
- management's estimates and judgments in respect of the adoption of IFRS 17 and its impact on various financial metrics;
- periodic negative publicity regarding the insurance industry, Definity, or Definity Insurance Foundation; and
- 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.

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 12 – "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. We are the sixth largest provider of P&C insurance in Canada, with a market share of approximately 4.9%[1]. We had over $4.0 billion in gross written premiums[2] ("GWP") in 2023.

We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 69% of our GWP in 2023, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance operations, which represented 31% of our GWP in 2023, includes fleet, individually-rated commercial auto, property, liability and specialty insurance products, which are provided to businesses of all sizes in Canada.

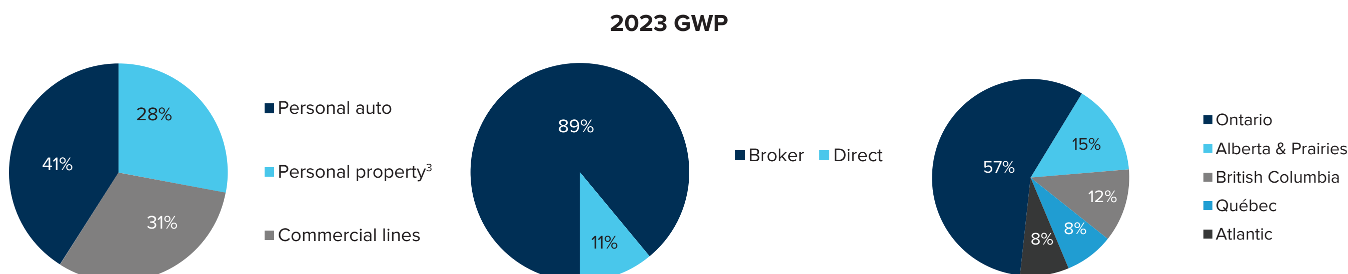
As a multi-channel insurer, we distribute our products on a primarily intermediated basis, through brokers, as well as directly to customers. We have active relationships with a network of over 600 independent brokerage firms and a broker base of more than 30,000 individual brokers. Our direct distribution channel includes Sonnet Insurance ("Sonnet"); our pet insurer Petline Insurance ("Petline"); and portions of our group insurance offering. In 2023, broker and direct distribution represented 89% and 11%, respectively, of our total GWP.

We have a national presence and conduct business in all provinces and territories of Canada. Ontario is our largest market, representing 57% of GWP in 2023.

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 Insurance Brokers Limited ("McDougall"). In 2023, we further expanded our distribution platform with the acquisitions of McFarlan Rowlands Insurance Brokers Inc. and affiliated entities ("McFarlan Rowlands") and Drayden Insurance Ltd. ("Drayden"). Combining McFarlan Rowlands with McDougall established a leading broker platform with significant scale in Ontario and provided a solid foundation for further expansion. The addition of Drayden provided immediate scale and market leading presence in Alberta.

Our P&C insurance business is supported by our investment management activities. We had over $4.9 billion in investments as at December 31, 2023. 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 includes a significant component of short-duration, investment grade fixed income investments.

The following charts illustrate the breakdown of our 2023 GWP by business line, distribution channel, and region, respectively.



[3] Personal property includes pet insurance business

CORPORATE STRATEGY

Our overall objective is to be the P&C insurance partner Canadians choose to protect what they value most. It's one that 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. Within that framework, our strategy aims at Definity becoming one of the five largest P&C insurers in Canada, maintaining our digital leadership, consistently delivering disciplined financial management, and positioning Definity as a purpose-driven sustainability leader.

Integral to our strategy are core principles that drive how we build sustainable competitive advantage over the medium and long term. We combine sound insurance fundamentals with exceptional experiences to deliver on customer and broker expectations, while maintaining 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 augment our organic growth priorities with inorganic acquisitions and partnerships, while at the same time strengthening and growing our national broker platform. We empower our top talent with an inclusive culture that aligns with our brand promise.

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[1] As of December 31, 2022, based on direct written premiums ("DWP") from MSA Research. Market share of Canadian P&C insurance industry DWP of $73.2 billion for the twelve months ended December 31, 2022, excluding accident and sickness insurance and policies for insurance written outside of Canada, Canada Guaranty Mortgage Insurance Company, Genworth Financial Mortgage Insurance Company, Green Shield Canada, Insurance Corporation of British Columbia, Lloyd's Underwriters Canada, Saskatchewan Auto Fund, and Saskatchewan Government Insurance.

[2] Gross written premiums is a supplementary financial measure. Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

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

Drive Profitable Growth in Personal Lines with Digital Capabilities Across Broker and Digital Direct Channels

Personal lines customers expect convenience, personalization, and the ability to engage in multiple ways, through advisors, digital platforms, call centres, text, chat, and/or email. Our broker and digital direct channels enable us to serve different customer segments and allow Definity to respond to evolving needs across channels and customer preferences.

The broker channel continues to be an integral part of how we reach and serve our customers, driving an attractive mix of growth, diversification, and profitability. Through our Vyne platform and strong broker relationships, we have been able to drive significant growth in segments we have targeted for expansion.

Vyne also processes renewals seamlessly and allows brokers to switch existing policies that are in-force with other carriers onto our platform more quickly and easily than traditional processes. Our Vyne platform is integrated with broker management systems and leading quoting vendors, which enables us to be one of the first companies in Canada to provide guaranteed bindable quotes to brokers. Our application programming interface ("API") capabilities connect with emerging broker platforms, giving flexibility to our broker partners to select the broker platform of their choice.

In the direct digital channel, Sonnet remains the market-leading offering in Canada, providing an award-winning online quote-to-bind experience in easy-to-understand language. Sonnet employs advanced analytics that integrate data from multiple third-party sources to enable product customization and pricing within minutes, while augmenting our digital capabilities with human support across the sales, service and claims journey. Sonnet also enables better access to the large group and affinity segment of the P&C insurance market, which historically had significant barriers to entry with a lower acquisition cost. Its digital affinity capabilities are complemented by partnerships with third-party firms to offer insurance products to their customers. Group and affinity volume grew strongly in 2023 and now represents approximately 25% of Sonnet's portfolio.

Our usage-based insurance product, Sonnet Shift, allows drivers to impact their auto insurance premium by using a mobile application that tracks driving behaviour and mileage to offer a customized premium on a quarterly basis. In Ontario, in the fourth quarter of 2023, more than two thirds of new Sonnet auto insurance customers chose to go with Sonnet Shift.

2023 Highlights

- **Platform scalability and advanced analytics capabilities** enhanced by cloud transformation
- **Launched Sonnet Shift**, the first-ever usage-based insurance product in Canada to offer quarterly price adjustments
- Expanded **Vyne's API capabilities**
- **Ongoing growth** in group and affinity for Sonnet
- Launched **relationship** with Tangerine Bank

Grow and Diversify Our Commercial Insurance Business

We continue to build upon the success of our commercial insurance business across all of our target segments.

In the small business segment, our Vyne Commercial platform enables brokers to instantly quote and bind new policies for small and medium enterprises across a range of products.

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

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 sub-segments, which include Specialty Energy & Property, Professional Lines, Surety, Agribusiness, and the Sharing Economy.

2023 Highlights

- **Continued broker traction** with Vyne Commercial to quote and bind small business quickly and efficiently
- **Further penetrated middle-market segment** with cross-border capabilities
- **Compound annual growth rate of 30% from 2020 to 2023** in our specialty business

Deliver a Superior Claims Experience to Customers While Prudently Managing Claim Costs

Our claims operation is mid-way through a multi-year transformation program focused on elevating our technological foundation to streamline and improve our customer experience, increase early intervention, and decrease claims duration. We expect to complete the auto claims transformation program in 2024 and begin the next phase of transformation, focused on our personal property operations, later this year.

In 2023, we made it easier for our repair partners to collaborate with us, and continued to consolidate our repair network to enhance focus on vendor management and customer service.

As the P&C industry in Canada experiences significant increases in frequencies and impacts of severe weather events, we have deployed dedicated teams that support our customers on the ground by providing claims adjusting services to start the review and rebuilding process and enhance the overall customer experience.

2023 Highlights

- Progressed our **multi-year claims transformation with the next phase** focused on property to be launched later this year
- Enhanced our **vendor management capabilities** to simplify the customer experience through use of regional managers and a national partner-based rental program

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. We remain committed to being disciplined in evaluating potential transactions and ensuring the right conditions are in place for value creation. We are actively seeking to participate in industry consolidation that we expect to occur among both insurance carriers and distribution partners.

We intend to focus on opportunities that are aligned with our strategic objectives and business model, accelerate our standalone organic growth plans, and deliver returns in-line with our financial objectives. We have key capabilities to execute and integrate acquisitions successfully that have been built upon our strengths delivering multiple major enterprise transformations. Acquisitions of insurance carriers support our strategic objectives and add scale to our existing platforms. Acquisitions of distribution partners are intended to provide repeatable distribution income which balances the volatility of our underwriting performance and deliver strategic benefits to our core P&C business.

2023 Highlights

- Closed the **acquisitions of McFarlan Rowlands and Drayden**
- **Expanded distribution** platform across Ontario and Alberta

The acquisitions of McFarlan Rowlands and Drayden expanded our national broker platform with immediate scale across Ontario and Alberta. In 2024, we now have over $1 billion in annualized premiums under management in the platform.

To broaden our reach, we intend to continue enhancing our strategic partnerships and explore new relationships to enable growth in target business segments, promote innovation, access new markets, and facilitate development of new capabilities.

Maintain Our Pace of Innovation

We continued to enhance our innovation capabilities in each of our core business lines and across the enterprise, through our ongoing focus on product innovation, technology evolution, partnerships with industry leading players, and consistently evolving existing platforms to reflect ongoing changes in market dynamics, customer expectations, and technology.

In 2022, we became the first P&C insurance company in Canada to transition our entire core insurance platform to Guidewire Cloud. We have seen meaningful business benefits in commercial impact, resiliency, and speed-to-market, including accelerated quote response times for our broker partners, reduced quote-bind loss for digital direct business, improved platform security, and significant improvements in deployment times and infrastructure setup.

In 2023, we brought Sonnet Shift to market, the first-ever usage-based insurance product in Canada to offer quarterly price adjustments based on recent driving scores. Sonnet Shift also includes a discount for driving less than the stated annual mileage and can include principal and secondary drivers, including young drivers (under 25). Our cloud foundation allowed us to develop and adjust product experience elements quickly and integrate important learnings for an improved customer experience.

Additionally, we continued to work with Google Cloud to leverage Google's advanced data systems and platforms, analytics, artificial intelligence ("AI"), and machine learning capabilities. We have deployed these capabilities across our business to support our objective of maintaining our digital leadership and enhancing digital experiences for our customers and brokers.

We collaborated with Agi3 Risk Services to launch an AI-powered crop insurance solution called AgriEnhance. AgriEnhance combines state-of-the-art machine learning algorithms with extensive data sources to enable more precise assessment of field-level opportunities and risks, including factors such as yield potential and vulnerability to environmental hazards.

2023 Highlights

- Launched **Sonnet Shift** usage based insurance (UBI) product
- Enhanced **partnership with Google**
- Launched **AI-powered crop insurance solution called AgriEnhance** in partnership with Agi3 Risk Services
- Expanded our **use of application programming interfaces (APIs)** to support broker partners
- Recognized as a **2023 Innovation Award winner by Guidewire Software** becoming the first three-time Canadian winner of the international award

Our ongoing focus on our data platform is directed at simplifying automation, incorporating machine learning, building scalable infrastructure in our personal lines and individually-rated commercial auto insurance origination, and enhancing claims and underwriting operations.

Attract and Retain Top Talent to Empower a High-Performance Culture

We believe it's better at Definity and that sets the tone for our employee experience. Our Employee Promise of CARE, is designed 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.

2023 Highlights

- Received **multiple recognitions** such as Most Admired Corporate Cultures (for the 2nd year in a row), Forbes Canada's Best Employers for Diversity, and Great Place to Work awards

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.

We continue to reinforce our hybrid work model, which centres on a flexible and intentional blend of in-person and remote time to foster a culture of high performance and belonging.

Thoughtfully Integrate ESG Priorities and Deliver on Our Targets to Create Positive Outcomes In Our Business and Communities

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 change:

- IDEA – By 2026, at least 30% of roles at the combined vice-president and executive leadership team levels will be held by women and at least 15% will be held by [individuals who identify as] Black, Indigenous, People of Colour (BIPOC), LGBTQ+, and/or persons with [dis]abilities. We continue to focus on building a dynamic, inclusive, high-performance culture where everyone feels a sense of belonging, so we aim to attract and nurture the best and brightest from a wide variety of backgrounds and lived experiences.
- Climate change – To achieve net-zero emissions from both operations (Scope 1 and 2 emissions) and investments (Scope 3 emissions associated with listed equities and corporate bonds) by 2040 or sooner. Accordingly, we have continued to invest in energy efficiency, renewable energy, and other emissions reductions in our operations and embedded our climate change commitments into Definity's investment policy statement and process.

2023 Highlights

- MSCI ESG **rating upgraded from BBB to AA**
- Contributed **$2.4M to Definity Insurance Foundation**
- Renewed partnership with **Canadian Red Cross** to support disaster preparedness and response
- Partnered with **Windmill Microlending** to support career development for skilled immigrants and refugees

We continue to embed sustainability considerations thoughtfully across our business to meet our commitments and fulfill our purpose.

As part of our demutualization process, Definity pledged to contribute 1% of its net profit before taxes to Definity Insurance Foundation until at least 2026. We have identified two 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

More information on Definity's sustainability strategy and programs can be found in our annual ESG Report at www.definity.com/sustainability.

2 — FINANCIAL PERFORMANCE

HIGHLIGHTS:

- Gross written premiums[1] increased 8.5% in the fourth quarter, benefitting from a rebound in personal auto growth; full year growth of 9.4% was supported by ongoing firm market conditions in personal property and commercial lines
- Combined ratio[3] of 90.6% in the fourth quarter reflected solid performance across our portfolio, with particularly strong results in personal property; full year combined ratio of 95.9%, despite 6.2 points of catastrophe losses[1]
- Operating net income[2] of $100.7 million in the fourth quarter, compared to $76.6 million in 2022, resulted in operating EPS[3] of $0.86 per share. Operating ROE[3] was 9.2% over the last twelve months
- Full year net income attributable to common shareholders of $350.1 million drove an 11.1% increase in book value per share[1] to $24.78
- Quarterly dividend increased by over 16% to $0.16 per share, supported by our robust financial position and confidence in our operational outlook
- Completion of Definity Financial Corporation's continuance to the *Canada Business Corporations Act* on January 1, 2024

Notes:
(1) Gross written premiums, catastrophe losses, and book value per share are supplementary financial measures.
(2) Operating net income is a non-GAAP financial measure.
(3) Combined ratio, operating ROE, and operating EPS are non-GAAP ratios.
Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

RESULTS OF OPERATIONS

The following table summarizes our consolidated statements of income for the three months and years ended December 31, 2023 and 2022:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars, except as otherwise noted)	**2023**	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Insurance revenue	**$ 1,003.8**	$ 911.7	$ 92.1	**$ 3,850.3**	$ 3,485.7	$ 364.6
Insurance service expenses	**(857.3)**	(777.8)	(79.5)	**(3,377.1)**	(3,028.9)	(348.2)
Net income (expenses) from reinsurance contracts held	**1.4**	(0.7)	2.1	**(48.8)**	(14.9)	(33.9)
Insurance service result	**$ 147.9**	$ 133.2	$ 14.7	**$ 424.4**	$ 441.9	$ (17.5)
Net investment income	**49.4**	39.5	9.9	**179.5**	133.1	46.4
Recognized gains (losses) on FVTPL investments	**222.6**	18.1	204.5	**151.8**	(446.1)	597.9
Investment income (loss)	**$ 272.0**	$ 57.6	$ 214.4	**$ 331.3**	$ (313.0)	$ 644.3
Finance (expenses) income from insurance contracts issued	**(79.0)**	16.5	(95.5)	**(152.4)**	96.3	(248.7)
Finance income (expenses) from reinsurance contracts held	**7.5**	(0.6)	8.1	**13.3**	(5.2)	18.5
Net insurance financial result	**$ (71.5)**	$ 15.9	$ (87.4)	**$ (139.1)**	$ 91.1	$ (230.2)
Net insurance and investment result	**348.4**	206.7	141.7	**616.6**	220.0	396.6
Distribution revenues	**35.8**	19.9	15.9	**127.4**	19.9	107.5
Other (expenses) income	**(78.7)**	(0.8)	(77.9)	**(271.5)**	(125.5)	(146.0)
Interest expense	**(1.7)**	(0.6)	(1.1)	**(5.3)**	(0.6)	(4.7)
Income before income taxes	**$ 303.8**	$ 225.2	$ 78.6	**$ 467.2**	$ 113.8	$ 353.4
Income tax expense	**(77.4)**	(39.6)	(37.8)	**(112.7)**	(2.3)	(110.4)
Net income	**$ 226.4**	$ 185.6	$ 40.8	**$ 354.5**	$ 111.5	$ 243.0
Net income attributable to common shareholders	**225.9**	185.0	40.9	**350.1**	110.9	239.2
Net income attributable to non-controlling interests	**0.5**	0.6	(0.1)	**4.4**	0.6	3.8
Earnings per common share, basic (in dollars)	**$ 1.96**	$ 1.60	$ 0.36	**$ 3.04**	$ 0.96	$ 2.08
Earnings per common share, diluted (in dollars)	**$ 1.94**	$ 1.59	$ 0.35	**$ 3.00**	$ 0.95	$ 2.05

The following table sets forth certain additional financial measures that we use to measure and evaluate performance of our business for the three months and years ended December 31, 2023 and 2022:

(in millions of dollars, except as otherwise noted)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Change	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)	Change
Gross written premiums[1]	**$ 1,033.2**	$ 951.9	8.5%	**$ 4,005.2**	$ 3,662.3	9.4%
Net underwriting revenue[2]	**922.4**	850.4	8.5%	**3,542.6**	3,251.2	9.0%
Underwriting income[2]	**87.0**	66.7	20.3	**144.9**	189.4	(44.5)
Distribution income[2]	**8.8**	4.8	4.0	**39.3**	14.1	25.2
Operating income[2]	**134.9**	101.2	33.7	**321.4**	307.7	13.7
Non-operating gains (losses)[2]	**168.9**	123.2	45.7	**140.7**	(194.7)	335.4
Operating net income[2]	**100.7**	76.6	24.1	**246.5**	236.8	9.7
Operating earnings per common share (in dollars)[3]	**$ 0.86**	$ 0.66	$ 0.20	**$ 2.11**	$ 2.03	$ 0.08
Book value per share (in dollars)[1]	**$ 24.78**	$ 22.30	$ 2.48	**$ 24.78**	$ 22.30	$ 2.48
Claims ratio[3]	**61.1%**	59.5%	1.6 pts	**65.1%**	61.7%	3.4 pts
Expense ratio[3]	**29.5%**	32.7%	(3.2) pts	**30.8%**	32.5%	(1.7) pts
Combined ratio[3]	**90.6%**	92.2%	(1.6) pts	**95.9%**	94.2%	1.7 pts
Return on equity[3]	**13.0%**	4.3%	8.7 pts	**13.0%**	4.3%	8.7 pts
Operating return on equity[3]	**9.2%**	9.4%	(0.2) pts	**9.2%**	9.4%	(0.2) pts

Notes:

[1] Gross written premiums and book value per share are supplementary financial measures.

[2] Net underwriting revenue, underwriting income, distribution income, operating income, non-operating gains (losses), and operating net income are non-GAAP financial measures.

[3] Claims ratio, expense ratio, combined ratio, ROE, operating ROE, and operating EPS are non-GAAP ratios.

Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

GROSS WRITTEN PREMIUMS

GWP for the fourth quarter of 2023 increased by $81.3 million or 8.5% compared to the fourth quarter of 2022, with growth across all our lines of business. Personal lines GWP was up 6.0%, driven by growth in our broker channel. Commercial lines GWP increased 14.1% as we continued to drive significant profitable growth in this line of business. For the full year, GWP increased by $342.9 million or 9.4% compared to 2022. Personal lines GWP increased 6.9% and commercial lines GWP increased 15.4%.

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

UNDERWRITING INCOME

The composition of the combined ratio for the three months and years ended December 31, 2023 and 2022 is as follows:

	Three months ended December 31,						Years ended December 31,					
	2023		2022 (Restated)		Change		2023		2022 (Restated)		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Net underwriting revenue[2]	**$ 922.4**		$ 850.4		$ 72.0	8.5%	**$ 3,542.6**		$ 3,251.2		$ 291.4	9.0%
Net claims and adjustment expenses[2]	**563.1**	**61.1%**	506.4	59.5%	56.7	1.6 pts	**2,305.7**	**65.1%**	2,004.5	61.7%	301.2	3.4 pts
Net underwriting expenses[2]	**272.3**	**29.5%**	277.3	32.7%	(5.0)	(3.2) pts	**1,092.0**	**30.8%**	1,057.3	32.5%	34.7	(1.7) pts
Underwriting income[2]	**87.0**		66.7		20.3		**144.9**		189.4		(44.5)	
Combined ratio[3]		**90.6%**		92.2%		(1.6) pts		**95.9%**		94.2%		1.7 pts

Notes:

[1] The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue.

[2] Net underwriting revenue, net claims and adjustment expenses, net underwriting expenses, and underwriting income are non-GAAP financial measures.

[3] Combined ratio is a non-GAAP ratio.

Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The growth in net underwriting revenue was due primarily to GWP growth in 2022 and 2023 earning through.

Our underwriting income for the fourth quarter of 2023 was $87.0 million and our combined ratio was 90.6%, compared to underwriting income of $66.7 million and a combined ratio of 92.2% in the same quarter a year ago. The combined ratio improved due to decreases in both the expense ratio and the core accident year claims ratio across all lines of business. The expense ratio reduction was driven by lower contingent profit commission accruals and our ongoing focus on disciplined expense management. These improvements were partially offset by an increase in catastrophe losses and lower favourable prior year claims development.

Our full year combined ratio was 95.9% compared to 94.2% in 2022, driven by the increased level of catastrophe losses in 2023, partially offset by the improvement in the consolidated expense ratio. Catastrophe losses amounted to 6.2 percentage points in 2023 compared to 3.7 percentage points in 2022.

NET CLAIMS AND ADJUSTMENT EXPENSES

The composition of the claims ratio for the three months and years ended December 31, 2023 and 2022, illustrating the impact of core accident year claims and adjustment expenses incurred, catastrophe losses, and prior year claims development, is as follows:

	Three months ended December 31,						Years ended December 31,					
	2023		2022 (Restated)		Change		**2023**		2022 (Restated)		Change	
(in millions of dollars, except as otherwise noted)	**($)**	**Ratio[1]**	($)	Ratio[1]	($)	Ratio	**($)**	**Ratio[1]**	($)	Ratio[1]	($)	Ratio
Core accident year claims and adjustment expenses[2]	**$ 547.6**	**59.4%**	$ 522.2	61.4%	$ 25.4	(2.0) pts	**$ 2,150.5**	**60.7%**	$ 1,970.9	60.7%	$ 179.6	- pts
Catastrophe losses[3]	**28.3**	**3.1%**	5.1	0.6%	23.2	2.5 pts	**218.2**	**6.2%**	119.9	3.7%	98.3	2.5 pts
Prior year favourable claims development[2]	**(12.8)**	**(1.4%)**	(20.9)	(2.5%)	8.1	1.1 pts	**(63.0)**	**(1.8%)**	(86.3)	(2.7%)	23.3	0.9 pts
Net claims and adjustment expenses[4]	**$ 563.1**	**61.1%**	$ 506.4	59.5%	$ 56.7	1.6 pts	**$ 2,305.7**	**65.1%**	$ 2,004.5	61.7%	$ 301.2	3.4 pts

Notes:

[1] The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.

[2] Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.

[3] Catastrophe losses is a supplementary financial measure.

[4] The ratio shown for this line item is our claims ratio, which is a non-GAAP ratio.

Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, improved in the fourth quarter of 2023 driven by our property lines of business which benefitted from rate increases and more benign weather in the fourth quarter of 2023 as compared to 2022.

Catastrophe losses in the fourth quarter of 2023 increased compared to the same quarter a year ago. In the fourth quarter of 2023, we were impacted primarily by a number of individual large commercial property losses, and a wind and rain storm in the Québec and Atlantic regions. Catastrophe losses increased year over year driven by the heightened level of catastrophe losses in the third quarter, where we were impacted by wildfires in British Columbia, wind and rain storms in Ontario, Québec, and Nova Scotia, tornadoes in Ontario and Québec, and a number of hail events across Canada.

We experienced lower levels of favourable prior year claims development in the fourth quarter of 2023 as compared to the same quarter a year ago driven by the impact of industry pools in the fourth quarter of 2022. For the year, favourable prior year claims development decreased driven by our personal lines. Favourable prior year claims development in 2023 was in line with our historic range of approximately 1-2%.

NET UNDERWRITING EXPENSES

The key components of our net underwriting expenses and our expense ratio for the three months and years ended December 31, 2023 and 2022 are as follows:

	Three months ended December 31,						Years ended December 31,					
	2023		2022 (Restated)		Change		2023		2022 (Restated)		Change	
(in millions of dollars, except as otherwise noted)	**($)**	**Ratio[1]**	($)	Ratio[1]	($)	Ratio	**($)**	**Ratio[1]**	($)	Ratio[1]	($)	Ratio
Net commissions[2]	**$ 128.1**	**13.9%**	$ 132.9	15.6%	$ (4.8)	(1.7) pts	**$ 505.7**	**14.3%**	$ 502.2	15.4%	$ 3.5	(1.1) pts
Operating expenses	**109.7**	**11.9%**	112.6	13.4%	(2.9)	(1.5) pts	**452.7**	**12.7%**	433.5	13.4%	19.2	(0.7) pts
Premium taxes	**34.5**	**3.7%**	31.8	3.7%	2.7	- pts	**133.6**	**3.8%**	121.6	3.7%	12.0	0.1 pts
Net underwriting expenses[2][3]	**$ 272.3**	**29.5%**	$ 277.3	32.7%	$ (5.0)	(3.2) pts	**$ 1,092.0**	**30.8%**	$ 1,057.3	32.5%	$ 34.7	(1.7) pts

Notes:

[1] The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of net commissions, operating expenses, and premium taxes as a percentage of net underwriting revenue is a non-GAAP ratio.

[2] Net commissions and net underwriting expenses are non-GAAP financial measures.

[3] The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio.

Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The net commissions ratio decreased in the fourth quarter of 2023 and for the year as compared to the same periods in the prior year. The decrease was driven by lower contingent profit commission accruals due primarily to the impact of heightened catastrophe losses, as well as the elimination on consolidation of commissions paid to our majority-owned brokers acquired starting in the fourth quarter of 2022.

The operating expense ratio decreased in the fourth quarter of 2023 and for the year driven by our ongoing focus on disciplined expense management and the impact of heightened catastrophe losses on variable compensation accruals.

INSURANCE REVENUE

The growth in insurance revenue was 10.1% in the fourth quarter of 2023 (10.5% for the year) as compared to GWP growth of 8.5% (9.4% for the year). The growth in insurance revenue was higher than the growth in GWP due to higher levels of GWP growth in 2022 earning through in 2023.

INSURANCE SERVICE RESULT

Insurance service result increased by $14.7 million in the fourth quarter of 2023 driven primarily by the improvement in underwriting income. For the year, insurance service result decreased by $17.5 million driven primarily by the elevated level of catastrophe losses in 2023, partially offset by the improvement in the expense ratio and an increase in the discounting recovery in insurance service expenses.

NET INVESTMENT INCOME

The composition of net investment income for the three months and years ended December 31, 2023 and 2022 is as follows:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars)	**2023**	2022	Change	**2023**	2022	Change
Interest income	**$ 41.5**	$ 32.3	$ 9.2	**$ 149.6**	$ 105.3	$ 44.3
Dividend income	**9.5**	8.8	0.7	**35.8**	33.4	2.4
Investment expenses	**(1.6)**	(1.6)	–	**(5.9)**	(5.6)	(0.3)
Net investment income	**$ 49.4**	$ 39.5	$ 9.9	**$ 179.5**	$ 133.1	$ 46.4

Net investment income increased in the fourth quarter of 2023 and for the year driven primarily by higher interest income that was enhanced by our active management of the investment portfolio in the rising interest rate environment.

DISTRIBUTION INCOME

Distribution income was $8.8 million in the fourth quarter of 2023 and $39.3 million for the year, compared to $4.8 million in the fourth quarter of 2022 and $14.1 million in 2022. The increase was due primarily to the increased ownership position in McDougall, along with McDougall's acquisitions of McFarlan Rowlands and Drayden during 2023.

NON-OPERATING GAINS (LOSSES)

The composition of non-operating gains (losses) for the three months and years ended December 31, 2023 and 2022 are as follows:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars)	**2023**	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Recognized gains (losses) on FVTPL investments	**$ 222.6**	$ 18.1	$ 204.5	**$ 151.8**	$ (446.1)	$ 597.9
Discounting[1]	**31.7**	36.9	(5.2)	**140.4**	107.4	33.0
Risk adjustment[1]	**(0.7)**	(10.7)	10.0	**5.8**	(6.6)	12.4
Finance (expenses) income from insurance contracts issued	**(79.0)**	16.5	(95.5)	**(152.4)**	96.3	(248.7)
Finance income (expenses) from reinsurance contracts held	**7.5**	(0.6)	8.1	**13.3**	(5.2)	18.5
Interest on restricted cash, less demutualization and IPO-related expenses[2]	**2.8**	1.7	1.1	**11.0**	0.7	10.3
Amortization of intangible assets recognized in business combinations[2]	**(5.2)**	(3.5)	(1.7)	**(16.7)**	(5.4)	(11.3)
Restructuring expenses[2]	**(11.1)**	–	(11.1)	**(11.1)**	–	(11.1)
Revaluation gain on acquisition of McDougall[2]	**–**	67.0	(67.0)	**–**	67.0	(67.0)
Other[2][3]	**0.3**	(2.2)	2.5	**(1.4)**	(2.8)	1.4
Non-operating gains (losses)[4]	**$ 168.9**	$ 123.2	$ 45.7	**$ 140.7**	$ (194.7)	$ 335.4

Notes:

[1] Included in insurance service expenses and net expenses from reinsurance contracts held in our audited consolidated financial statements.

[2] Included in Other (expenses) income in our audited consolidated financial statements.

[3] Other represents miscellaneous 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, such as acquisition-related expenses, gains on dispositions of non-portfolio investments, gain on sale of customer lists, and income or expenses pertaining to the fintech venture capital funds.

[4] Non-operating gains (losses) is a non-GAAP financial measure.

Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

Recognized gains on FVTPL investments increased due to gains on our bond portfolio driven by a significant decrease in fixed income yields in the fourth quarter of 2023 as compared to the same quarter a year ago, and gains on preferred and common stocks. For the year, the shift from recognized losses in 2022 to gains in 2023 was due primarily to a decrease in interest rates in 2023 as compared to a significant increase in interest rates during 2022, and gains on common and preferred stocks in 2023.

Finance expenses from insurance contracts issued shifted from income to an expense in the fourth quarter of 2023 and for the full year due primarily to a significant increase in the yield curve in 2022, increasing the unwind of discounting on claim liabilities in 2023.

RESTRUCTURING EXPENSES

In the fourth quarter of 2023, we incurred $11.1 million in restructuring charges to streamline our operations to drive efficiencies. Included in the charge are expenses associated with rigorous management of our occupancy footprint in light of our hybrid way of working, and employee severance and outplacement services.

NET INCOME

Net income attributable to common shareholders was $225.9 million in the fourth quarter of 2023 compared to $185.0 million in the fourth quarter of 2022. The increase was due primarily to higher mark-to-market gains on investments and increases in all three of our key operating measures: underwriting income, net investment income, and distribution income described above. These were partially offset by the impact of discounting and restructuring charges. Net income in the fourth quarter of 2022 included a revaluation gain of $67.0 million on our previous ownership interest in McDougall.

Full year net income attributable to common shareholders was $350.1 million compared to $110.9 million in 2022 due primarily to mark-to-market gains on investments in 2023 compared to significant losses in 2022, as well as increases in net investment income and distribution income. These were partially offset by the impact of discounting and a decrease in underwriting income due primarily to the impact of higher catastrophe losses.

OPERATING NET INCOME

Operating net income was $100.7 million in the fourth quarter of 2023 compared to $76.6 million in the fourth quarter of 2022. The increase was due to higher underwriting income, net investment income, and distribution income. Full year operating net income was $246.5 million compared to $236.8 million in 2022.

OPERATING INCOME TAX EXPENSE

The reconciliation of income tax calculated at the Canadian statutory tax rate to the effective tax rate in operating net income is provided in the table below:

	Three months ended December 31,			Years ended December 31,		
	2023	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Statutory tax rates	**26.3%**	26.3%	- pts	**26.3%**	26.3%	- pts
Canadian dividend income not subject to tax	**(1.5%)**	(1.7%)	0.2 pts	**(2.6%)**	(2.5%)	(0.1) pts
Non-deductible expenses	**0.4%**	0.2%	0.2 pts	**0.2%**	0.2%	- pts
Other	**0.1%**	(0.4%)	0.5 pts	**(0.7%)**	(0.9%)	0.2 pts
Effective tax rate	**25.3%**	24.4%	0.9 pts	**23.2%**	23.1%	0.1 pts

The effective tax rate for the fourth quarter and for the year was lower than the statutory rate of 26.3% (2022: 26.3%) due primarily to the impact of non-taxable Canadian dividend income.

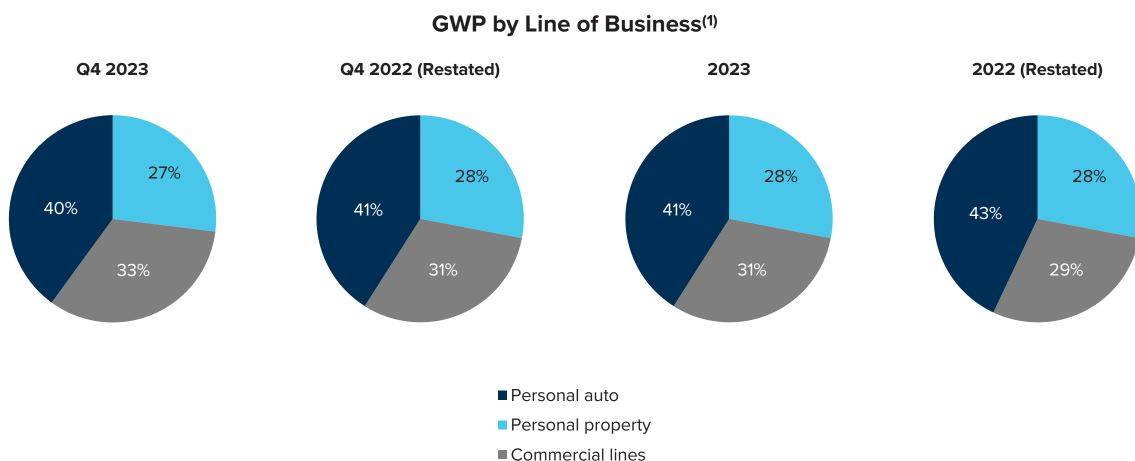
OPERATING ROE

Operating ROE decreased slightly to 9.2% in 2023 compared to 9.4% in 2022, as the growth in average adjusted equity attributable to common shareholders, which includes mark-to-market gains on our bond portfolio, outpaced the growth in operating net income.

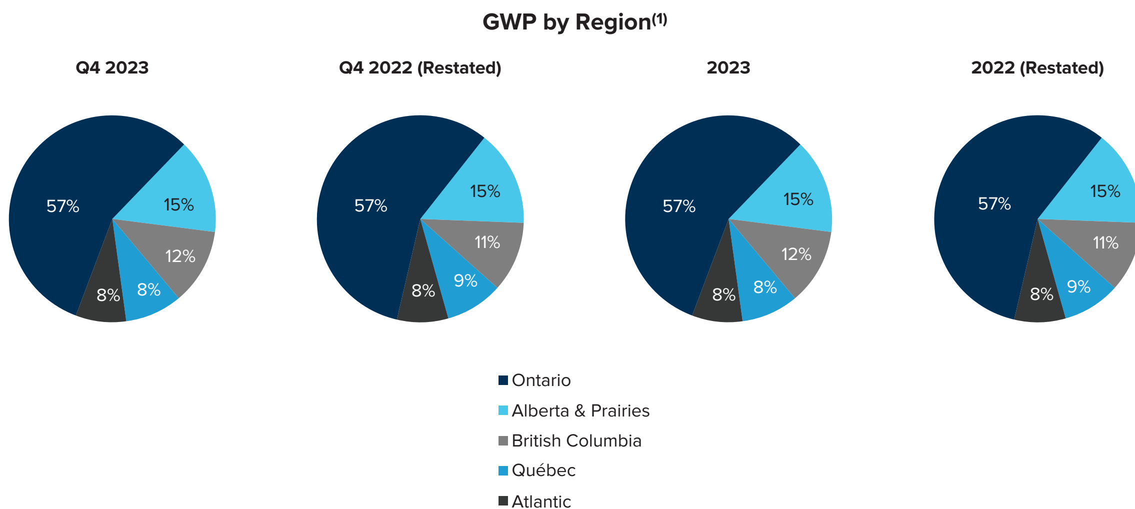
3 — RESULTS BY LINE OF BUSINESS

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, 2023 and 2022:



The shift in business mix was due to our multi-year strategy to improve diversification within our mix of business, to reduce the proportion of regulated auto with a heightened focus on growth in our personal property and commercial lines businesses.



There were slight shifts in the regional mix in the fourth quarter of 2023 and for the year compared to the same periods in the prior year.

Notes:
(1) GWP is a supplementary financial measure. For more information, refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

UNDERWRITING — PERSONAL LINES

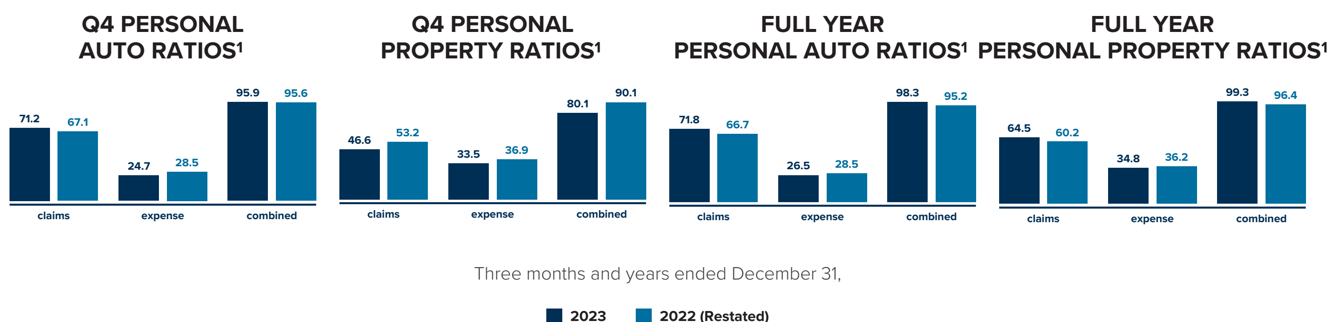
The table below sets forth selected results of operations of our personal lines of business for the three months and years ended December 31, 2023 and 2022 and the policies in force as at December 31, 2023 and 2022.

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars, except as otherwise noted)	**2023**	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Policies in force (thousands) (at period end)						
Auto	**763.5**	785.0	(2.7%)	**763.5**	785.0	(2.7%)
Property	**835.2**	837.6	(0.3%)	**835.2**	837.6	(0.3%)
Total	**1,598.7**	1,622.6	(1.5%)	**1,598.7**	1,622.6	(1.5%)
Gross written premiums[1]						
Auto	**$ 416.0**	$ 386.6	7.6%	**$ 1,657.1**	$ 1,579.1	4.9%
Property	**278.0**	268.0	3.7%	**1,113.1**	1,012.7	9.9%
Total	**$ 694.0**	$ 654.6	6.0%	**$ 2,770.2**	$ 2,591.8	6.9%
Net underwriting revenue[2]						
Auto	**$ 392.4**	$ 375.8	4.4%	**$ 1,529.2**	$ 1,457.8	4.9%
Property	**267.1**	241.6	10.6%	**1,020.5**	915.9	11.4%
Total	**$ 659.5**	$ 617.4	6.8%	**$ 2,549.7**	$ 2,373.7	7.4%
Net claims and adjustment expenses[2]						
Auto	**$ 279.4**	$ 252.0	$ 27.4	**$ 1,097.8**	$ 972.2	$ 125.6
Property	**124.5**	128.5	(4.0)	**658.4**	551.3	107.1
Total	**$ 403.9**	$ 380.5	$ 23.4	**$ 1,756.2**	$ 1,523.5	$ 232.7
Net underwriting expenses[2]						
Auto	**$ 96.8**	$ 107.1	$ (10.3)	**$ 404.9**	$ 415.9	$ (11.0)
Property	**89.5**	89.1	0.4	**354.9**	331.5	23.4
Total	**$ 186.3**	$ 196.2	$ (9.9)	**$ 759.8**	$ 747.4	$ 12.4
Underwriting income[2]						
Auto	**$ 16.2**	$ 16.7	$ (0.5)	**$ 26.5**	$ 69.7	$ (43.2)
Property	**53.1**	24.0	29.1	**7.2**	33.1	(25.9)
Total	**$ 69.3**	$ 40.7	$ 28.6	**$ 33.7**	$ 102.8	$ (69.1)

Notes:
[1] Gross written premiums is a supplementary financial measure.
[2] Net underwriting revenue, net claims and adjustment expenses, net underwriting expenses, and underwriting income are non-GAAP financial measures.
Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

Personal lines GWP increased 6.0% in the fourth quarter of 2023 (6.9% for the year) despite the decline in policies in force. Direct channel GWP was $111.4 million in the fourth quarter of 2023, an increase of 1.5% compared to $109.8 million in the fourth quarter of 2022 driven by higher premiums assumed from industry pools. Direct channel GWP was negatively impacted by our deliberate profitability actions, including those taken in response to the Alberta auto rate pause in 2023. The direct channel GWP was $427.5 million for the year, an increase of 0.9% compared to $423.7 million in 2022. Personal auto GWP increased 7.6% in the quarter (4.9% for the year), reflecting an increase in average written premiums as approved rate increases take hold, and higher premiums assumed from industry pools. Personal property GWP increased 3.7% in the quarter (9.9% for the year), benefitting from continued firm market conditions driving increases in average written premiums, partially offset by lower levels of portfolio transfers than the same period in 2022 as well as our actions to address risk concentration in territories with a higher propensity to peril events. The full year GWP growth benefitted from firm market conditions throughout the year, and from an elevated level of portfolio transfers in the first three quarters of the year.

Personal lines underwriting income was $69.3 million in the fourth quarter of 2023 compared to $40.7 million in the same quarter a year ago. For the year, personal lines underwriting income was $33.7 million compared to $102.8 million in 2022. Catastrophe losses in personal lines amounted to $173.3 million in 2023 compared to $86.2 million in 2022.



Notes:
(1) Claims ratio, expense ratio, and combined ratio are non-GAAP ratios. For more information, refer to Section 13 — "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, 2023 and 2022 for our personal auto line of business is as follows:

	Three months ended December 31[(1)]			Years ended December 31[(1)]		
	2023	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Core accident year claims and adjustment expenses[(2)]	**71.5%**	72.0%	(0.5) pts	**72.6%**	69.4%	3.2 pts
Catastrophe losses[(3)]	**1.1%**	–	1.1 pts	**0.9%**	0.4%	0.5 pts
Prior year favourable claims development[(2)]	**(1.4%)**	(4.9%)	3.5 pts	**(1.7%)**	(3.1%)	1.4 pts
Claims ratio[(4)]	**71.2%**	67.1%	4.1 pts	**71.8%**	66.7%	5.1 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.
(2) Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.
(3) Catastrophe losses is a supplementary financial measure.
(4) Claims ratio is a non-GAAP ratio.
Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The personal auto combined ratio of 95.9% in the fourth quarter of 2023 (Q4 2022: 95.6%) was impacted by lower favourable prior year claims development from industry pools and an increase in catastrophe losses, largely offset by a decrease in the expense ratio and an improvement in the core accident year claims ratio. Excluding the impact of industry pools, favourable prior year claims development increased by 0.8 percentage points. For the year, the personal auto combined ratio was impacted by the same factors that impacted the fourth quarter, as well as an increase in the core accident year claims ratio.

The composition of the claims ratio for the three months and years ended December 31, 2023 and 2022 for our personal property line of business is as follows:

	Three months ended December 31[(1)]			Years ended December 31[(1)]		
	2023	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Core accident year claims and adjustment expenses[(2)]	**47.0%**	50.5%	(3.5) pts	**50.0%**	53.7%	(3.7) pts
Catastrophe losses[(3)]	**1.2%**	3.7%	(2.5) pts	**15.6%**	8.8%	6.8 pts
Prior year favourable claims development[(2)]	**(1.6%)**	(1.0%)	(0.6) pts	**(1.1%)**	(2.3%)	1.2 pts
Claims ratio[(4)]	**46.6%**	53.2%	(6.6) pts	**64.5%**	60.2%	4.3 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.
(2) Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.
(3) Catastrophe losses is a supplementary financial measure.
(4) Claims ratio is a non-GAAP ratio.
Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The personal property combined ratio was strong at 80.1% in the fourth quarter of 2023 (Q4 2022: 90.1%). The improvement was driven by a lower core accident year claims ratio, lower catastrophe losses, and a decrease in the expense ratio. For the full year, personal property delivered an underwriting profit (with a combined ratio of 99.3%) despite being heavily impacted by an elevated level of catastrophe losses.

UNDERWRITING — COMMERCIAL LINES

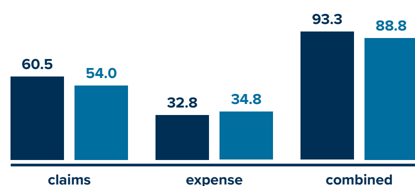
The table below sets forth selected results of operations of our commercial lines of business for the three months and years ended December 31, 2023 and 2022.

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars, except as otherwise noted)	**2023**	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Gross written premiums[1]	**$ 339.2**	$ 297.3	14.1%	**$ 1,235.0**	$ 1,070.5	15.4%
Net underwriting revenue[2]	**$ 262.9**	$ 233.0	12.8%	**$ 992.9**	$ 877.5	13.2%
Net claims and adjustment expenses[2]	**$ 159.2**	$ 125.9	$ 33.3	**$ 549.5**	$ 481.0	$ 68.5
Net underwriting expenses[2]	**$ 86.0**	$ 81.1	$ 4.9	**$ 332.2**	$ 309.9	$ 22.3
Underwriting income[2]	**$ 17.7**	$ 26.0	$ (8.3)	**$ 111.2**	$ 86.6	$ 24.6

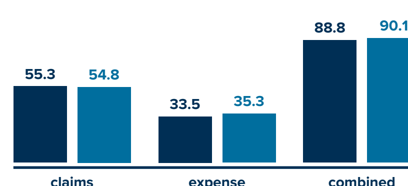
Notes:
[1] Gross written premiums is a supplementary financial measure.
[2] Net underwriting revenue, net claims and adjustment expenses, net underwriting expenses, and underwriting income are non-GAAP financial measures.
Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

Strong growth momentum in commercial lines continued in the fourth quarter of 2023 as we benefitted from broad support from our broker partners across Canada. GWP increased 14.1% in the fourth quarter of 2023 (15.4% for the year) driven by strong retention and rate achievement in a firm market environment, and further scaling of our small business and specialty capabilities.

Q4 COMMERCIAL LINES RATIOS[1]



FULL YEAR COMMERCIAL LINES RATIOS[1]



Three months and years ended December 31,

2023 2022 (Restated)

Notes:
[1] Claims ratio, expense ratio, and combined ratio are non-GAAP ratios. For more information, refer to Section 13 — "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, 2023 and 2022 for our commercial lines of business is as follows:

	Three months ended December 31[1]			Years ended December 31[1]		
	2023	2022 (Restated)	Change	**2023**	2022 (Restated)	Change
Core accident year claims and adjustment expenses[2]	**53.7%**	55.5%	(1.8) pts	**53.5%**	53.3%	0.2 pts
Catastrophe losses[3]	**7.9%**	(1.5%)	9.4 pts	**4.5%**	3.8%	0.7 pts
Prior year favourable claims development[2]	**(1.1%)**	—	(1.1) pts	**(2.7%)**	(2.3%)	(0.4) pts
Claims ratio[4]	**60.5%**	54.0%	6.5 pts	**55.3%**	54.8%	0.5 pts

Notes:
[1] The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.
[2] Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.
[3] Catastrophe losses is a supplementary financial measure.
[4] Claims ratio is a non-GAAP ratio.
Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

Commercial lines underwriting income was $17.7 million in the fourth quarter of 2023 compared to $26.0 million in the same quarter a year ago. For the year, commercial lines underwriting income was $111.2 million compared to $86.6 million in 2022.

Commercial lines benefitted from continued focus on underwriting execution with a combined ratio of 93.3% in the fourth quarter of 2023 compared to 88.8% in the same quarter a year ago. The increase in the combined ratio was driven by non-weather-related catastrophe losses, partially offset by a reduction in the expense ratio and the core accident year claims ratio, and higher favourable prior year claims development. The full year commercial lines combined ratio was 88.8% compared to 90.1% in 2022. The improvement was driven by a lower expense ratio.

4 — ADOPTION OF IFRS 17 AND IFRS 9

Effective January 1, 2023, we adopted IFRS 9 and IFRS 17 as discussed in Note 3 — “Adoption of new accounting standards” of our audited consolidated financial statements for the year ended December 31, 2023. We have restated comparative information for 2022 in the MD&A for the impacts of IFRS 9 and IFRS 17, unless otherwise noted. Our equity attributable to common shareholders as of January 1, 2022 increased by $158.1 million or 6.6% on the adoption of IFRS 17 as a result of the changes shown in the table below.

The effects of adopting IFRS 17 and IFRS 9 on retained (deficit) earnings and AOCI as at January 1, 2022 are as follows:

	As at January 1, 2022	
(in millions of dollars)	Retained (deficit) earnings	AOCI
Balance as at December 31, 2021, as previously reported	$ (28.8)	$ 98.0
IFRS 17 adjustments:		
Change from provision for adverse deviation to risk adjustment	140.0	–
Difference in discounting under IFRS 17	28.0	
Increased deferral of insurance acquisition cash flows	73.6	–
Establishment of onerous loss provision	(26.3)	–
Income tax impact on transition adjustments	(56.5)	–
Total IFRS 17 adjustments	158.8	–
IFRS 9 adjustments:		
Reclassification of AFS unrealized gains, excluding FVTOCI preferred stocks, from AOCI to retained (deficit) earnings	122.9	(122.9)
Fair value adjustment to commercial loans	(0.9)	–
Income tax impact on transition adjustments	(31.2)	31.4
Total IFRS 9 adjustments	90.8	(91.5)
Restated balance as at January 1, 2022	$ 220.8	$ 6.5

Below is a quantitative reconciliation of underwriting income and combined ratio as previously reported to those restated for the impacts of IFRS 17 for the three months ended December 31, 2022:

	Three months ended December 31, 2022							Three months ended December 31, 2022	
	Underwriting income (as previously reported)		Insurance acquisition cash flows	Onerous loss provision	Other underwriting revenues	Reinstatement premiums	Other	Underwriting income (restated)	
(in millions of dollars)	($)	Ratio[1]	($)	($)	($)	($)	($)	($)	Ratio[1]
Net earned premiums (“NEP”) / Net underwriting revenue[2]	$ 850.6		$ –	$ –	$ 2.4	$ 1.1	$ (3.7)	$ 850.4	
Net claims and adjustment expenses[2]	500.1	58.8%	–	(0.1)	–	1.1	5.3	506.4	59.5%
Net underwriting expenses[2]	280.3	32.9%	(1.7)	–	2.4	–	(3.7)	277.3	32.7%
Underwriting income[2]	$ 70.2	91.7%	$ 1.7	$ 0.1	$ –	$ –	$ (5.3)	$ 66.7	92.2%

Notes:

[1] The ratio shown for each line item is the financial measure expressed as a percentage of NEP (under IFRS 4) or net underwriting revenue (under IFRS 17) and are non-GAAP ratios.

[2] Net underwriting revenue, net claims and adjustment expenses, net underwriting expenses, and underwriting income are non-GAAP financial measures.

Refer to Section 13 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

Risk adjustment & discounting

Under IFRS 17, the risk adjustment replaces the provision for adverse deviation (“PfAD”) under IFRS 4 – *Insurance Contracts* (“IFRS 4”). The PfAD was selected by applying a factor, based on a qualitative review of risk characteristics, by segment. The sum of the provisions across all segments was the PfAD recorded on the balance sheet under IFRS 4. Under IFRS 17, the risk adjustment is calculated by segment at a confidence level provided by management and the sum of the risk adjustment by segment, after the application of a diversification benefit, is the total risk adjustment recorded in the balance sheet. The diversification benefit is calculated to reflect the degree of diversification between segments.

Under IFRS 17, the liabilities for incurred claims ("LIC") is discounted by way of a yield curve constructed from risk free assets plus a liquidity premium to account for the liquidity characteristics of the liabilities. Under IFRS 4, the claim liabilities were discounted at a yield rate derived from the assets supporting the liabilities, adjusted for PfAD in the yield rate to account for uncertainty associated with the selected yield rate.

The diversification benefit in the risk adjustment accounts for the majority of the difference between the LIC under IFRS 17 compared to IFRS 4.

Insurance acquisition cash flows

Under IFRS 17, there is an increase in the amount of insurance acquisition cash flows that are eligible to be deferred on the balance sheet. This increased deferred cost will be recognized into net income over the term of the policy.

Onerous contracts

Where facts and circumstances indicate that a group of insurance contracts may be non-profitable at initial recognition we perform analyses to determine if the group of contracts is onerous. For groups of contracts that are considered onerous, we recognize a loss in net income for the expected net outflow at the time of issuance of the associated contracts, resulting in earlier recognition compared to IFRS 4. These losses are reversed to net income over the term of the contracts to offset the actual losses as they are incurred.

Other underwriting revenues

Other underwriting revenues, which consist of various customer service fees, were previously netted against underwriting expenses in our definition of the expense ratio. These fees are now included in net underwriting revenue. This will result in an increase in the calculation of our expense ratio, but no impact on total underwriting income.

Reinstatement premiums

Certain reinsurance reinstatement premiums were previously reported in net earned premiums and are now reported in expenses. This change in classification has no impact on total underwriting income.

The following is a summary of the impacts of IFRS 17 and IFRS 9 on certain financial measures:

KEY METRIC	SUMMARY OF IMPACT
GWP	GWP is now defined as premiums from the sale of insurance during a specified period including premiums assumed. GWP no longer includes the negative impact of amounts ceded to risk sharing pools, which is consistent with the treatment of insurance revenue reported under IFRS 17.
Underwriting and operating income	Underwriting income as noted above was impacted primarily by the deferral of additional acquisition costs and the impact of onerous contracts, as well as IFRS 17 transition adjustments with respect to the industry pools. Our operating net income is impacted by these same factors.
Claims ratio	The calculation of claims ratio under IFRS 17 is impacted by onerous contracts and the reclassification of certain reinsurance reinstatement premiums from net earned premiums to net claims and adjustment expenses, as well as IFRS 17 transition adjustments with respect to the industry pools. The net impact on these changes was an increase in the claims ratio in the fourth quarter of 2022.
Expense ratio	Other underwriting revenues were previously netted against underwriting expenses in our definition of the expense ratio but are now included in net underwriting revenue. As a result, our expense ratio has increased and our claims ratio has decreased, with no impact on total underwriting income. Included in the expense ratio is the impact of the deferral of additional insurance acquisition costs. IFRS 17 broadened the costs eligible for deferral which changes the timing of expense recognition.
Combined ratio	The new accounting standards do not change how we manage performance and evaluate results. Management continues to use combined ratio excluding the impact of discounting and risk adjustment to evaluate our underlying insurance underwriting results. We have included in combined ratio certain costs reclassified to other (expenses) income under IFRS 17.
Investment classifications, ROE, and Operating ROE	In addition to the above changes resulting from the adoption of IFRS 17, the transition to IFRS 9 has resulted in changes in classification of certain investments. We now manage our bond portfolio on a combined basis in order to gain efficiencies in asset management. Our focus is on maximizing the total return of the portfolio while still supporting our underlying claim liabilities by appropriate matching of amounts and duration. We have therefore designated the majority of our investments as FVTPL under IFRS 9. Unrealized gains and losses on certain investments which previously were recorded in OCI will now be recorded in net income, likely resulting in increased volatility in ROE and EPS. Our operating net income continues to exclude recognized gains and losses on our investments. In the denominator of the operating ROE calculation, we have excluded unrealized gains (losses) on FVTPL equity instruments from equity attributable to common shareholders. As a result, the changes to classifications arising from IFRS 9 are expected to have a minimal impact on operating net income and operating ROE.
BVPS	Our equity attributable to common shareholders as of January 1, 2022 increased due to the IFRS 17 transition adjustments as described above, which has resulted in a corresponding increase in BVPS. The IFRS 9 transition adjustments had only a minor impact on total equity.
EPS	We expect there may be additional volatility in net income and earnings per common share due to the IFRS 17 and IFRS 9 impacts discussed above, including the impact of mark to market gains and losses on our investments designated as FVTPL.

The adoption of IFRS 17 does not significantly impact the way in which we manage our business, operating capital in the insurance business, nor our assessment of our financial capacity and resources. In July 2022, the Office of the Superintendent of Financial Institutions ("OSFI") released the final Minimum Capital Test ("MCT") 2023 guidelines to reflect the implementation of IFRS 17. Under IFRS 17, our excess capital, within our regulated insurance companies, is measured at 190% MCT in order to recalibrate our expected operating range to the new capital guidelines. Furthermore, with the transition to IFRS 17, we now reflect the benefits of diversification within our insurance business in the calculation of our risk adjustment and discounting impact. This has somewhat increased our view of the excess capital levels in our business.

5 — OPERATING ENVIRONMENT AND OUTLOOK

OPERATING ENVIRONMENT

Economic environment	• While inflation subsided in 2023, it remains above central bank target bands prompting the Bank of Canada and the U.S. Federal Reserve to maintain restrictive monetary policy. • We expect interest rates to start to come down in 2024. Significant changes in interest rates would 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). • Our liquidity remains strong with a high-quality-focused investment portfolio and a DBRS Limited financial strength rating of A for Definity Insurance Company ("Definity Insurance"). • Our strong balance sheet and capital level positions us well for a period of continued uncertainty.
Personal auto environment	• Frequency has stabilized as driving patterns have normalized. The rate of inflation for auto physical damage has continued to stabilize over the past six quarters with current loss severity trends normalizing to pre-pandemic levels. New vehicle pricing continued to reflect tight inventories while used vehicle prices have continued to gradually decline but still remain elevated compared to pre-pandemic levels. Labour rates have also seen year over year increases with pressure on salaries to keep pace with inflation. • Vehicle theft in Canada continues to be a troubling issue for the industry with minimal offsets from recovery. Frequency with respect to vehicle thefts remained elevated in the fourth quarter. Theft severity is also impacted by the tendency of thieves targeting higher-end luxury vehicles. Increasing trends in frequency and severity have led insurers to increase comprehensive coverage rates as well as offer incentives to drivers of high theft vehicles to install anti-theft devices to increase the propensity of recovery. • The Alberta government announced the replacement of the prohibition on increasing rates with a measure capping rate increases at CPI levels for "good drivers". This measure is considered short to medium term until a government-commissioned study providing recommendations for a longer-term solution to reform automobile insurance is released and acted upon. The government also introduced a regulation that authorizes the Automobile Insurance Rate Board to hold insurers accountable for the 6% prescribed profit provision by directing insurers to return excess profits to their customers. The rate cap and the profit measure came into effect on January 1, 2024.
Climate change	• 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. • We are continuously enhancing our modelling capabilities to better understand changes in key climate risk exposures, and to ensure pricing, coverage options, risk accumulations, and liability for incurred claim estimates remain appropriate. • We actively monitor our exposure to and/or concentrations of insured risks 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. • Climate change risks may also influence the cost, coverage, and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. • To reduce our business impact on climate change, we continue to work towards achieving net-zero emissions for both our operations and investments (listed equities and corporate bonds) by 2040 or sooner. • As a demonstration of our commitment to achieving our targets, we have implemented a Sustainability-Linked Loan structure that links Definity's borrowing costs directly to its performance on ESG targets, including achieving Scope 1 and Scope 2 operational greenhouse gas emissions reductions.
Investment environment	• Global equity markets gained in the fourth quarter of 2023, capping off a strong year that saw most global asset classes post positive returns. Canadian equities underperformed their global counterparts with the TSX60 increasing 8.2% in 2023, while the MSCI World Index rose 21.8% over the same period. • Following years of central bank tightening at an historic pace, consumer inflation fell from 6.5% in the US and 6.3% in Canada at the start of 2023 to 3.1% in both countries by the end of the year. • Government bond yields fell sharply in the fourth quarter of 2023 as markets shifted to pricing in easing from central banks, which helped drive positive returns across bond indices for the year. • Corporate bond markets outperformed government bonds, with spreads narrowing across both investment grade and high yield bonds. • Our investment strategy focuses on maximizing shareholder value through long-term capital strength, while seeking to optimize risk-adjusted returns. We have an established investment policy and an active management strategy that is based on our risk appetite, our prudent approach to balancing investment risk and returns, regulatory guidelines, and expected settlement pattern of claim liabilities.

INDUSTRY OUTLOOK

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

We believe the operating environment is one that remains conducive to sustaining firm market conditions. We expect firm market conditions in property lines will persist over the next 12 months, particularly following a second consecutive year of industry catastrophe losses above $3 billion, continuing elevated inflation, and the dynamics of recent reinsurance renewals. We also expect conditions in auto lines to continue to firm as insurers aim to keep pace with the combined impact of elevated theft, lingering inflationary cost pressures, and ongoing regulatory uncertainty in Alberta.

Fixed income yields have increased meaningfully in the past two years and supported growth in net investment income in 2023, albeit at the cost of mark-to-market valuations. To the extent that market yields remain above book yields, this could again benefit investment income into 2024. Given the heightened macro risk environment, we believe underwriting discipline remains important for the industry to sustainably achieve desirable levels of profitability.

Industry results have normalized from the very strong results during the pandemic which had benefitted from unusually low claims frequency in auto portfolios. Despite the tailwind from investment income, we expect the combination of continued weather events and severity related to inflation will result in an industry return on equity close to its long run average of 10% in 2024.

<table>
<tr><td>Personal auto</td><td>• We expect the inflationary pressures affecting vehicle damage claims to remain elevated in 2024 but more consistent with pre-pandemic auto physical damage inflationary trends. Used car pricing is expected to continue its gradual decline. However, new vehicle supply is expected to remain low with pent-up demand still high.
• The escalating trend in automotive theft by organized crime has garnered increased attention at all levels of government, with the federal government recently announcing a National Summit on Combating Auto Theft to ensure a coordinated response to address the trend of auto theft. Commitments to additional funding, greater focus on recovery measures, and increased enforcement have been made by multiple stakeholders. Insurers are incenting customers to install advanced tracking technology on specific high theft vehicles to improve the probability of recovery.
• Severity trends as well as elevated theft levels are expected to continue to drive firming industry pricing and a focus on disciplined underwriting in the next 12 months.</td></tr>
<tr><td>Personal property</td><td>• The volatility of weather events is expected to continue to be a risk for this line of business over the long term. Enhanced focus and action on loss prevention and mitigation will continue to be required, including rate, coverage, and appetite changes.
• Inflationary pressure on building materials and labour, which has decreased year over year but remains elevated, means claim costs on a dollar basis are expected to continue to increase and should be reflected in firm premium pricing over the next 12 months.
• With improved pricing and generally higher attachment points for reinsurers, much of the Canadian weather event losses were retained by primary insurers and reinsurance renewals were significantly more orderly versus the prior year. With primary insurers retaining more catastrophe exposure in the lower layers, property pricing is expected to continue to reflect the increased frequency and cost inflation from weather events.
• To address some of the challenges with natural catastrophes, the federal government has indicated that it plans to work with insurers to develop a national flood insurance program for high-risk residential properties. The objective is for all Canadians to be able to obtain affordable flood coverage.</td></tr>
<tr><td>Commercial lines</td><td>• The risks for an economic slowdown remain, with inflation moderating but still above central bank targets. This will likely impact industry growth somewhat in the near term.
• We expect the commercial lines market conditions to remain firm into 2024 as carriers focus on ensuring long-term profitability and sustainable availability of capacity. We expect the pricing environment to be influenced by weather events, inflation trends, expected investment returns, and the industry's overall underwriting performance.
• 2023 catastrophe experience reflected a longer term trend of increasing weather events. Climate change mitigation and management actions are expected to evolve in a joint effort across government, regulatory, and industry participants to reflect recent trends.
• Elevated reinsurance costs, as well as the increasing frequency and severity of weather-related catastrophe events, are expected to prolong firm commercial lines market conditions and pricing.</td></tr>
</table>

FINANCIAL TARGETS

Our key strategic priorities include leveraging our underwriting expertise, investments in digital technology, and available financial capacity to drive profitable growth in personal lines across broker and digital direct channels, grow and diversify our commercial insurance business, deliver a superior claims experience while prudently managing claim costs, diversify and strengthen our growth through acquisitions and partnerships, maintain our pace of innovation, attract and retain top talent, and thoughtfully integrate ESG priorities. As a leading Canadian P&C insurer, with a seasoned management team focused on key priorities, we have 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.

Recognizing the inherent seasonality of our underwriting results, including the timing and impact of catastrophe losses, our financial targets for full year 2024 are to:

- **Grow GWP[1] at a rate of upper single digit to approximately 10%.** This target compares to our GWP growth rates of 9.4% in 2023 (as compared to 2022) and 12.4% in 2022 (as compared to 2021);
- **Maintain a full year combined ratio[1] in the mid-90s.** This target compares to our combined ratios of 95.9% in 2023 (inclusive of higher than anticipated levels of catastrophe losses) and 94.2% in 2022; and
- **Generate a full year operating ROE[1] in the range of 10% to below teens** 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 9.2% in 2023 (inclusive of higher than anticipated levels of catastrophe losses) and 9.4% in 2022.

Notes:
(1) GWP is a supplementary financial measure. Combined ratio and operating ROE are non-GAAP ratios. Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

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

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

- we 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 for 2024, and will support continued rate increases for these lines of business;
- catastrophe losses of approximately 4.5% of net underwriting revenue for the full year;
- recorded liabilities for incurred claims are adequate with no significant prior year claims development or overall reserve strengthening required during the outlook period for the financial targets;
- 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 in 2024 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:

- we achieve the above combined ratio target;
- fixed income market yields remain at current levels, resulting in net investment income exceeding $190 million in 2024;
- market volatility within our investment portfolio is generally consistent with long-term historical averages;
- broker investments generate operating income, before finance costs, taxes, and minority interests, of approximately $75 million in 2024, through a combination of distribution income and lower consolidated commission expenses; and
- retained earnings increase commensurate with expected net income attributable to common shareholders less expected dividends to common shareholders.

These are in addition to the normalizations and adjustments we use to determine operating ROE. Refer to Section 13 – "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". Our expectation for further increases in operating ROE through future capital optimization 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.

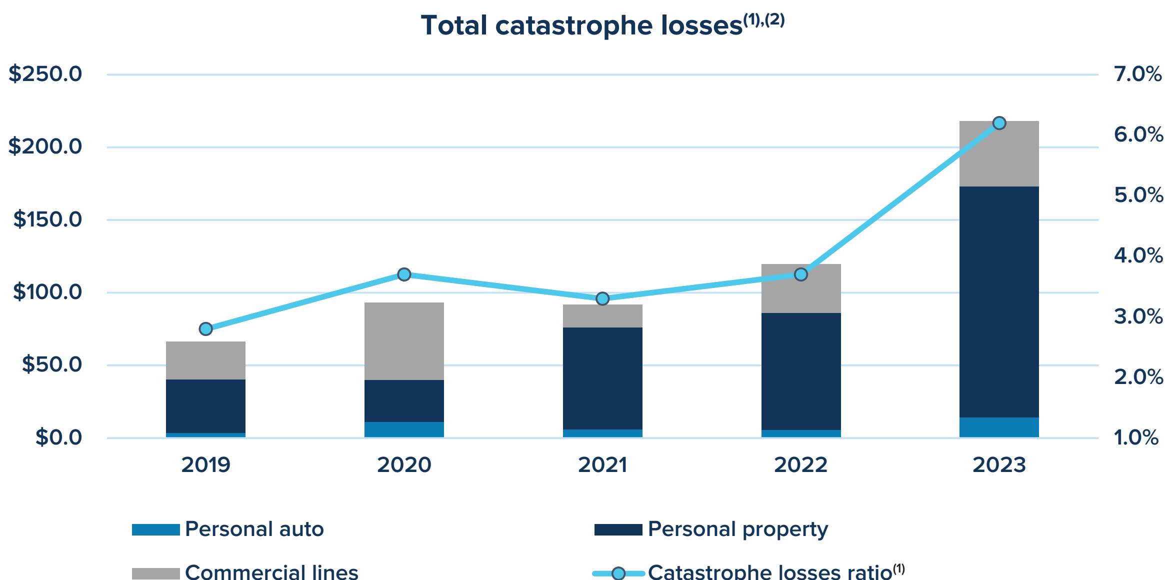
CATASTROPHE LOSSES

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, wind storms, 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 modelling 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 of 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:
[1] Catastrophe losses is a supplementary financial measure. Catastrophe losses ratio is a financial measure expressed as a percentage of net underwriting revenue. For more information, refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
[2] 2019-2021 under IFRS 4. 2022-2023 under IFRS 17.

We expect annual catastrophe losses of approximately 4.5% of our net underwriting revenue, reflecting our business mix and our reinsurance program for 2024. We generally expect approximately 75% 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 $0.30 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 available following the end of the quarter.

Management currently believes that the above guidance for financial targets and catastrophe losses, 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 them 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".

6 — FINANCIAL POSITION

FINANCIAL HIGHLIGHTS AS AT DECEMBER 31, 2023:

- Our financial position remained strong with equity attributable to common shareholders exceeding $2.8 billion at the end of the year, an increase of $297.9 million or 11.7% compared to December 31, 2022, due primarily to the positive contribution from net income.
- Total assets increased by $439.8 million (6.4%) compared to December 31, 2022, due primarily to cash generated from operations and an increase in the market values of our investment portfolio. Cash generated from operations and net investments sold were partially invested in goodwill and intangible assets on the acquisitions of McFarlan Rowlands and Drayden in 2023.
- Insurance contract liabilities decreased by $83.9 million (2.3%) compared to December 31, 2022 due primarily to claims paid outpacing claims incurred.

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

(in millions of dollars)	**As at December 31, 2023**	As at December 31, 2022 (Restated)	Change
ASSETS			
Cash and cash equivalents	**$ 197.5**	$ 200.5	$ (3.0)
Restricted cash	**244.0**	302.1	(58.1)
Investments	**4,931.0**	4,897.2	33.8
Income taxes receivable	**–**	81.7	(81.7)
Reinsurance contract assets	**330.4**	305.1	25.3
Property and equipment	**103.1**	83.8	19.3
Deferred income tax assets	**23.6**	25.2	(1.6)
Goodwill and intangible assets	**1,229.9**	771.6	458.3
Other assets	**200.0**	152.5	47.5
Total assets	**$ 7,259.5**	$ 6,819.7	$ 439.8
LIABILITIES			
Insurance contract liabilities	**3,493.8**	3,577.7	(83.9)
Accounts payable and other liabilities	**131.9**	139.0	(7.1)
Income taxes payable	**117.9**	–	117.9
Deferred income tax liabilities	**150.7**	103.5	47.2
Debt outstanding	**114.3**	39.1	75.2
Demutualization amounts outstanding	**244.0**	302.1	(58.1)
Total liabilities	**$ 4,252.6**	$ 4,161.4	$ 91.2
EQUITY			
Share capital	**2,273.0**	2,254.2	18.8
Contributed surplus	**40.4**	40.2	0.2
Retained earnings	**561.3**	287.8	273.5
Accumulated other comprehensive loss	**(27.0)**	(32.4)	5.4
Equity attributable to common shareholders	**2,847.7**	2,549.8	297.9
Non-controlling interests	**159.2**	108.5	50.7
Total equity	**$ 3,006.9**	$ 2,658.3	$ 348.6
Total liabilities and equity	**$ 7,259.5**	$ 6,819.7	$ 439.8

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, 2023 Carrying value	Percent of carrying value	As at December 31, 2022 Carrying value (Restated)	Percent of carrying value
Cash and cash equivalents	**$ 197.5**	**3.9%**	$ 200.5	3.9%
Short-term investments	**137.0**	**2.7%**	89.3	1.8%
Bonds	**3,773.0**	**73.5%**	3,923.7	77.0%
Preferred stocks	**332.8**	**6.5%**	298.0	5.8%
Common stocks	**595.5**	**11.6%**	517.7	10.2%
Pooled funds	**74.7**	**1.5%**	57.2	1.1%
Commercial loans	**18.0**	**0.3%**	11.3	0.2%
Total investments	**$ 4,931.0**	**96.1%**	$ 4,897.2	96.1%
Total cash and cash equivalents, and investments	**$ 5,128.5**	**100.0%**	$ 5,097.7	100.0%

Total cash and cash equivalents and investments increased as at December 31, 2023 due to cash provided by operating activities and an increase in the market values of our investment portfolio. Cash generated from operations and net investments sold were partially deployed in the acquisitions of McFarlan Rowlands and Drayden in 2023.

Our proportionate share of investments in fixed income securities, including cash and cash equivalents and short-term investments, decreased to 80.1% of the total portfolio as at December 31, 2023, compared with 82.7% as at December 31, 2022. We maintained our focus on a high-quality investment portfolio.

Refer to Note 2 — "Summary of significant accounting policies" of our audited consolidated financial statements for the year ended December 31, 2023, which provides further details pertaining to the classification and measurement of our financial instruments under IFRS 9.

Investment sector mix

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

	As at December 31, 2023					As at December 31, 2022
(in millions of dollars, except as otherwise noted)	Short-term investments and bonds	Preferred stocks	Common stocks	Pooled funds	Total	Total
Government	**65%**	**–**	**–**	**–**	**51%**	48%
Financials	**16%**	**71%**	**28%**	**7%**	**22%**	24%
Energy	**4%**	**12%**	**14%**	**2%**	**6%**	6%
Communication services	**5%**	**5%**	**5%**	**6%**	**5%**	6%
Industrials	**3%**	**–**	**13%**	**5%**	**4%**	4%
Utilities	**3%**	**12%**	**2%**	**21%**	**4%**	4%
Consumer discretionary	**2%**	**–**	**6%**	**8%**	**2%**	2%
Materials	**–**	**–**	**8%**	**2%**	**1%**	1%
Consumer staples	**1%**	**–**	**5%**	**4%**	**1%**	1%
Information technology	**–**	**–**	**13%**	**34%**	**2%**	1%
Health care	**–**	**–**	**4%**	**9%**	**1%**	1%
Real estate	**1%**	**–**	**2%**	**2%**	**1%**	2%
Total (%)	**100%**	**100%**	**100%**	**100%**	**100%**	100%
Total ($)	**$ 3,910.0**	**$ 332.8**	**$ 595.5**	**$ 74.7**	**$ 4,913.0**	$ 4,885.9

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[1] — bonds

	As at December 31, 2023		As at December 31, 2022	
(in millions of dollars, except as otherwise noted)	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
AAA	$ 1,475.0	39.1%	$ 1,325.4	33.8%
AA	1,031.3	27.3%	1,034.1	26.4%
A	749.8	19.9%	926.9	23.6%
BBB	487.2	12.9%	606.0	15.4%
BB	29.7	0.8%	31.3	0.8%
Total bonds	$ 3,773.0	100.0%	$ 3,923.7	100.0%

[1] Using the lowest of S&P and DBRS ratings.

Credit rating[1] — preferred stocks

	As at December 31, 2023		As at December 31, 2022	
(in millions of dollars, except as otherwise noted)	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
P1	$ –	–	$ 5.4	1.8%
P2	254.8	76.6%	236.0	79.2%
P3 or not rated	78.0	23.4%	56.6	19.0%
Total preferred stocks	$ 332.8	100.0%	$ 298.0	100.0%

[1] Using the lowest of S&P 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, 2023, this resulted in 86.3% (December 31, 2022: 83.8%) of the bonds in the portfolio being rated "A-" or better and 76.6% (December 31, 2022: 81.0%) 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.

Investment portfolio region of issuer

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

	As at December 31, 2023		As at December 31, 2022	
(in millions of dollars, except as otherwise noted)	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Canada	$ 4,648.9	94.6%	$ 4,669.9	95.6%
United States	197.4	4.0%	152.8	3.1%
Europe	39.5	0.8%	36.9	0.8%
Other	27.2	0.6%	26.3	0.5%
Total	$ 4,913.0	100.0%	$ 4,885.9	100.0%

Our investment portfolio is concentrated mainly in Canada. Our estimated exposure to foreign exchange risk is outlined in Section 12 — "Risk management and corporate governance".

GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets increased as at December 31, 2023 due primarily to the goodwill and intangible assets arising from the acquisitions of McFarlan Rowlands and Drayden in 2023.

INSURANCE CONTRACT LIABILITIES

The composition of our insurance contract liabilities as at December 31 is as follows:

(in millions of dollars)	**As at December 31, 2023**	As at December 31, 2022	Change
Premiums receivable	**$ (1,271.1)**	$ (1,187.3)	$ (83.8)
Unearned premiums	**1,928.0**	1,782.8	145.2
Unearned premiums received	**656.9**	595.5	61.4
Unamortized insurance acquisition cash flows	**(320.7)**	(292.2)	(28.5)
Onerous loss provision	**23.1**	27.7	(4.6)
Provision for unpaid claims and other directly attributable payables	**3,134.5**	3,246.7	(112.2)
Total	**$ 3,493.8**	$ 3,577.7	$ (83.9)

Insurance contract liabilities as at December 31, 2023 decreased from December 31, 2022 due primarily to claims paid during 2023 outpacing claims incurred.

The level of prior year claims development and the impact on the claims ratio by fiscal year, are as follows:

	For the year ended December 31[1]									
(in millions of dollars, except as otherwise noted)	**2023**	2022 (Restated)	2021	2020	2019	2018	2017	2016	2015	2014
(Favourable) adverse development on prior year claims, undiscounted[2]	**$ (63.0)**	$ (86.3)	$ (76.0)	$ (29.6)	$ (37.9)	$ (18.8)	$ 32.6	$ (40.1)	$ (73.1)	$ (2.9)
Impact on claims ratio[3]	**(1.8%)**	(2.7%)	(2.7%)	(1.2%)	(1.6%)	(0.8%)	1.5%	(2.1%)	(3.8%)	(0.2%)

Notes:

(1) 2014-2021 under IFRS 4. 2022-2023 under IFRS 17.

(2) Prior year (favourable) adverse claims development is a non-GAAP financial measure.

(3) Claims ratio is a non-GAAP ratio.

Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

DEBT OUTSTANDING

In 2023, approximately $75 million was drawn on our credit facility in connection with the purchase of McFarlan Rowlands and $39.3 million to repay McDougall's outstanding demand loans.

EQUITY

Equity attributable to common shareholders increased by $297.9 million, or 11.7%, as at December 31, 2023, due primarily to the net income generated in the year. Our equity attributable to common shareholders as of January 1, 2022 increased by $158.1 million or 6.6% on the adoption of IFRS 17 and IFRS 9.

On November 9, 2023, the Board declared a $0.1375 per share dividend, payable on December 28, 2023 to shareholders of record at the close of business on December 15, 2023. On February 15, 2024, the Board declared a $0.16 per share dividend, payable on March 28, 2024 to shareholders of record at the close of business on March 15, 2024. This represents a 16.4% increase from the previous quarter and delivers on our objective to consistently grow our dividend over time.

7 — SELECTED ANNUAL INFORMATION AND SUMMARY OF QUARTERLY RESULTS

(in millions of dollars, except as otherwise noted)	For the years ended December 31		
	2023	2022 (Restated)	2021[(1)]
Insurance revenue	**$ 3,850.3**	$ 3,485.7	N/A
Net underwriting revenue[(2)] / NEP	**$ 3,542.6**	$ 3,251.2	$ 2,833.6
Net income	**$ 354.5**	$ 111.5	$ 213.2
Net income attributable to common shareholders	**$ 350.1**	$ 110.9	$ 213.2
Earnings per common share, basic (in dollars)	**$ 3.04**	$ 0.96	$ 2.03
Earnings per common share, diluted (in dollars)	**$ 3.00**	$ 0.95	$ 2.02
Total assets (As at December 31)	**$ 7,259.5**	$ 6,819.7	$ 6,537.9

Notes:

(1) Results do not reflect the adoption of IFRS 17 and IFRS 9, except for total assets which reflects the adoption as at January 1, 2022.

(2) Net underwriting revenue is a non-GAAP financial measure. Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(in millions of dollars, except as otherwise noted)	For the three months ended							
	December 31, 2023	**September 30, 2023**	**June 30, 2023**	**March 31, 2023**	December 31, 2022 (Restated)	September 30, 2022 (Restated)	June 30, 2022 (Restated)	March 31, 2022 (Restated)
Gross written premiums[(1)]	**$ 1,033.2**	**$ 1,040.0**	**$ 1,085.1**	**$ 846.9**	$ 951.9	$ 954.5	$ 995.8	$ 760.1
Insurance revenue	**1,003.8**	**984.1**	**954.9**	**907.5**	911.7	895.9	863.8	814.3
Net underwriting revenue[(2)]	**922.4**	**903.6**	**877.5**	**839.1**	850.4	832.4	803.1	765.3
Underwriting income (loss)[(2)]	**87.0**	**(22.8)**	**41.2**	**39.5**	66.7	27.1	37.8	57.8
Combined ratio[(3)]	**90.6%**	**102.5%**	**95.3%**	**95.3%**	92.2%	96.7%	95.3%	92.4%
Net investment income	**49.4**	**46.3**	**42.8**	**41.0**	39.5	36.0	31.8	25.8
Distribution income[(2)]	**8.8**	**11.2**	**9.8**	**9.5**	4.8	1.7	2.9	4.7
Operating net income[(2)]	**100.7**	**17.6**	**64.8**	**63.4**	76.6	45.8	51.1	63.3
Net income (loss)	**226.4**	**(46.2)**	**72.2**	**102.1**	185.6	35.7	(77.2)	(32.6)
Net income (loss) attributable to common shareholders	**225.9**	**(48.3)**	**71.6**	**100.9**	185.0	35.7	(77.2)	(32.6)
Earnings (loss) per common share (in dollars)								
Basic	**$ 1.96**	**$ (0.42)**	**$ 0.62**	**$ 0.88**	$ 1.60	$ 0.31	$ (0.67)	$ (0.28)
Diluted	**$ 1.94**	**$ (0.42)**	**$ 0.61**	**$ 0.87**	$ 1.59	$ 0.31	$ (0.67)	$ (0.28)

Notes:

(1) Gross written premiums is a supplementary financial measure.

(2) Net underwriting revenue, underwriting income (loss), distribution income, and operating net income are non-GAAP financial measures.

(3) Combined ratio is a non-GAAP ratio.

Refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The P&C insurance business is seasonal in nature. As such, net income (loss) may vary significantly between quarters, particularly due to weather-related losses. Results are further impacted by fluctuations in investment gains and losses. The transition to IFRS 9 has resulted in changes to the composition of gains and losses on investments between net income (loss) and OCI. As more of the Company's investments are designated as FVTPL, unrealized gains and losses on these investments which previously were recorded in OCI are now recorded in net income (loss). Pre-tax unrealized losses on investments of $217.7 million have been recognized in net income in 2022 that were previously recognized in OCI.

The fourth quarter of 2022 included a revaluation gain of $67.0 million on our previous ownership interest in McDougall. The third quarter of 2023 was impacted by elevated levels of catastrophe losses, which impacted the claims ratio by 13.5 percentage points in that quarter.

8 — LIQUIDITY AND CAPITAL RESOURCES

CAPITAL MANAGEMENT FRAMEWORK

Capital deployment is carefully considered within the context of our access to capital, 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:

- Establishment of flexible capital management tools to support the business strategy;
- Maximizing long-term shareholder value through capital optimization;
- Ensuring an appropriate level of liquidity to support operational and other corporate requirements;
- Maintaining strong credit ratings to support capital raising; and
- Maintaining strong regulatory capital in our operating insurance entities to safeguard policyholders.

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

Capital management of Definity Financial Corporation

We focus on promoting internal capital mobility so that all entities are appropriately capitalized while ensuring there is sufficient liquid capital at Definity Financial Corporation to support the servicing of debt obligations, payment of shareholder dividends, and for other capital deployment, including acquisitions.

On May 11, 2023, our Board approved the renewal of the NCIB. Under the NCIB, we are authorized to purchase up to 3,476,781 common shares, representing 3% of our issued and outstanding common shares during the period commencing May 31, 2023 and ending May 30, 2024. As at December 31, 2023, no common shares had been repurchased and cancelled under the NCIB.

Regulatory capital management

The amount of capital required in any company is dependent on its risk profile, strategic plans, and 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:

- Insurance subsidiaries are subject to regulatory capital requirements established by OSFI and the *Insurance Companies Act* (Canada) (“ICA”).
- OSFI evaluates capital adequacy through the MCT ratio, which measures available capital against required risk-weighted capital.
- OSFI has established a regulatory supervisory target MCT ratio of 150%, which provides a cushion above the minimum MCT ratio of 100%.

As at December 31, 2023, the MCT ratio of each of the Company’s insurance subsidiaries exceeded the minimum capital ratio of 150% required by OSFI.

Management actively monitors the MCT of the Company’s insurance subsidiaries and the effect that external and internal actions have on the capital base of the Company. Capital levels are managed with an objective of ensuring that policyholders are not put at unacceptable risk. The Board reviews the MCT of the Company’s insurance subsidiaries on, at least, a quarterly basis. In accordance with regulatory requirements and our capital management policies, the Board 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.

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.

(in millions of dollars, except as otherwise noted)	As at December 31, 2023[5]	As at December 31, 2022[1]
MCT %[2]	**205%**	204%
Excess capital for Definity Insurance[3]	**$ 107.0**	$ 28.7
Additional capital at Definity Financial Corporation[4]	**274.6**	357.5
Total excess capital	**$ 381.6**	$ 386.2
Leverage capacity at target	**$ 1,002.3**	$ 311.4
Less: debt outstanding	**(114.3)**	(39.1)
Leverage capacity[5,6]	**$ 888.0**	$ 272.3
Financial capacity[6]	**$ 1,269.6**	$ 658.5

Notes:

(1) Results for 2022 do not reflect the adoption of IFRS 17 and IFRS 9, and have not been restated for OSFI's MCT 2023 guidelines.

(2) Consolidated Definity Insurance.

(3) Excess capital measured at 190% MCT for Definity Insurance (December 31, 2022: 200%)

(4) Additional capital at Definity Financial Corporation measured as available cash and investments in Definity Financial Corporation and its non-ICA subsidiaries. For 2022, measured at 200% MCT less excess capital for Definity Insurance.

(5) Leverage capacity as at December 31, 2023 is shown pro forma for the CBCA continuance effective January 1, 2024. For more information, refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(6) Leverage capacity and financial capacity are supplementary financial measures. For more information, refer to Section 13 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Definity Financial Corporation continued to the CBCA on January 1, 2024. As a result, Definity Financial Corporation is no longer incorporated under the ICA nor subject to its leverage restrictions. Definity's operating insurance company subsidiaries, including Definity Insurance, Sonnet, and Petline, remain incorporated under and governed by the ICA.

The financial capacity as at December 31, 2023 increased from December 31, 2022 due primarily to an increase in leverage capacity as a result of the continuance of Definity Financial Corporation to the CBCA, as well as capital generated from operating net income and recognized gains on investments. This was partially offset by capital deployed in the acquisitions of McFarlan Rowlands and Drayden.

Own Risk and Solvency Assessment ("ORSA")

The ORSA is a framework to internally assess our 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 of Definity and our insurance subsidiaries.

We integrate the ORSA with our enterprise risk management framework, management reporting, and decision-making processes. Our Board, 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. We aligned financial condition testing of our insurance subsidiaries and ORSA where appropriate, and develop 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 assess our future ability to meet internal capital targets and insurance subsidiaries' regulatory capital targets. If capital levels threaten to fall below pre-determined early-warning levels, as specified in our capital management policy, we would identify appropriate contingency plans and procedures to respond. Our ORSA capital levels are higher than our internal targets established in our capital management policy.

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)	**2024**	2023
Catastrophe – primary		
Net company retention[1]	**60.0**	40.0
Maximum limit[2]	**2,075.0**	1,950.0
Catastrophe – aggregate		
Annual aggregate deductible[3]	**65.0**	65.0
Annual aggregate limit[3]	**25.0**	25.0

Notes:

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

(2) Excludes co-participation.

(3) Contributing event to the annual aggregate deductible and limit was a maximum of $27 million on events above $3 million in 2024 and 2023.

We retain participations on reinsurance layers between the retention and maximum limit averaging 2.7% for 2024 (2023: 8.6%) including an average of 27.8% between the net company retention and up to a $100 million loss (2023: 42.5%). We also continued with our 100% placement of the catastrophe aggregate treaty in 2024 on the same terms as 2023. Recoveries on this treaty for 2023 of $25 million were fully utilized in 2023 due to the heightened level of catastrophe activity.

In line with industry practice, amounts due from 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 claim liabilities take priority over the reinsurer's subordinated creditors. We have collateral in place to support amounts due from unregistered reinsurers.

We seek to ensure that 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)	Positive	December 13, 2023
Definity Insurance	DBRS	A	Stable	June 28, 2023
Issuer rating				
Definity	DBRS	BBB (high)	Stable	June 28, 2023

CASH FLOWS

As at December 31, 2023, we had $197.5 million (December 31, 2022: $200.5 million) of cash and cash equivalents, $244.0 million of restricted cash (December 31, 2022: $302.1 million), and $137.0 million (December 31, 2022: $89.3 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.

The Company and certain of its subsidiaries have access to a $700 million unsecured committed credit facility. The credit facility increased from $150 million to $700 million on January 1, 2024 following the continuance of Definity Financial Corporation to the CBCA. The credit facility has a term ending on July 22, 2028, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at December 31, 2023 an amount of $114.3 million had been drawn under this credit facility. As at February 15, 2024, we remain in compliance with the covenants.

A summary of cash flows for the three months and years ended December 31, 2023 and 2022 is as follows:

	Three months ended December 31,		**Years ended December 31,**	
(in millions of dollars)	**2023**	2022	**2023**	2022
Operating activities				
Net cash provided by operating activities	**$ 128.0**	$ 112.5	**$ 351.8**	$ 305.8
Investing activities				
Investments purchased, net of investments sold	**(86.9)**	(35.6)	**151.5**	(54.2)
Commercial loans collected, net of commercial loans advanced	**0.4**	2.6	**(6.6)**	12.3
Purchases of intangible assets and property and equipment	**(17.4)**	(20.4)	**(87.5)**	(90.8)
Business acquisitions, net of cash acquired	**(206.7)**	(227.0)	**(409.3)**	(242.0)
Net cash used in investing activities	**(310.6)**	(280.4)	**(351.9)**	(374.7)
Financing activities				
Dividends paid on common shares	**(15.7)**	(14.3)	**(63.2)**	(63.3)
Dividends paid to non-controlling interests	**(0.3)**	–	**(1.0)**	–
Common shares purchased and held in trust	**(9.0)**	(13.2)	**(13.9)**	(53.6)
Change in demutualization amounts outstanding	**(13.3)**	(8.3)	**(58.1)**	191.3
Borrowing on credit facility	**–**	–	**114.3**	–
Repayment of demand loans	**–**	(1.0)	**(39.1)**	(1.0)
Net cash (used in) provided by financing activities	**(38.3)**	(36.8)	**(61.0)**	73.4
Net (decrease) increase in cash and cash equivalents, and restricted cash	**$ (220.9)**	$ (204.7)	**$ (61.1)**	$ 4.5

Cash provided by operating activities in the fourth quarter of 2023 and for the year increased compared with the same periods in 2022. The increase in cash provided by operating activities was due primarily to premiums collected, income taxes received, and higher net investment income received, partially offset by higher claims paid.

In 2023, business acquisitions included the acquisitions of McFarlan Rowlands in the second quarter, which included approximately $75 million drawn on our credit facility to partly fund the acquisition, and Drayden in the fourth quarter.

Cash (used in) provided by financing activities includes net distributions of cash benefits of the demutualization to Lost Recipients. A portion of the eligible policyholders in our demutualization became Lost Recipients in accordance with the plan setting out the terms for the conversion of the Company ("Conversion Plan") because their address was unknown at the time of distribution (and remains so) or because they did not act upon their demutualization benefits within six months of the date on which those benefits were sent. 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 for general corporate purposes.

Definity has been making sustained efforts over several years to effect distribution to Lost Recipients. Prior to completing demutualization, Definity used multiple mailings and digital channels to provide demutualization information to eligible policyholders and emphasize the importance of keeping contact information updated, as well as a dedicated website that allowed eligible policyholders to register for alerts and update their personal information. These outreach efforts were supported by a full-time contact centre in place from the outset of the demutualization process, and which remains in place today. Since completing demutualization, Definity has pursued several initiatives to reach Lost Recipients, including a structured program designed and implemented by a third-party professional firm with extensive experience in asset unification. This asset unification firm will continue to actively work at locating Lost Recipients until the benefit claim deadline.

CONTRACTUAL OBLIGATIONS

Our contractual obligations include the LIC, lease commitments, and certain non-cancellable contractual commitments. Our non-owned buildings, motor vehicles, computers, and office equipment are supplied through leases. The future contractual aggregate minimum payments for our LIC (on an undiscounted basis and excluding the risk adjustment for non-financial risk), non-cancellable leases, and other commitments are outlined below.

	As at December 31, 2023		
(in millions of dollars)	Less than 1 year	Over 1 to 5 years	More than 5 years
LIC (undiscounted and excluding risk adjustment)	**$ 1,186.3**	**$ 1,554.0**	**$ 611.3**
Leases (undiscounted) and other commitments	**78.4**	**84.5**	**25.5**
Total	**$ 1,264.7**	**$ 1,638.5**	**$ 636.8**

OFF-BALANCE SHEET LIABILITIES AND CONTINGENCIES

We are subject to litigation relating to claims made in respect of insurance policies written by our insurance subsidiaries, 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 12 — "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 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, 2023, securities with an estimated fair value of $831.8 million (December 31, 2022: $841.6 million) have been loaned and financial assets with an estimated fair value of $884.5 million (December 31, 2022: $874.6 million) have been received as collateral from the approved borrowers. Lending collateral as at December 31, 2023 was 100.0% (December 31, 2022: 100.0%) held in government-backed securities and high quality common and preferred stocks. 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".

9 — 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 of the Board 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:

	Years ended December 31,	
(in millions of dollars)	**2023**	2022
Salaries	**$ 6.3**	$ 6.1
Short-term incentive plan	**4.0**	5.0
Share-based compensation plans	**11.0**	16.3
Retention and signing bonuses	**0.1**	1.4
Post-employment defined contribution pension benefits	**0.9**	0.8
Other short-term employment benefits	**0.3**	0.1
Directors' fees*	**1.3**	1.5
Total	**$ 23.9**	$ 31.2

* 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, 2023. 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 $1.5 million in 2024. The contributions are expected to be made in the form of cash. Discretionary pension contributions in 2023 were nil (2022: 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 $21.8 million in 2023 (2022: $20.1 million).

10 — 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, 2023, 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 less than 365 days before December 31, 2023. Refer to Note 5 — "Business combinations" of our audited consolidated financial statements for summary information on the impact on the financial statements.

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, 2023, 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 2023 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. The Company adopted IFRS 17 effective January 1, 2023 and has updated and modified certain internal controls over financial reporting as a result of the new accounting standard. Refer to Note 2 — "Summary of significant accounting policies" of our audited consolidated financial statements for the year ended December 31, 2023 for further information on changes to accounting policies and Note 3 — "Adoption of new accounting standards" regarding the transition impact on adoption of IFRS 17.

11 — CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of our audited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that can 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 2 — "Summary of significant accounting policies" of our audited consolidated financial statements for the year ended December 31, 2023 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 determination of groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently, in the determination of cash flows that relate directly to the fulfilment of insurance contracts, 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 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 4 — "Significant accounting judgments, estimates and assumptions" of our audited consolidated financial statements for the year ended December 31, 2023. The key estimates include, but are not limited to, the following:

- Valuation of the LIC
- Impairment of long-lived assets
- Valuation of post-employment benefits obligation
- Measurement of income taxes

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2023, we adopted IFRS 17 and IFRS 9 as discussed in Note 3 — "Adoption of new accounting standards" of our audited consolidated financial statements for the year ended December 31, 2023 and Section 4 — "Adoption of IFRS 17 and IFRS 9" in this MD&A.

12 — 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 business plans, strategy, risk appetite, internal control framework, 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 conduct, assessing the effectiveness of the Board 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 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 Risk Management Governance Model

We have implemented a three line of risk management 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 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. Refer to "Operational Risk — Model Risk" below for more detail.

The performance and pricing of all of our products are regularly monitored, and corrective action is taken as considered necessary. Examples of possible corrective actions include modification of product pricing, terms, conditions, or eligibility requirements, modification of the level of capacity provided to a product or a specific region, changes to marketing strategy, 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 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 developments may also have implications on our settlement of claims. Refer to "Operational Risk — Regulatory and Legal Risks" below for additional detail.

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. Refer to "Financial Risk — Credit Risk" below for more detail. 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 LIC net of our assets for incurred claims ("AIC") are insufficient to cover future insurance service claim payments and associated expenses related to incurred claims, taking into account the time value of money (i.e. discounting future cash flows) and an explicit adjustment for non-financial risk (i.e. risk adjustment).

Nominal Claims Liabilities

Nominal claims liabilities reflect our estimates of future payment of all incurred claims and claims adjustment expenses with respect to insurance contracts underwritten by us (LIC) and future recoveries with respect to reinsurance contracts held by us (AIC). The reserve estimate risk related to nominal claims liabilities is the risk that the future payments will differ from our estimated amounts. The estimates do not represent an exact measurement, but rather a best estimate of the expected ultimate future cost of resolution and administration of claims. To address inflation risk, expected inflation is taken into account in the estimation process. The estimation involves the use of models, which exposes us to model risk in the event that actual results differ from those modelled. Refer to "Operational Risk — Model Risk" below for more detail.

Nominal claims liabilities include estimates for reported claims, as established by our claims adjusters based on the details of reported claims (referred to as "case reserves"), and provisions established by our corporate actuaries to account for case reserve misestimation and unreported claims (referred to as "incurred but not reported" or "IBNR"), and for the future expense incurred by our claims department to adjudicate and settle claims (referred to as the "internal claims expense" or "ICE" provision).

With respect to case reserves, eligible claim submissions are triaged and assessed for validity and expected cost and salvage or subrogation recoveries through the application of a series of algorithms, real time analytics, and integration of third-party services or by manual review by an adjuster. After the triage stage is complete, we leverage AI tools to assign the claim to an appropriate claims adjuster. All 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.

IBNR and ICE are 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 nominal claims liabilities.

Establishing an adequate provision for nominal claims liabilities is an inherently uncertain process and is closely monitored by our corporate actuarial department. Case reserves, IBNR, and ICE are subject to internal and external peer review processes to assess the adequacy of the aggregate provision and compliance with professional standards.

Impact of Discounting

The nominal claims liabilities recognize that claims and expense payments and recoveries will be made in the future, and therefore are discounted to reflect the time value of money. The impact of discounting takes into account the expected future timing of payments and recoveries and a selected yield curve. The yield curve used to discount the future payments is based on current risk-free spot rates by maturity, adjusted for liquidity of the insurance contracts.

The expected future timing of payments and recoveries is estimated by our corporate actuaries leveraging generally accepted actuarial techniques. The timing of future payments and recoveries is exposed to uncertainty and estimation risks similar to those listed above with respect to IBNR and ICE. Specifically, this uncertainty is considered with respect to the yield curve used to determine the discount amount, whereas the impact of future yield curve and liquidity premium changes are considered financial risk. Refer to "Financial Risk — Interest Rate Risk" below for more detail.

The following table presents the interest rate sensitivity analysis on the net of LIC and AIC for a one percentage point change in interest rates (assuming a parallel shift across the yield curve):

	As at December 31			
(in millions of dollars)	**2023**		2022	
Change in interest rate (on the net of LIC and AIC)	**+1 pt**	**-1 pt**	+1 pt	-1 pt
Impact on income before income taxes	**$ 63.2**	**$ (67.2)**	$ 59.0	$ (63.2)

Risk Adjustment For Non-Financial Risk

The risk adjustment for non-financial risk is derived from the present value of the estimated future cash flows and reflects the uncertainty around the amount and timing of the cash flows as we fulfil insurance contracts. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by us to the reinsurer. This additional provision reduces the likelihood that the net amount of LIC and AIC carried will be insufficient to fulfil future obligations arising from claims incurred, net of reinsurance recoveries.

The Company has estimated the risk adjustment using a value-at-risk confidence level method to generally be in the range of the 75th to 80th percentile of the stochastically simulated results. This analysis has also been adjusted for correlation between different reserving segments, and the diversification between them.

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 more variable and higher claims costs.

We manage our catastrophe events exposure by monitoring exposure to concentrations of insured risks, by performing scenario stress testing, 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 variability from 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 communicates our financial risk appetite through 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 ICA, is routinely monitored by management and the Executive Investment Committee which 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 bond 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, LIC, and AIC. The impact of changes in the measurement of our LIC and AIC due to changes in the market rates underlying the yield curves used for discounting, are mitigated to some extent by the impact of interest rate changes on our bond portfolio. The effect of interest rate risk associated with discounting the LIC and AIC is disclosed in "Insurance Risk — Reserve estimate risk" above.

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

	As at December 31			
(in millions of dollars)	**2023**		2022 (Restated)	
Change in interest rate	**+1 pt**	**-1 pt**	+1 pt	-1 pt
Impact on income before income taxes related to:				
Fair value of bonds	**$ (145.4)**	**$ 162.3**	$ (143.7)	$ 161.5
Net impact on LIC and AIC	**$ 63.2**	**$ (67.2)**	$ 59.0	$ (63.2)

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 investment portfolio includes Canadian common stocks with fair value movements that are benchmarked against movements in the S&P/TSX 60 Index, foreign stocks and equity pooled funds with fair values that are benchmarked against movements in the MSCI World Index, and private debt pooled funds with fair values that are benchmarked against movements in the FTSE Canada Short Term Corporate Bond Index. Also included in the investment 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 benchmark 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:

	As at December 31			
(in millions of dollars)	**2023**		2022 (restated)	
Change in the benchmark indices (on the measurement of the equity portfolio)	**+10%**	**-10%**	+10%	-10%
Impact on income before income taxes related to:				
Canadian stocks	**$ 42.2**	**$ (42.2)**	$ 38.3	$ (38.3)
Foreign stocks, and pooled funds	**$ 24.3**	**$ (24.3)**	$ 19.7	$ (19.7)
FVTPL preferred stocks	**$ 13.2**	**$ (13.2)**	$ 12.9	$ (12.9)
FVTOCI preferred stocks	**$ 16.3**	**$ (16.3)**	$ 19.2	$ (19.2)

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, amounts due from policyholders, 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 6 — "Financial position" for further detail 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 8 — "Liquidity and capital resources" for further discussion.

Amounts due from policyholders

Our credit exposure to any one individual policyholder or broker 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 amortized cost, which amounted to $18.9 million as at December 31, 2023 (2022: $12.0 million).

Reinsurance Contract Assets

Credit exposures on our reinsurance contract assets balance 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. Our reinsurance risk management policy significantly restricts the use of reinsurers with credit ratings less than "A-". As at December 31, 2023, 97.6% (2022: 97.7%) 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. We have recorded an allowance for losses on amounts due from reinsurers of $0.5 million (2022: $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, 2023, 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 2023 (2022: nil). The original purchase price of the outstanding annuities was $232.5 million (2022: $256.9 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, which are denominated in various foreign currencies.

Our largest foreign currency exposure is to the US dollar. The estimated impact on the fair value of US dollar foreign stocks, pooled funds, and income before income taxes from a 10% change in the US dollar relative to the Canadian dollar is $15.5 million (2022: $12.5 million). Under this same scenario, the impact on the fair value of non-US dollar foreign stocks, pooled funds, and income before income taxes is $2.4 million (2022: $2.4 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. We have a highly-liquid investment portfolio with a large portion of invested assets in highly-liquid federal and provincial government debt to protect against any unanticipated large cash requirements. Refer to Note 7 — "Financial risk management" included in our audited consolidated financial statements, for a summary of our 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 lines of risk management governance model (refer to "Corporate Governance and Accountability" above for more detail), and are continually enhancing our enterprise risk management framework to assess emerging and current risks to 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 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 or incidents. 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 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, Supplier Code of Conduct, Conduct Risk Management Framework, Fair Treatment of Customers Policy, Data Usage Ethics Standard, governance and verification 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 Codes of 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. Management assesses the implications of identified conduct concerns and monitors trends in behaviours and associated recommended action plans to achieve expected conduct.

Fraud Risk

As a P&C insurer, we may be subject to internal or external fraud or abuse. 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 by our Special Investigations Unit. We also engage with regulatory authorities on regulatory actions which could help to reduce fraud, including addressing fraud rings, and thereby help to maintain insurance affordability for consumers.

Model Risk

Definity's model inventory includes over 100 predictive models employed across the business to support profitability, growth, and the customer experience. Model risk is the potential for adverse consequences arising from the design, development, implementation, and use of actuarial, analytical & AI models.

Model risk can arise from many sources: including inaccurate or unrepresentative data used to train the model, human errors during the modelling process, deployment defects, and the application of the model to an unintended business use case. This risk can result in a failure to achieve expected business outcomes, including situations where actual results differ from those modelled; non-compliance with applicable laws or regulations; and perpetuation of systemic social biases impacting vulnerable communities.

Since 2015, we have maintained an Enterprise Model Risk Management Policy to govern our use of models. This policy is complemented by our Data Usage Ethics Standard, which seeks to ensure that our data is managed in accordance with our values, Canadian privacy legislation, and best-in-class ethical principles.

With the advent of generative AI, we communicated requirements for appropriate usage of this technology to our employees – building on our existing corporate policies — to ensure we can promote innovation in a safe and responsible way. We also implemented additional risk controls specific to the application of generative AI models to reduce risks of bias, inaccuracy, data or privacy breach, and misuse.

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 adoption of a hybrid work format for our employees, where employees work remotely a portion of the time using internet networks other than our own, may increase our exposure to information security events or cyberattacks.

The occurrence of an information security 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 and requirements. 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 prevent and detect unauthorized access. We also provide employee information security awareness training. Refer to "Cyber Security Risk" below for additional 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. As noted above, the adoption of a hybrid work format for our employees has additional implications for cyber security risk which have been considered in the course of the regular enhancements to our cyber security program. Through our cyber security program, our cyber security practices are periodically tested and benchmarked 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.

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. Refer to "Business Interruption Risk" below for additional detail. 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 Risk — Strategic execution risk" below for more detail. Our experience in successfully delivering such projects demonstrates our capabilities in this area.

Implementation of IFRS 17 and IFRS 9 Risk

Two new accounting standards came into effect on January 1, 2023: IFRS 17, which replaces IFRS 4, and IFRS 9, which replaces International Accounting Standard 39 — Financial Instruments: Recognition and Measurement, both of which are discussed in our audited consolidated financial statements for the year ended December 31, 2023 in Note 2 — "Summary of significant accounting policies" and Note 3 — "Adoption of new accounting standards".

While the industry works through the initial implementation period, the changes associated with IFRS may impact comparability of reporting between issuers. 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 are adopted 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 scope, 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.

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. Refer to “Strategic Risk — Capital Management Risk” below for more detail. 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 new or 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 personal automobile insurance product, in particular, 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. We seek to mitigate this risk through regular discussions with regulators and P&C insurance industry groups to ensure we are aware of proposed changes and by providing feedback to legislators and regulators on proposed changes. Additionally, we monitor compliance with relevant regulations and consider the implications of potential changes in regulation or interpretation on future results.

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. Refer to “Strategic Risk — Distribution Risk” below for more detail.

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 or claimants, such as COVID-19-related litigation discussed below. 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 court awards and settlements.

We also recognize the risk that we may be subject to legal claims in relation to other aspects of our operations or corporate activities, including our demutualization and IPO. In the fourth quarter of 2023, we became aware of an Ontario class proceeding against the Company and Definity Insurance, brought on behalf of former mutual policyholders of Definity Insurance, regarding the form and quantum of demutualization benefits distributed to them. Definity believes the proposed class action is entirely without merit.

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 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 their size or nature, may pose significant legal or regulatory action risk, or in the event of actual or threatened litigation or regulatory or law enforcement activity.

COVID-19-Related Litigation

Along with many other P&C insurers in Canada, Definity Insurance has been named as a defendant in litigation, including national and regional class proceedings, for certain business interruption losses related to the COVID-19 pandemic, seeking to establish coverage under insurance policies. 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. Where policies provide customers with business interruption coverage which did not require some sort of tangible physical harm to property, we individually assess and paid each claim based on the loss details and available coverage.

An Ontario class action on behalf of a national class (excluding Québec) proceeded to trial in 2023 on certain key issues, with a favourable outcome for Definity Insurance and other insurers. The court determined that neither the presence of COVID-19 nor government orders in respect of business activities due to COVID-19 can cause physical loss or damage to property within the meaning of the business interruption provisions of Definity Insurance's property insurance policies. While this was not the end of this litigation and other issues remain outstanding, this 2023 trial decision represents a major success for Definity Insurance. The plaintiffs have appealed this decision. Definity Insurance was also previously a defendant in class proceedings in Québec and other provinces, all of which have either been rejected or discontinued as against Definity Insurance. 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.

Business Interruption Risk

Business interruption risk is associated with internal or external 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, loss of public infrastructure services (e.g. public transportation, voice or internet services), social unrest, 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, expectations for profitable underwriting opportunities by product and by region, 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.

Our experience in successfully delivering strategic initiatives to implement our business strategies demonstrates our capabilities to manage strategic execution risk. 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. 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. Our significant 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. Refer to "Insurance Risk — Catastrophe Risk" above for more detail. In 2023 we established our in-house Climate Change Centre of Excellence to further advance our understanding of the impact of climate change on current and future underwriting and investment portfolios and our operations. We are continuously seeking to enhance our data and modelling capabilities to better understand changes in key climate risk exposures, such as flood and wildfire, and the potential interactions of such exposures, with a view to confirming pricing, coverage options, risk accumulations and LIC estimates remain appropriate. We continue to assess other climate change hazards or reputational risks present in our insurance offerings. Refer to "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. Refer to "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. Refer to "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. Refer to "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, encourage, and respond to government policy development, we engage with regulators directly and through participation in industry associations to advocate for climate risk mitigation, resilience, and adaptation. Refer to "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 and associated disclosures, 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. Refer to "Reputational Risk" below for additional detail. 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 on how to mitigate weather-related losses and improve their resilience to climate change. 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 and associated disclosures.

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 negatively impact investment values and returns, and 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. Refer to "Reputational Risk" below for additional detail.

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 or seek service from us, 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. Refer to "Capital Management Risk" below for additional detail.

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 as well as the risk that the broker distribution channel would not be viable in a specific market or for specific products. This risk also includes the implications of current market participants or new market entrants disrupting the market through the use of advanced technologies and/or the application of an alternative business model.

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 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, the direct distribution channel, and new market entrants. 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 distribution channel offering represents a key pillar in our growth strategy allowing us to serve this distinct market segment. In 2023 we launched a usage-based insurance product in our digital direct distribution channel to address customer desire for this product. Given the relatively new nature of the direct 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 "Operational Risk — Regulatory Risk" above for more detail. A reduction in capital levels below our internal or regulatory targets or a change in regulatory capital and solvency standards 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 Healthcare of Ontario Pension Plan Trust Fund.

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.

As a publicly listed company, we may also 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 is subject to the discretion of the Board and dependent 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.

Definity's insurance subsidiaries must comply with applicable insurance legislation and regulatory capital requirements. Each insurance subsidiary must maintain reserves to cover the risks it has underwritten, as well as comply with regulatory capital requirements. A severe loss incurred by one subsidiary insurer, even if not material to us when our financial condition is viewed as a whole, could have an adverse effect on capital liquidity because we may need to contribute additional capital or it could adversely affect how Definity or any of the subsidiaries, as applicable, are considered by third parties, including rating agencies and 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.

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, the sentiment of our customers or current and former employees, or actions by external parties, our employees or our directors, whether true or not, will adversely affect our performance, liabilities, operations, employee recruitment, broker relationships, customer attraction and retention, 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, customer service levels, 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.

13 — 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 audited 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 have been updated to reflect the estimated impact arising from the adoption of IFRS 17 and IFRS 9. These measures are outlined and defined below:

Supplementary Financial Measures:

Book value per share — 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.

Catastrophe losses — 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.

Financial capacity — The sum of excess capital and leverage capacity.

Gross written premiums ("GWP") — The total premiums from the sale of insurance during a specified period including premiums assumed.

Leverage capacity (under the CBCA) — The amount of financial leverage that can be assumed, comprised of a target capitalization level of 20% debt and 5% in preferred shares and hybrids.

Leverage capacity (under the ICA) — The amount of financial leverage that can be assumed, comprised of the Company's current debt limit as an entity established under the ICA (2.5% of total assets) and a target capitalization level of 5% in preferred shares and hybrids.

Non-GAAP Financial Measures:

Core accident year claims and adjustment expenses — Net claims and adjustment expenses less catastrophe losses and prior year claims development. Management uses core accident year claims and adjustment expenses to describe the changes in the claims ratio period over period.

Distribution income — Income before taxes, amortization of intangible assets recognized in business combinations from our consolidated brokers and broker associates, acquisition-related expenses, and interest expense on debt. Distribution income is calculated as distribution revenue earned on commissions from external insurance companies, less distribution business expenses and share of distribution profit from investments in associates (both of which are included in other (expenses) income). 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, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022	Years ended December 31, 2023	Years ended December 31, 2022
Distribution revenues[1]	**$ 35.8**	$ 19.9	**$ 127.4**	$ 19.9
Distribution business expenses[2]	**(27.0)**	(15.1)	**(88.1)**	(15.1)
Share of distribution profit from investments in associates[2]	**–**	–	**–**	6.9
Remove: Income taxes included in share of distribution profit from investments in associates	**–**	–	**–**	2.4
Distribution income	**$ 8.8**	$ 4.8	**$ 39.3**	$ 14.1

Notes:
[1] Distribution revenues includes commissions on policies underwritten by external insurance companies.
[2] Included in Other (expenses) income in our audited consolidated financial statements. These amounts exclude amortization of intangible assets recognized in business combinations and acquisition-related expenses.

Net claims and adjustment expenses

Claims and adjustment expenses (excluding the impact of discounting and risk adjustment) and gains or losses on onerous insurance contracts, net of amounts recoverable from reinsurers for incurred claims. This financial measure is used to calculate underwriting income and the claims ratio.

Below is a quantitative reconciliation of net claims and adjustment expenses for the three months and years ended December 31, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)
Claims and adjustment expenses[1,2]	**$ 637.8**	$ 563.2	**$ 2,536.2**	$ 2,198.2
Impact of onerous insurance contracts[3]	**(2.5)**	–	**(4.6)**	1.4
Claims recoverable from reinsurers for incurred claims[2,4]	**(72.2)**	(56.8)	**(225.9)**	(195.1)
Net claims and adjustment expenses	**$ 563.1**	$ 506.4	**$ 2,305.7**	$ 2,004.5

Notes:
[1] Included in Insurance service expenses and Other (expenses) income in our audited consolidated financial statements.
[2] Excludes the impact of discounting and risk adjustment.
[3] Included in Insurance service expenses.
[4] Included in Net expenses from reinsurance contracts held in our audited consolidated financial statements.

Net commissions

Commissions expense less commissions earned on ceded reinsurance. This financial measure is used to calculate net underwriting expenses and underwriting income.

Below is a quantitative reconciliation of net commissions for the three months and years ended December 31, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)
Commissions[1]	**$ 141.0**	$ 141.6	**$ 556.0**	$ 538.7
Commissions earned on ceded reinsurance[2]	**(12.9)**	(8.7)	**(50.3)**	(36.5)
Net commissions	**$ 128.1**	$ 132.9	**$ 505.7**	$ 502.2

Notes:
[1] Included in Insurance service expenses in our audited consolidated financial statements.
[2] Included in Net expenses from reinsurance contracts held in our audited consolidated financial statements.

Net underwriting revenue

Insurance revenue less earned reinsurance premiums. This financial measure is used to calculate the claims, expense, and combined ratios and is used to calculate underwriting income.

Below is a quantitative reconciliation of net underwriting revenue for the three months and years ended December 31, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)
Insurance revenue	**$ 1,003.8**	$ 911.7	**$ 3,850.3**	$ 3,485.7
Earned reinsurance premiums ceded[1]	**(81.4)**	(61.3)	**(307.7)**	(234.5)
Net underwriting revenue	**$ 922.4**	$ 850.4	**$ 3,542.6**	$ 3,251.2

Notes:
[1] Included in Net expenses from reinsurance contracts held in our audited consolidated financial statements.

Non-operating gains (losses) Recognized gains or losses on FVTPL investments, discounting income or expense, risk adjustment income or expense, interest on restricted cash, less demutualization and IPO-related expenses, 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.

Operating income 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.

Operating net income 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.

Net income attributable to common shareholders is the most directly comparable GAAP financial measure disclosed in our audited 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, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)
Net income attributable to common shareholders	**$ 225.9**	$ 185.0	**$ 350.1**	$ 110.9
Remove: income tax expense	**77.9**	39.4	**112.0**	2.1
Income before income taxes	**$ 303.8**	$ 224.4	**$ 462.1**	$ 113.0
Remove: non-operating gains (losses)				
Recognized gains (losses) on FVTPL investments	**222.6**	18.1	**151.8**	(446.1)
Discounting[1]	**31.7**	36.9	**140.4**	107.4
Risk adjustment[1]	**(0.7)**	(10.7)	**5.8**	(6.6)
Finance (expenses) income from insurance contracts issued	**(79.0)**	16.5	**(152.4)**	96.3
Finance income (expenses) from reinsurance contracts held	**7.5**	(0.6)	**13.3**	(5.2)
Interest on restricted cash, less demutualization and IPO-related expenses[2]	**2.8**	1.7	**11.0**	0.7
Amortization of intangible assets recognized in business combinations[2]	**(5.2)**	(3.5)	**(16.7)**	(5.4)
Restructuring expenses[2]	**(11.1)**	–	**(11.1)**	–
Revaluation gain on acquisition of McDougall[2]	**–**	67.0	**–**	67.0
Other[2][3]	**0.3**	(2.2)	**(1.4)**	(2.8)
Non-operating gains (losses)[4]	**$ 168.9**	$ 123.2	**$ 140.7**	$ (194.7)
Operating income	**$ 134.9**	$ 101.2	**$ 321.4**	$ 307.7
Operating income tax expense	**(34.2)**	(24.6)	**(74.9)**	(70.9)
Operating net income	**$ 100.7**	$ 76.6	**$ 246.5**	$ 236.8

Notes:
[1] Included in Insurance service expenses and Net expenses from reinsurance contracts held in our audited consolidated financial statements.
[2] Included in Other (expenses) income in our audited consolidated financial statements.
[3] Other represents miscellaneous 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, such as acquisition-related expenses, gains on dispositions of non-portfolio investments, gain on sale of customer lists, and income or expenses pertaining to fintech venture capital funds.
[4] Non-operating gains (losses) is a non-GAAP financial measure.

Prior year claims development

The difference between prior year-end estimates of ultimate claim costs excluding the effects of discounting and the risk adjustment for non-financial risk, 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. Management uses prior year claims development to describe the changes in the claims ratio period over period.

Below is a quantitative reconciliation of prior year claims development for the three months and years ended December 31, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)
Changes in fulfilment cash flows relating to the LIC[1]	**$ (8.4)**	$ (17.1)	**$ (84.3)**	$ (142.1)
Changes to amounts recoverable for incurred claims[2]	**(13.8)**	(6.7)	**(16.6)**	4.0
Remove: discounting included above	**0.8**	8.4	**(12.8)**	17.1
Remove: risk adjustment included above	**8.6**	(5.5)	**50.7**	34.7
Prior year claims development	**$ (12.8)**	$ (20.9)	**$ (63.0)**	$ (86.3)

Notes:
[1] Included in Insurance service expenses in our audited consolidated financial statements.
[2] Included in Net expenses from reinsurance contracts held in our audited consolidated financial statements.

Net underwriting expenses

Net underwriting expenses consist of net commissions, operating expenses, and premium taxes. This financial measure is used to calculate underwriting income and the expense ratio.

Below is a quantitative reconciliation of net underwriting expenses for the three months and years ended December 31, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)
Net commissions	**$ 128.1**	$ 132.9	**$ 505.7**	$ 502.2
Operating expenses	**109.7**	112.6	**452.7**	433.5
Premium taxes	**34.5**	31.8	**133.6**	121.6
Net underwriting expenses	**$ 272.3**	$ 277.3	**$ 1,092.0**	$ 1,057.3

Underwriting income

Net underwriting revenue for a defined period less the sum of net claims and adjustment expenses, net commissions, operating expenses, and premium taxes during the same period. Management uses underwriting income to measure and evaluate the underwriting performance of the business. Management believes underwriting income is useful information for investors for such purpose. Although they may calculate it in a different manner, underwriting income is commonly used by other insurers and analysts in the P&C insurance industry.

Below is a quantitative reconciliation of underwriting income for the three months and years ended December 31, 2023 and 2022:

(in millions of dollars)	Three months ended December 31, 2023	Three months ended December 31, 2022 (Restated)	Years ended December 31, 2023	Years ended December 31, 2022 (Restated)
Net underwriting revenue	**$ 922.4**	$ 850.4	**$ 3,542.6**	$ 3,251.2
Net claims and adjustment expenses	**563.1**	506.4	**2,305.7**	2,004.5
Net commissions	**128.1**	132.9	**505.7**	502.2
Operating expenses	**109.7**	112.6	**452.7**	433.5
Premium taxes	**34.5**	31.8	**133.6**	121.6
Underwriting income	**$ 87.0**	$ 66.7	**$ 144.9**	$ 189.4

Net underwriting revenue, net claims and adjustment expenses, prior year claims development, net underwriting expenses, and underwriting income by line of business is as shown in the following tables for the three months and years ended December 31, 2023 and 2022:

	Three months ended December 31, 2023			
(in millions of dollars)	**Personal auto**	**Personal property**	**Commercial lines**	**Total**
Net underwriting revenue	**$ 392.4**	**$ 267.1**	**$ 262.9**	**$ 922.4**
Net claims and adjustment expenses	**279.4**	**124.5**	**159.2**	**563.1**
Prior year claims development	**(5.5)**	**(4.3)**	**(3.0)**	**(12.8)**
Net underwriting expenses	**96.8**	**89.5**	**86.0**	**272.3**
Underwriting income	**16.2**	**53.1**	**17.7**	**87.0**

	Three months ended December 31, 2022 (Restated)			
(in millions of dollars)	Personal auto	Personal property	Commercial lines	Total
Net underwriting revenue	$ 375.8	$ 241.6	$ 233.0	$ 850.4
Net claims and adjustment expenses	252.0	128.5	125.9	506.4
Prior year claims development	(18.5)	(2.4)	–	(20.9)
Net underwriting expenses	107.1	89.1	81.1	277.3
Underwriting income	16.7	24.0	26.0	66.7

	Years ended December 31, 2023			
(in millions of dollars)	**Personal auto**	**Personal property**	**Commercial lines**	**Total**
Net underwriting revenue	**$ 1,529.2**	**$ 1,020.5**	**$ 992.9**	**$ 3,542.6**
Net claims and adjustment expenses	**1,097.8**	**658.4**	**549.5**	**2,305.7**
Prior year claims development	**(25.7)**	**(10.9)**	**(26.4)**	**(63.0)**
Net underwriting expenses	**404.9**	**354.9**	**332.2**	**1,092.0**
Underwriting income	**26.5**	**7.2**	**111.2**	**144.9**

	Years ended December 31, 2022 (Restated)			
(in millions of dollars)	Personal auto	Personal property	Commercial lines	Total
Net underwriting revenue	$ 1,457.8	$ 915.9	$ 877.5	$ 3,251.2
Net claims and adjustment expenses	972.2	551.3	481.0	2,004.5
Prior year claims development	(45.1)	(20.8)	(20.4)	(86.3)
Net underwriting expenses	415.9	331.5	309.9	1,057.3
Underwriting income	69.7	33.1	86.6	189.4

Non-GAAP Ratios:

Claims ratio

Net claims and adjustment expenses during a defined period expressed as a percentage of net underwriting revenue for the same period. This is a relevant metric to evaluate our level of claims activity relative to our net underwriting revenue in a given period. Management believes claims ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, claims ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

Combined ratio

The total of our net claims and adjustment expenses and net underwriting expenses during a defined period expressed as a percentage of net underwriting revenue for the same period. Management uses combined ratio to evaluate the underlying insurance underwriting results relative to our net underwriting revenue 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, and premium taxes during a defined period, expressed as a percentage of net underwriting revenue for the same period. Management uses expense ratio to evaluate our net underwriting expenses relative to our net underwriting revenue 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 or other unusual adjustments to equity, 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 periods ended December 31, 2023 and December 31, 2022:

	Years ended December 31,	
(in millions of dollars, except as otherwise noted)	**2023**	2022 (Restated)
Net income attributable to common shareholders	**$ 350.1**	$ 110.9
Equity attributable to common shareholders[1]	**$ 2,847.7**	$ 2,549.8
Adjusted equity attributable to common shareholders	**$ 2,847.7**	$ 2,549.8
Average adjusted equity attributable to common shareholders[2]	**$ 2,698.7**	$ 2,552.1
Return on equity	**13.0%**	4.3%

Notes:

[1] Equity attributable to common shareholders is as at December 31, 2023 and 2022.

[2] 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 or other unusual adjustments to equity, 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, 2021 was $2,554.4 million.

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 equity attributable to common shareholders, excluding accumulated other comprehensive (loss) income (“AOCI”) and excluding unrealized gains or losses on FVTPL equity instruments, adjusted for significant capital transactions or other unusual adjustments to equity, 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, 2023 and 2022:

(in millions of dollars, except as otherwise noted)	Years ended December 31, 2023	2022 (Restated)
Operating net income[1]	**$ 246.5**	$ 236.8
Equity attributable to common shareholders, excluding AOCI[2]	**$ 2,874.7**	$ 2,582.2
Adjustment for unrealized gains on FVTPL equity instruments	**$ (60.8)**	$ (15.6)
Adjusted equity attributable to common shareholders, excluding AOCI[3]	**$ 2,813.9**	$ 2,566.6
Average adjusted equity attributable to common shareholders, excluding AOCI[4]	**$ 2,690.2**	$ 2,515.3
Operating ROE	**9.2%**	9.4%

Notes:

(1) Operating net income is a non-GAAP financial measure.

(2) Equity attributable to common shareholders, excluding AOCI is as at December 31, 2023 and 2022.

(3) Adjusted equity attributable to common shareholders, excluding AOCI, is equity attributable to common shareholders and AOCI each as shown on our consolidated balance sheets, adjusted for significant capital transactions or other unusual adjustments to equity, if applicable, and excluding unrealized gains or losses on FVTPL equity instruments

(4) Average adjusted equity attributable to common shareholders, excluding AOCI, is the average of adjusted equity attributable to common shareholders, excluding AOCI, at the end of the period and the end of the preceding 12-month period. Adjusted equity attributable to common shareholders, excluding AOCI, as at December 31, 2021 was $2,464.0 million.

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

Certain other ratios

In our discussion of our financial results, we disclose certain ratios as a percentage of net underwriting revenue during a defined period for the following financial measures: core accident year claims and adjustment expenses, catastrophe losses, prior year claims development, net commissions, operating expenses, and premium taxes.

14 — 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 14, 2024. No preferred shares were issued and outstanding.

15 — DEFINITIONS

Refer to Section 13 — "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.

Discounting	To reflect the time value of money, the expected future payments of claim liabilities are discounted back to present value 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.
Excess capital	The sum of capital above 190% MCT in regulated insurance subsidiaries and available cash and investments in unregulated entities.
Frequency	A measure of how often a claim is reported as a function of PIF.
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 OSFI, that is a risk-based test of capital available relative to capital required.
Policies in force (PIF)	The number of insurance policies that are in effect at a specified date.
Risk adjustment	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.
Severity	A measure of the average dollar amount incurred per claim.

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CONSOLIDATED FINANCIAL STATEMENTS

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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") and its subsidiaries, 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 and training 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 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 have unrestricted access to the Audit Committee. Following its review of the consolidated financial statements 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 15, 2024

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 "Company"] which comprise the consolidated balance sheets as at December 31, 2023, December 31, 2022 and January 1, 2022, 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 ended December 31, 2023 and December 31, 2022, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, December 31, 2022 and January 1, 2022, 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 Company 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 each matter below, our description of how our audit addressed the matter is provided in that context.

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

Valuation of liabilities for incurred claims

The Company describes its significant accounting judgments, estimates and assumptions in relation to the valuation of insurance contract liabilities, which include the liabilities for incurred claims, in note 4 and note 9 to the consolidated financial statements. As at December 31, 2023, the Company has reported $3,493.8 million in insurance contract liabilities, of which the liabilities for incurred claims were $3,134.5 million and represented 73.7% of its total liabilities.

The principal consideration for our determination that the liabilities for incurred claims is a key audit matter is that its estimate involves the application of models, methodologies, and assumptions that require significant judgment. As a result, the audit of liabilities for incurred claims requires significant judgment and the involvement of specialists. Liabilities for incurred claims are determined in accordance with generally accepted actuarial practices. The main assumption underlying these estimates is that the Company'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 liabilities for incurred claims 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;
- Understanding and testing the design and operating effectiveness of selected key controls related to the Company's claims process, including controls over the integrity of data flowing through the Company's administration systems;
- Obtained an understanding of the Company's actuarial methodologies and assessed whether they are determined in accordance with IFRS 17 — Insurance Contracts ["IFRS 17"];
- Performed an independent valuation of liabilities for incurred claims for a sample of lines of business that reflects our expectations based on the Company'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;
- 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 liabilities for incurred claims; and
- Assessed the adequacy of the disclosures pertaining to the liabilities for incurred claims provided in notes to the consolidated financial statements.

Implementation of IFRS 17 — Insurance contracts

IFRS 17 — Insurance Contracts, became effective on January 1, 2023. The Company applied IFRS 17 for the first time in its consolidated financial statements for the year ended December 31, 2023. The Company has restated comparative information for 2022 and presented a third consolidated balance sheet as at January 1, 2022. As a result, the Company recognized an increase in its equity balance of $158.8 million on its consolidated balance sheet as January 1, 2022. Note 2 and note 3 to the consolidated financial statements provide quantitative and qualitative information on the impact of the new standard and accounting policy choices made by the Company.

The adoption of IFRS 17 is considered a key audit matter because the standard establishes new principles for the recognition, measurement, presentation, and disclosure of insurance contracts that requires the Company to make judgments and estimates to determine the impact at transition. Significant audit effort was used to audit the appropriateness of the Company's selected accounting policies, to evaluate their application and impact on the estimated opening retained earnings, including the testing of data. In addition, actuarial specialists were involved in the audit, specifically as it related to significant adjustments and key areas of judgment, including onerous contracts, discount rate and risk adjustment methodology.

Our audit procedures related to the adoption of IFRS 17 were conducted with the support of our actuarial specialists and included the following, among other procedures:

- Evaluated the Company's judgments in selecting various accounting treatments and choices at transition against the requirements of IFRS 17;
- Tested, on a sample basis, the completeness and accuracy of the data used by the Company in determining the impact of the adoption of IFRS 17 on the consolidated financial statements, by reconciling it to previously audited information;
- Reviewed the Company's methodology and models to determine discount yield curves, risk adjustment for non-financial risk and the identification of onerous contracts and assessed whether they were in accordance with the requirements of IFRS 17;
- Assessed the reasonability of the basis used by the Company to identify and allocate cash flows to the acquisition of insurance contracts. On a sample basis, tested whether the allocation was done on a systematic basis by agreeing financial and non-financial data to supporting evidence, and recalculated the cash flows being deferred; and
- Assessed the adequacy of the disclosures provided in note 3 to the consolidated financial statements.

Other information

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

- 2023 Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the 2023 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 the 2023 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 2023 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Waterloo, Canada
February 15, 2024

CONSOLIDATED BALANCE SHEETS

(in millions of dollars)	Notes	**December 31, 2023**	December 31, 2022 Restated	January 1, 2022 Restated
			As at	
ASSETS				
Cash and cash equivalents		**$ 197.5**	$ 200.5	$ 387.3
Restricted cash	2	**244.0**	302.1	110.8
Investments	6	**4,931.0**	4,897.2	5,364.9
Income taxes receivable		**–**	81.7	0.2
Reinsurance contract assets	8,9	**330.4**	305.1	238.4
Property and equipment	10	**103.1**	83.8	57.0
Deferred income tax assets	11	**23.6**	25.2	23.3
Goodwill and intangible assets	12	**1,229.9**	771.6	219.7
Other assets	13	**200.0**	152.5	136.3
		$ 7,259.5	$ 6,819.7	$ 6,537.9
LIABILITIES AND EQUITY				
Insurance contract liabilities	8,9	**$ 3,493.8**	$ 3,577.7	$ 3,668.9
Accounts payable and other liabilities	14	**131.9**	139.0	130.9
Income taxes payable		**117.9**	–	55.6
Deferred income tax liabilities	11	**150.7**	103.5	17.3
Debt outstanding	15	**114.3**	39.1	–
Demutualization amounts outstanding	2	**244.0**	302.1	110.8
		4,252.6	4,161.4	3,983.5
EQUITY				
Share capital	17	**2,273.0**	2,254.2	2,307.8
Contributed surplus	20	**40.4**	40.2	19.3
Retained earnings		**561.3**	287.8	220.8
Accumulated other comprehensive (loss) income		**(27.0)**	(32.4)	6.5
Equity attributable to common shareholders		**2,847.7**	2,549.8	2,554.4
Non-controlling interests	16	**159.2**	108.5	–
Total equity	18	**3,006.9**	2,658.3	2,554.4
		$ 7,259.5	$ 6,819.7	$ 6,537.9
Commitments and contingencies	25			

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	2023	2022 Restated
Insurance revenue	8	**$ 3,850.3**	$ 3,485.7
Insurance service expenses	8,23	**(3,377.1)**	(3,028.9)
Net expenses from reinsurance contracts held	8,23	**(48.8)**	(14.9)
Insurance service result		**424.4**	441.9
Net investment income	6	**179.5**	133.1
Recognized gains (losses) on FVTPL investments	6	**151.8**	(446.1)
Investment income (loss)		**331.3**	(313.0)
Finance (expenses) income from insurance contracts issued	8	**(152.4)**	96.3
Finance income (expenses) from reinsurance contracts held	8	**13.3**	(5.2)
Net insurance financial result		**(139.1)**	91.1
Net insurance and investment result		**616.6**	220.0
Distribution revenues		**127.4**	19.9
Other (expenses) income	23	**(271.5)**	(125.5)
Interest expense	15	**(5.3)**	(0.6)
Income before income taxes		**467.2**	113.8
Income tax expense	11	**(112.7)**	(2.3)
Net income		**$ 354.5**	$ 111.5
Net income attributable to:			
Common shareholders		**350.1**	110.9
Non-controlling interests	16	**4.4**	0.6
Earnings per common share (in dollars)	19		
Basic		**$ 3.04**	$ 0.96
Diluted		**$ 3.00**	$ 0.95
Weighted average common shares outstanding (millions)	19		
Basic		**115.0**	115.1
Diluted		**116.6**	116.9
Dividends paid per common share (in dollars)	17	**$ 0.55**	$ 0.55

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)	Notes	2023	2022 Restated
Net income		**$ 354.5**	$ 111.5
Item that may be reclassified subsequently to net income:			
Foreign exchange (loss) gain on investments in associates		**(0.9)**	2.2
		(0.9)	2.2
Items that will not be reclassified subsequently to net income:			
Recognized gains (losses) on FVTOCI investments	6	**8.5**	(55.8)
Post-employment benefit obligation (loss) gain	21	**(1.3)**	26.4
Income tax (expense) recovery	11	**(1.9)**	7.7
		5.3	(21.7)
Other comprehensive income (loss)		**4.4**	(19.5)
Comprehensive income		**$ 358.9**	$ 92.0
Comprehensive income attributable to:			
Common shareholders		**354.5**	91.4
Non-controlling interests	16	**4.4**	0.6

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)		2023					
	Notes	**Share capital**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Equity attributable to non-controlling interests**	**Total equity**
Balance, December 31, 2022 (restated)	3	**$ 2,254.2**	**$ 40.2**	**$ 287.8**	**$ (32.4)**	**$ 108.5**	**$ 2,658.3**
Net income attributable to common shareholders		**–**	**–**	**350.1**	**–**	**–**	**350.1**
Net income attributable to non-controlling interests		**–**	**–**	**–**	**–**	**4.4**	**4.4**
Other comprehensive income		**–**	**–**	**(1.0)[1]**	**5.4**	**–**	**4.4**
Total comprehensive income		**–**	**–**	**349.1**	**5.4**	**4.4**	**358.9**
Equity-settled share-based compensation	20	**32.7**	**0.2**	**(12.4)**	**–**	**–**	**20.5**
Shares purchased and held in trust	17	**(13.9)**	**–**	**–**	**–**	**–**	**(13.9)**
Dividends to common shareholders		**–**	**–**	**(63.2)**	**–**	**–**	**(63.2)**
Dividends to non-controlling interests		**–**	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Equity subscriptions	5	**–**	**–**	**–**	**–**	**47.3**	**47.3**
Balance, December 31, 2023		**$ 2,273.0**	**$ 40.4**	**$ 561.3**	**$ (27.0)[2]**	**$ 159.2**	**$ 3,006.9**

(in millions of dollars)		2022 Restated					
	Notes	Share capital	Contributed surplus	Retained (deficit) earnings	Accumulated other comprehensive loss	Equity attributable to non-controlling interests	Total equity
Balance, December 31, 2021, as previously reported		$ 2,307.8	$ 19.3	$ (28.8)	$ 98.0	$ –	$ 2,396.3
Impact of initial application of IFRS 17	3	–	–	158.8	–	–	158.8
Impact of initial application of IFRS 9	3	–	–	90.8	(91.5)	–	(0.7)
Restated balance, January 1, 2022		2,307.8	19.3	220.8	6.5	–	2,554.4
Net income attributable to common shareholders (restated)		–	–	110.9	–	–	110.9
Net income attributable to non-controlling interests		–	–	–	–	0.6	0.6
Other comprehensive income (loss) (restated)		–	–	19.4[1]	(38.9)	–	(19.5)
Total comprehensive income (loss) (restated)		–	–	130.3	(38.9)	0.6	92.0
Equity-settled share-based compensation	20	–	20.9	–	–	–	20.9
Shares purchased and held in trust	17	(53.6)	–	–	–	–	(53.6)
Dividends to common shareholders		–	–	(63.3)	–	–	(63.3)
Non-controlling interests	5	–	–	–	–	107.9	107.9
Balance, December 31, 2022 (restated)		$ 2,254.2	$ 40.2	$ 287.8	$ (32.4)[2]	$ 108.5	$ 2,658.3

[1] Actuarial gains (losses) for the post-employment benefit obligation recognized in retained earnings (net of income tax recovery of $0.3 million (2022: $7.0 million income tax expense)).

[2] Included in accumulated other comprehensive (loss) income is $4.8 million (2022: $5.7 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	**2023**	2022
Operating activities:			
Income before income taxes		**$ 467.2**	$ 113.8
Income taxes recovered (paid), net		**65.4**	(116.8)
Adjustments for non-cash items	24	**(41.9)**	475.8
Changes in operating assets and liabilities	24	**(138.9)**	(167.0)
Net cash provided by operating activities		**351.8**	305.8
Investing activities:			
Investments purchased		**(7,011.6)**	(5,428.8)
Investments sold, redeemed, or matured		**7,163.1**	5,374.6
Commercial loans advanced		**(8.8)**	(8.0)
Commercial loans collected		**2.2**	20.3
Purchases of intangible assets and property and equipment		**(87.5)**	(90.8)
Business acquisitions, net of cash acquired		**(409.3)**	(242.0)
Net cash used in investing activities		**(351.9)**	(374.7)
Financing activities:			
Dividends paid on common shares		**(63.2)**	(63.3)
Dividends paid to non-controlling interests		**(1.0)**	—
Common shares purchased and held in trust	17	**(13.9)**	(53.6)
Change in demutualization amounts outstanding		**(58.1)**	191.3
Borrowing on credit facility	15	**114.3**	–
Repayment of demand loans	15	**(39.1)**	(1.0)
Net cash (used in) provided by financing activities		**(61.0)**	73.4
Cash and cash equivalents, and restricted cash:			
Net (decrease) increase during the year		**(61.1)**	4.5
Balance, beginning of the year		**502.6**	498.1
Balance, end of the year		**$ 441.5**	$ 502.6
Cash		**$ 153.1**	$ 101.0
Cash equivalents		**44.4**	99.5
Total cash and cash equivalents		**$ 197.5**	$ 200.5
Restricted cash		**244.0**	302.1
Total cash and cash equivalents, and restricted cash		**$ 441.5**	$ 502.6

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

1. NATURE OF OPERATIONS

Definity Financial Corporation (the "Company"), through its 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) ("ICA") and regulations thereunder, a process known as "demutualization". On January 1, 2024, Definity Financial Corporation ceased to be incorporated under the ICA and continued to the *Canada Business Corporations Act* ("CBCA"). The Company's shares are publicly traded on the Toronto Stock Exchange (TSX: DFY).

These consolidated financial statements, which include the Company and its subsidiaries, were authorized for issuance and approved by the Company's Board of Directors on February 15, 2024.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 liabilities for incurred claims, assets for incurred claims, 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 subsidiaries. The Company's significant operating subsidiaries as at December 31, 2023 were Definity Insurance, Sonnet Insurance Company, Petline Insurance Company ("Petline"), Waterloo Insurance Company ("Waterloo"), Perth Insurance Company ("Perth"), The Missisquoi Insurance Company ("Missisquoi"), Westmount Financial Inc., McDougall Insurance Brokers Limited, Family Insurance Solutions Inc., and TEIG Investment Partnership (which holds the investment portfolio for all insurance companies in the group except for Petline). Each of these subsidiaries operate and are incorporated or established in Canada. On January 1, 2024, Perth, Waterloo, and Missisquoi were amalgamated with Definity Insurance. The Company has appointed a trust company as its administrative agent and record keeper of its share-based compensation plans as described in note 2(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 and reinsurance contracts

Insurance and reinsurance contracts classification

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders by agreeing to compensate the policyholder if a specified event (the "insured event") with uncertain timing or amount occurs. 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.

The Company assesses its insurance products to determine whether they contain distinct components that must be segregated and accounted for separately from IFRS 17– *Insurance Contracts* ("IFRS 17"). Currently, the Company's products do not include any distinct components that require separation.

Level of aggregation

IFRS 17 requires entities to determine the level of aggregation for applying its requirements. The level of aggregation is determined by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks that are managed together. The Company currently divides its business into portfolios by taking into consideration its lines of businesses, distribution channels, and geographic regions.

IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart. Within each year of issue, portfolios of contracts are divided into three groups, as follows: (i) a group of contracts that are onerous at initial recognition (if any), (ii) a group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any), and (iii) a group of the remaining contracts in the portfolio (if any).

The Company considers facts and circumstances to identify whether a group of contracts is onerous at initial recognition based on estimated fulfilment cash flows, results of similar contracts it has recognized, pricing information, and the operating and regulatory environment. The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. For contracts that are not onerous, an assessment is made at initial recognition whether there is significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

The Company divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For reinsurance contracts held, a group can comprise a single contract.

Contract boundary

The Company includes in the measurement of a group of insurance and reinsurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which:

- The Company is compelled to pay amounts to the reinsurer or the reinsurer has the right to compel premiums from the Company; or
- The Company has a substantive right to receive insurance contract services from the reinsurer or the reinsurer has the obligation to provide services to the Company.

A substantive obligation or right ends when the Company has the practical ability to reassess risks and can set a price or level of benefits that fully reflects those risks.

Recognition

The Company recognizes groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group becomes due; and
- For a group of onerous contracts, when the group becomes onerous.

The Company recognizes a group of reinsurance contracts held from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. However, the Company delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognized, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- The date the Company recognizes a group of insurance contracts as onerous if the Company entered into the related reinsurance contract held at or before that date.

(c) Insurance and reinsurance contracts (continued)

Recognition (continued)

Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Insurance contracts acquired in a business combination within the scope of IFRS 3 – *Business Combinations* or a portfolio transfer are accounted for as if they were entered into at the date of acquisition or transfer.

Insurance contracts – initial measurement

The Company applies the premium allocation approach ("PAA") to all the insurance contracts that it issues and reinsurance contracts that it holds. For contracts with coverage periods greater than one year, the Company reasonably expects that the measurement of the liabilities for remaining coverage ("LRC") (or the assets for remaining coverage ("ARC") with respect to reinsurance) for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general measurement model ("GMM"). The Company does not have any significant contracts with coverage periods greater than one year.

LRC is the obligation to provide coverage after the reporting period for insured events that have not yet occurred. The Company measures the carrying amount of the LRC as the premiums, if any, received at initial recognition minus any insurance acquisition cash flows paid at that date, and adjusted for any amount arising from the derecognition at that date of the asset recognized for insurance acquisition cash flows. The Company has elected to defer insurance acquisition cash flows over the contract period. The LRC is not adjusted for the time value of money as the premiums are due within one year of the coverage period.

Where facts and circumstances indicate that contracts are onerous, the Company will perform additional analyses to determine if a net outflow is expected from the contracts. Such onerous contracts are separately grouped from other contracts and the Company recognizes a loss in the consolidated statements of income in "Insurance service expenses" for the expected net outflow. A loss component is established by the Company within the LRC for such onerous group depicting the losses recognized.

Insurance contracts – subsequent measurement

The Company measures the carrying amount of the LRC at the end of each reporting period as the LRC at the beginning of the period plus any premiums received in the period and any amounts relating to the amortization of the insurance acquisition cash flows recognized as an expense in the reporting period, minus insurance acquisition cash flows paid and the amount recognized as insurance revenue for the services provided in the period. Where, during the coverage period, facts and circumstances indicate that a group of contracts is onerous, the Company recognizes a loss in the consolidated statements of income in "Insurance service expenses" for the expected net outflow. The provision for onerous losses is reversed to net income over the coverage period of the associated contracts.

Liabilities for incurred claims ("LIC") is the obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses. The Company estimates the LIC (or the assets for incurred claims ("AIC") with respect to reinsurance) as the fulfilment cash flows related to incurred claims and other incurred insurance expenses. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, reflect current estimates from the perspective of the Company, and include an explicit adjustment for non-financial risk (the "risk adjustment"). The Company adjusts the LIC (or the AIC) to reflect the time value of money and financial risk that considers the characteristics of the liabilities and the duration of each portfolio of contracts.

The claim liabilities included in the LIC 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. Measurement uncertainty 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 "Insurance service expenses" in the consolidated statements of income in the period the adjustment is made. The claim liabilities are extinguished when the obligation to pay a claim expires, is discharged, or is cancelled.

Reinsurance contracts held – initial measurement

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, the measurement reflects the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the Company recognizes a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the ARC for a group of reinsurance contracts held, if applicable, for the expected recovery of the losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Insurance and reinsurance contracts (continued)

Reinsurance contracts held – initial measurement (continued)

The Company calculates the loss-recovery component by multiplying the loss component recognized on the underlying insurance contracts by the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. In order to be included in the loss-recovery calculation, the group of reinsurance contracts held covering the onerous underlying contracts must be entered into before or at the same time as the loss is recognized on the underlying insurance contracts. The Company uses a systematic and rational method to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance contracts held.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting, and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Insurance acquisition cash flows are capitalized and then expensed in the period over which the related premiums are recognized as income.

Insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort. If insurance acquisition cash flows are directly attributable to a group of insurance contracts, then they are allocated to that group. If insurance acquisition cash flows are directly attributable to a portfolio but not to a group of insurance contracts, then they are allocated to groups in the portfolio using a systematic and rational method.

Insurance contracts – modification and derecognition

The Company derecognizes insurance contracts when:

- The rights and obligations relating to the contract are extinguished (that is, when the specified obligations in the contract expire or are discharged or cancelled); or
- Its terms are modified in a way such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognizes the initial contract and recognizes the modified contract as a new contract. When a modification is not treated as a derecognition, the Company recognizes amounts paid or received for the modification with the contract as an adjustment to the relevant LRC.

Presentation

The Company disaggregates the total amount recognized in the consolidated statements of income into an insurance service result (comprising insurance revenue, insurance service expenses, and net expenses from reinsurance contracts held) and insurance finance income or expenses.

Insurance revenue

The insurance revenue for the period is the amount of expected premiums allocated to the period, and various customer service fees collected from policyholders. The Company allocates insurance revenue to each period based on the passage of time of the coverage period.

Insurance service expenses

Insurance service expenses arising from insurance contracts are recognized in the consolidated statements of income generally as they are incurred. 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 LIC), and changes that relate to future service (losses on onerous groups of contracts and reversals of such losses).

Net expenses from reinsurance contracts held

Included in net expenses from reinsurance contracts held on the consolidated statements of income are amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held. Where reinsurance cash flows are not contingent on claims on the underlying contracts, they are included as part of the allocation of reinsurance premiums.

(c) Insurance and reinsurance contracts (continued)

Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amounts of the group of insurance and reinsurance contracts arising from the impact of discount unwinding, changes in discount rates, and the effect of financial risk and changes in financial risk. The Company includes all insurance and reinsurance finance income or expenses for the period in net income.

Insurance contract liabilities and reinsurance contract assets

Insurance contract liabilities at the end of each reporting period is the sum of the LRC and the LIC. Reinsurance contract assets at the end of each reporting period is the sum of the ARC and the AIC.

Industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they may be insured through the Facility Association's Residual Market ("FARM"). In addition, entities can choose to cede certain risks to industry risk sharing pools ("RSP") administered by Facility Association 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 FARM 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. The Company applies the same accounting policies to FARM and pool insurance policies it assumes as it does to insurance policies issued by the Company directly to policyholders and applies the same accounting policies to risks ceded to the pools as it does to reinsurance contracts held.

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 7 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 plan setting out the terms for the conversion of the Company ("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 or, in the case of cash, be transferred to the Company.

(e) Financial instruments including investments

The Company classifies all of its financial instruments based on the business model for managing the instruments and their contractual terms. The categories include the following:

- Amortized cost
- Fair value through profit or loss ("FVTPL")
- Fair value through other comprehensive income ("FVTOCI")

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives. The Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Company considers the timing, amount, and volatility of cash flow requirements to support insurance liabilities in determining the business model for the assets as well as the potential to maximize return for shareholders and future business development.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- How managers of the business that are responsible for managing investments are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value, and timing of asset sales are also important aspects of the Company's assessment. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(e) Financial instruments including investments (continued)

As a second step of its classification process, the Company assesses the contractual terms to identify whether they meet the solely payments of principal and interest ("SPPI") test. The SPPI test involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are SPPI on the principal amount outstanding. The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgment and considers relevant factors.

The classification of financial instruments at initial recognition depends on their contractual terms and the Company's business model for managing the instruments. 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 equity instruments designated as FVTOCI, transaction costs are included in the instrument's carrying value.

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 private debt pooled funds and commercial loans, are based on quoted bid market prices where available or observable market inputs. Private debt pooled funds consist of illiquid securities that are not traded in an active market or exchange and are managed by third party firms. Third party firms use fair valuation techniques to value the monthly net assets of private debt pooled funds. Fair value for each security within the private debt pooled funds is determined by the managers engaging valuation service providers as well as internal valuation techniques, such as discounted cash flow models, the use of a credit spread based on the terms of the security, and adjustments to the credit and yield as the managers deem relevant in the circumstances. 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 rights 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.

Financial assets measured at fair value through profit or loss

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are required to be measured at fair value under IFRS 9 – *Financial Instruments* ("IFRS 9"). This category includes equity investments and derivative financial instruments whose cash flow characteristics fail the SPPI criterion and debt (including short-term) investments that are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. This includes short-term investments, bonds, certain preferred stocks, common stocks, pooled funds, commercial loans, and derivative financial instruments. Short-term investments consist of term deposits having original maturities of greater than ninety days and less than one year. Derivatives are financial instruments that have value derived from underlying interest rates or other financial instrument prices or indices. There are currently no derivatives designated as a hedge for accounting purposes.

Changes in fair values as well as gains and losses on disposal of FVTPL financial instruments are recorded in "Recognized gains (losses) on FVTPL 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.

Equity instruments measured at fair value through other comprehensive income

The Company has opted to designate certain preferred stocks as FVTOCI without recycling of fair value changes to profit and loss as they are held for the purpose of earning dividend income and are not held with the intent of short-term profit taking.

Other receivables/Other financial liabilities

Other receivables 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 in the consolidated statements of income.

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 FVTPL and FVTOCI investments is discussed in "Financial assets measured at fair value through profit or loss" and "Equity instruments measured at fair value through other comprehensive income" 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. Depreciation is recognized in either "Insurance service expenses" or "Other (expenses) income" in the consolidated statements of income. 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. 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 either "Insurance service expenses" or "Other (expenses) income" 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 either "Insurance service expenses" or "Other (expenses) income" 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Intangible assets (continued)

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful economic life. Amortization is recorded in either "Insurance service expenses" or "Other (expenses) income" 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
Registry agent license	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. 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.

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

Investments in associates

After application of the equity method, the Company determines whether there are any indicators of an impairment loss of the Company's investments in associates. If there is objective evidence of impairment, the Company calculates the recoverable amount of the associate. The amount by which the carrying amount exceeds the recoverable amount is the impairment loss recognized in the consolidated statements of income in "Other (expenses) income".

(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 other comprehensive income (loss) ("OCI") or directly to retained earnings.

Current income tax is the expected tax payable or receivable calculated on the taxable income or loss for the period, based on income tax laws and rates enacted or substantively enacted as at the reporting date. Interest income or expenses arising on tax assessments, if any, are included in "Other (expenses) income" in the consolidated statements of 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 (expenses) income" 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 either "Insurance service expenses" or "Other (expenses) income" 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 (expenses) income" in the consolidated statements of income when an event giving rise to a curtailment has occurred.

Actuarial gains and losses, except for long-term disability benefits, are recognized in full in OCI in the year in which they occur and then immediately in retained earnings. They are not reclassified to net income in subsequent years. Actuarial gains and losses for long-term disability benefits are recognized in either "Insurance service expenses" or "Other (expenses) income" 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, including restructuring 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 in either "Insurance service expenses" or "Other (expenses) income" in the consolidated statements of income, 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.

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 "Other (expenses) income" 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 in either "Insurance service expenses" or "Other (expenses) income" in the consolidated statements of income 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 "Other (expenses) income" 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 subsidiary 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 FVTOCI 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.

(q) Comparative figures

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the current year's consolidated financial statements, including the restatement of comparative information due to the adoption of IFRS 9 and IFRS 17.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

The Company has applied IFRS 17 and IFRS 9 in these consolidated financial statements. IFRS 17 replaces IFRS 4 — *Insurance Contracts* ("IFRS 4") and IFRS 9 replaces IAS 39 — *Financial Instruments: Recognition and Measurement* ("IAS 39") for annual periods beginning on or after January 1, 2023.

These standards have brought significant changes to the accounting for insurance and reinsurance contracts, and financial instruments. The Company has restated comparative information for 2022 and presented a third consolidated balance sheet as at January 1, 2022. The nature of the changes in accounting policies resulting from the adoption of IFRS 17 and IFRS 9 is summarized below.

IFRS 17

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17. IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued and reinsurance contracts held. There are two measurement methodologies under IFRS 17 that may be applicable to the Company, the GMM and the PAA. 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. Under IFRS 17, the Company's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the PAA.

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(a) Changes to classification and measurement (IFRS 17)

The measurement principles of the PAA differ from the measurement under IFRS 4 in the following key areas:

<table>
<tr><td>Insurance contract liabilities</td><td>The sum of the LRC and the LIC.</td></tr>
<tr><td>Liabilities for remaining coverage</td><td>The LRC consists of unearned premiums received less unamortized acquisition cash flows paid, plus a loss component for onerous contracts.

Insurance acquisition cash flows:

IFRS 17 broadened the costs eligible for deferral, which has resulted in an increase in the amount deferred, as compared to the deferred policy acquisition expenses recorded under IFRS 4.

Onerous contracts:

Where facts and circumstances indicate that a group of insurance contracts may be non-profitable at initial recognition, the Company performs analyses to determine if a group of contracts is onerous. For groups of contracts that are onerous, the Company recognizes a loss in net income for the expected net outflow, resulting in earlier recognition compared to IFRS 4. These losses are reversed to net income over the coverage period of the contracts.</td></tr>
<tr><td>Liabilities for incurred claims</td><td>The LIC includes estimates of the Company's obligation to pay claim liabilities and other incurred insurance expenses. Measurement of the LIC is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk.

Risk adjustment:

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the uncertainty around the amount and timing of the cash flows as the Company fulfils insurance contracts. The risk adjustment replaces the provision for adverse deviation ("PfAD") under IFRS 4. Changes in the risk adjustment impacts insurance service expenses.

Discounting:

Under IFRS 17, cash flows are discounted using risk-free yield curves adjusted to reasonably 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 under IFRS 4 was 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 continues to be recorded by the Company entirely in net income. The impact of discounting is included in "Insurance service expenses" and in "Finance expenses from insurance contracts issued."</td></tr>
<tr><td>Reinsurance contract assets</td><td>The sum of the ARC and the AIC.</td></tr>
<tr><td>Assets for remaining coverage</td><td>Measurement of the ARC reflects unearned reinsurance premiums paid for reinsurance contracts held. The ARC is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.</td></tr>
<tr><td>Assets for incurred claims</td><td>Measurement of the AIC reflects estimates of claims recoverable from reinsurance contracts held and is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The risk adjustment is included in the consolidated statements of income in "Net expenses from reinsurance contracts held". The impact of discounting is included in "Net expenses from reinsurance contracts held" and in "Finance income (expenses) from reinsurance contracts held."</td></tr>
</table>

The Company's policies for classification and measurement of insurance and reinsurance contracts are explained in note 2.

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(b) Changes to presentation and disclosure (IFRS 17)

The presentation of line items in the consolidated financial statements has changed significantly compared with the presentation under IFRS 4.

Insurance contract liabilities presented in the consolidated balance sheets consist of unearned premiums received, unamortized acquisition cash flows paid, loss component for onerous contracts, claim liabilities (including the associated impact of discounting and risk adjustment), and other related liabilities. Reinsurance contract assets are separately presented in the consolidated balance sheets and include amounts expected to be recovered from reinsurers (including the associated impact of discounting and risk adjustment) and reinsurance premiums paid for future reinsurance coverage. The reclassification of amounts in the consolidated balance sheets has resulted in a reduction in the consolidated assets and liabilities of the Company.

IFRS 17 requires separate presentation of insurance revenue, insurance service expenses, income or expenses from reinsurance contracts held, and insurance finance income or expenses, which are further described below. Results from insurance contracts issued and reinsurance contracts held are presented separately in the consolidated statements of income. Written premiums are no longer disclosed in the consolidated statements of income.

Insurance revenue	The Company allocates 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, are included in "Insurance revenue" in the consolidated statements of income under IFRS 17.
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 LIC), and changes that relate to future service (losses on onerous groups of contracts and reversals of such losses). Costs that do not relate directly to the fulfilment of an insurance contract are included in "Other (expenses) income" in the consolidated statements of income, whereas under IFRS 4 these costs were included within underwriting income.
Net expenses from reinsurance contracts held	Income and expenses from reinsurance contracts held, other than insurance finance income or expenses, are presented on a net basis as "Net expenses from reinsurance contracts held" in the insurance service result in the consolidated statements of income. Net expenses from reinsurance contracts held include revenue and expenses related to ceded business.
Insurance finance income or expenses	Insurance finance income or expenses comprise the change in the carrying amounts of the group of insurance contracts and reinsurance contracts held arising from the impact of discounting unwinding, changes in discount rates, and the effect of financial risk.

(c) Transition (IFRS 17)

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach. Under the full retrospective approach, as at January 1, 2022, the Company identified, recognized, and measured each group of insurance and reinsurance contracts as if IFRS 17 had always applied, derecognized any previously reported balances that would not have existed if IFRS 17 had always been applied, and recognized any resulting net difference in equity in the January 1, 2022 opening balance sheet, net of income taxes.

IFRS 9

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project. 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 was effective for annual periods beginning on or after January 1, 2018. An entity whose activities are predominantly connected with insurance was eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. The Company chose to apply the temporary exemption from IFRS 9 to defer the application of IFRS 9 until the effective date of IFRS 17.

(a) Changes to classification and measurement (IFRS 9)

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 has applied the classification overlay to all financial assets derecognized in the comparative period.

Under IFRS 9, financial instruments are classified as amortized cost, 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.

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(a) Changes to classification and measurement (IFRS 9) (continued)

The Company assessed its short-term investments and bonds previously classified as available for sale ("AFS") and FVTPL. These instruments met the SPPI criterion. Based on the Company's assessment under IFRS 9, these assets have been measured at FVTPL. The majority of the Company's preferred stocks, common stocks, and pooled funds that were previously measured as AFS under IAS 39 must be measured as FVTPL under IFRS 9. The preferred stocks classified as FVTPL are hybrid securities. The Company utilized the optional election to designate certain non-hybrid preferred stocks previously measured as AFS under IAS 39 as FVTOCI with realized and unrealized gains and losses presented directly and permanently in OCI. The Company assessed its commercial loans previously classified as loans and receivables ("L&R") under IAS 39. These instruments did not meet the SPPI criterion, and as such are mandatorily measured at FVTPL under IFRS 9.

The following table sets out the Company's cash and cash equivalents and investments classifications under IFRS 9, the previous classification under IAS 39, and the impact on cash and cash equivalents and investments. A reconciliation between the carrying amounts under IAS 39 as at December 31, 2021 to the balances reported under IFRS 9 as at January 1, 2022 was as follows:

(in millions of dollars)	IAS 39	IFRS 9	IAS 39		IFRS 9
	Classification		Carrying amount	Re-classifications	Carrying amount
Cash and cash equivalents	L&R	Amortized cost	$ 387.3	$ –	$ 387.3
Short-term investments	AFS		41.3	(41.3)	–
	FVTPL	FVTPL	47.5	41.3	88.8
Bonds	AFS		2,141.8	(2,141.8)	–
	FVTPL	FVTPL	2,092.0	2,141.8	4,233.8
Preferred stocks	AFS		405.7	(405.7)	–
		FVTOCI		232.7	232.7
		FVTPL		173.0	173.0
Common stocks	AFS		570.5	(570.5)	–
		FVTPL		570.5	570.5
Pooled funds	AFS		42.7	(42.7)	–
		FVTPL		42.7	42.7
Commercial loans[1]	L&R		24.3	(24.3)	–
		FVTPL		23.4	23.4
Total cash and cash equivalents, and investments			$ 5,753.1	$ (0.9)	$ 5,752.2

[1] Included in this amount is a fair value adjustment with respect to commercial loans of $0.9 million.

The Company's classification and measurement of financial instruments is explained in note 2.

(b) Changes to presentation and disclosure (IFRS 9)

The transition to IFRS 9 has resulted in changes to the composition of gains and losses on investments between net income and OCI in the consolidated statements of income. As more of the Company's investments are designated as FVTPL, unrealized gains and losses on these investments that previously were recorded in OCI will now be recorded in net income. As a result, the Company expects there may be additional volatility in net income. Pre-tax unrealized losses on investments of $217.7 million have been recognized in net income in 2022 that were previously recognized in OCI. Realized gains on FVTOCI preferred stocks of $0.3 million have been recognized in OCI in 2022 that were previously recognized in net income. Under IFRS 9, 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.

(c) Transition (IFRS 9)

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Company has applied the classification overlay to all financial assets derecognized in the comparative year, and has restated the comparative year for the impacts of IFRS 9.

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

Impact of IFRS 17 and IFRS 9 transition adjustments on equity

The estimated effects of adopting IFRS 17 and IFRS 9 on retained (deficit) earnings and accumulated other comprehensive income ("AOCI") in the consolidated statements of changes in equity as at January 1, 2022 were as follows:

(in millions of dollars)	As at January 1, 2022	
	Retained (deficit) earnings	AOCI
Balance as at December 31, 2021, as previously reported	$ (28.8)	$ 98.0
IFRS 17 adjustments:		
Change from PfAD to risk adjustment	140.0	–
Difference in discounting under IFRS 17	28.0	
Increased deferral of insurance acquisition cash flows	73.6	–
Establishment of onerous loss provision	(26.3)	–
Income tax impact on transition adjustments	(56.5)	–
Total IFRS 17 adjustments	158.8	–
IFRS 9 adjustments:		
Reclassification of AFS unrealized gains, excluding FVTOCI preferred stocks, from AOCI to retained (deficit) earnings	122.9	(122.9)
Fair value adjustment to commercial loans	(0.9)	–
Income tax impact on transition adjustments	(31.2)	31.4
Total IFRS 9 adjustments	90.8	(91.5)
Restated balance as at January 1, 2022	$ 220.8	$ 6.5

The estimated effects of adopting IFRS 17 and IFRS 9 on the consolidated balance sheet as at January 1, 2022 were as follows:

(in millions of dollars)	As at January 1, 2022		
	As previously reported	Impact of IFRS 17 and IFRS 9 adjustments	Restated
Total assets	$ 7,891.4	$ (1,353.5)	$ 6,537.9
Total liabilities	5,495.1	(1,511.6)	3,983.5
Total equity	2,396.3	158.1	2,554.4

4. 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 determination of groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently, in the determination of cash flows that relate directly to the fulfilment of insurance contracts, the 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 determination of control or significant influence over investees, and the recoverability and recognition of deferred tax assets.

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

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 the LIC

The Company has used estimates in the determination of the carrying amount of the LIC. 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, which are included in the LIC, 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 incurred but not reported ("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.

The AIC includes 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.

Discount rates

All cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the associated insurance contracts. The Company generally determines the risk-free rates based on Government of Canada zero-coupon bonds. The risk-free yield curves are adjusted by an illiquidity premium using a reference portfolio to reflect the liquidity characteristics of the associated insurance contracts. The selection of reference portfolios is based on market instruments that reasonably reflect the nature of the associated insurance contracts in terms of amount, timing, currency, and liquidity.

Discount rates applied for discounting of future cash flows are listed below as at December 31:

	Insurance contracts issued / Reinsurance contracts held							
Yield curve	1 year	2 years	3 years	4 years	5 years	6 years	7 years	>7 years*
2023	6.0%	5.2%	4.8%	4.6%	4.5%	4.4%	4.4%	4.5%
2022	5.5%	5.3%	5.0%	4.8%	4.7%	4.6%	4.6%	4.8%

* Weighted average discount rate of the future discount rates for year 8 and beyond.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is derived from the present value of the estimated future cash flows and reflects the uncertainty around the amount and timing of the cash flows as the Company fulfils insurance contracts. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

The Company has estimated the risk adjustment using a value-at-risk confidence level method to generally be in the range of the 75th to 80th percentile of the stochastically simulated results. This analysis has also been adjusted for correlation between different reserving segments, and the diversification between them.

The Company does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Note 9 contains additional analysis of the impact of the key assumptions on the net of LIC and AIC.

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

(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. See note 12 for further discussion of impairment testing of goodwill and intangible assets with indefinite lives.

(c) 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 21. 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 insurance service expenses or other (expenses) income as discussed in note 2) in the consolidated statements of comprehensive income.

(d) 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.

5. BUSINESS COMBINATIONS

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. The Company completed the following notable broker acquisitions in 2023 and 2022:

(a) McFarlan Rowlands Insurance Brokers Inc.

On May 8, 2023, the Company's subsidiary McDougall Insurance Brokers Limited ("McDougall") acquired 100% of the shares of McFarlan Rowlands Insurance Brokers Inc. and affiliated entities ("McFarlan Rowlands") for cash and share consideration of approximately $234 million (subject to post-closing adjustments). The initial purchase price was funded with cash of $189 million, of which approximately $75 million was drawn on the Company's credit facility, and $44 million in equity subscriptions in McDougall by McFarlan Rowlands' shareholders. McFarlan Rowlands is a leading Ontario-based insurance brokerage, with over 200 employees in 18 office locations across southwestern Ontario, and over $200 million in annual premiums. In addition to its P&C brokerage operations, McFarlan Rowlands also has expertise in claims adjusting, life and group benefits brokering, and investment counselling and portfolio management services.

The Company incurred acquisition-related costs of $0.8 million in 2023, which is included in "Other (expenses) income" in the consolidated statements of income related to the acquisition. The Company recognized $29.7 million in revenue (included in "Distribution revenues") and $4.0 million of net income from the acquisition in the consolidated statements of income in 2023. Net income is after the inclusion of intangible asset amortization of $2.9 million in 2023, net of income taxes.

On a pro forma basis, distribution revenues would have increased by $16 million and net income would have increased by $3 million if the acquisition was consolidated from January 1, 2023. This pro forma information does not purport to represent what the Company's actual results would have been had the acquisition occurred at January 1, 2023, or to project the Company's results for any future period.

5. BUSINESS COMBINATIONS (continued)

(a) McFarlan Rowlands Insurance Brokers Inc. (continued)

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

(in millions of dollars)	
Purchase price consideration (net of cash acquired of $2.4 million)	$ 231.4
Allocated to:	
Property and equipment	14.8
Other assets	7.0
Accounts payable and other liabilities	(1.4)
Income taxes payable	(3.0)
Deferred income tax liabilities	(32.4)
Net identifiable tangible liabilities acquired	(15.0)
Customer relationships	101.4
Brand	14.0
Goodwill	131.0
	$ 231.4

Included in intangible assets are customer relationships and brand. 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 McFarlan Rowlands' weighted-average cost of capital. The acquired customer relationships are being amortized on a straight-line basis over 15 years. The fair value of the brand was based on the relief from royalty method and the brand was 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 business. The goodwill arising from this acquisition is not deductible for income tax purposes.

(b) Drayden Insurance Ltd.

On October 3, 2023, the Company's subsidiary McDougall completed the acquisition of 100% of the shares of Drayden Insurance Ltd. ("Drayden") for $208 million (subject to closing and post-closing adjustments). The transaction was funded by the Company, through McDougall, using a combination of excess capital and the issuance to selling shareholders of shares of McDougall. Founded in 1965, Drayden is a leading Alberta insurance broker with approximately $125 million in annual premiums and strong operating margins. Through its insurance broker and government registry service operations, Drayden employs over 170 people across eight locations in the Edmonton area.

The Company incurred acquisition-related costs of $1.2 million in 2023, which is included in "Other (expenses) income" in the consolidated statements of income related to the acquisition. The Company recognized $6.0 million in revenue (included in "Distribution revenues") and $2.0 million of net income from the acquisition in the consolidated statements of income in 2023. Net income is after the inclusion of intangible asset amortization of $1.2 million in 2023, net of income taxes.

On a pro forma basis, distribution revenues would have increased by $23 million and net income would have increased by $2 million if the acquisition was consolidated from January 1, 2023. This pro forma information does not purport to represent what the Company's actual results would have been had the acquisition occurred at January 1, 2023, or to project the Company's results for any future period.

5. BUSINESS COMBINATIONS (continued)

(b) Drayden Insurance Ltd. (continued)

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

(in millions of dollars)	
Purchase price consideration (net of cash acquired of $1.0 million)	$ 207.5
Allocated to:	
Property and equipment	4.9
Other assets	6.7
Accounts payable and other liabilities	(5.0)
Income taxes payable	(2.3)
Deferred income tax liabilities	(29.0)
Net identifiable tangible liabilities acquired	(24.7)
Customer relationships	98.5
Brand	8.7
Registry agent license	20.7
Goodwill	104.3
	$ 207.5

Included in intangible assets are customer relationships, brand, and the registry agent license. The fair values of the customer relationships and the registry agent license were 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 Drayden's weighted-average cost of capital. The acquired customer relationships are being amortized on a straight-line basis over 15 years and the registry agent license was assessed as having an indefinite useful life. The fair value of the brand was based on the relief from royalty method and the brand was 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 business. The goodwill arising from this acquisition is not deductible for income tax purposes.

After accounting for all transactions related to the acquisitions of McFarlan Rowlands and Drayden, the Company's ownership interest in McDougall increased to approximately 77% from approximately 75%.

(c) McDougall Insurance Brokers Limited, T.G Colley & Sons Limited, and Integrisure Group Insurance Inc.

On October 3, 2022, the Company increased its ownership interest in McDougall from approximately 25% to 75% for cash consideration of approximately $217 million. 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 purchase price was funded by cash on hand.

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. The purchase price was funded by cash on hand.

In 2022 the Company incurred acquisition-related costs of $0.9 million, which is included in "Other (expenses) income" in the consolidated statements of income related to the above acquisitions. In 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 of $2.6 million in 2022, net of income taxes, but excludes acquisition-related expenses.

5. BUSINESS COMBINATIONS (continued)

(c) McDougall Insurance Brokers Limited, T.G Colley & Sons Limited, and Integrisure Group Insurance Inc. (continued)

The allocation of the purchase price of these acquisitions in 2022 to the fair value of assets acquired and liabilities assumed as at the acquisition date was 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

The purchase price allocation of McDougall was finalized in 2023, which resulted in a decrease in goodwill of $0.8 million. McDougall's outstanding demand loans were repaid in 2023, by drawing on the Company's credit facility.

6. INVESTMENTS

(a) Investment income (loss) and balances

Total investment income (loss) recognized in net income and OCI by financial instrument classification is as follows:

(in millions of dollars)	2023		
	FVTPL	**FVTOCI**	**Total**
Interest	**$ 149.6**	**$ —**	**$ 149.6**
Dividends	**24.7**	**11.1**	**35.8**
Investment expenses	**—**	**—**	**(5.9)**
Net investment income	**174.3**	**11.1**	**179.5**
Realized losses on sale of FVTPL investments	**(117.7)**	**—**	**(117.7)**
Unrealized gains on FVTPL investments	**269.5**	**—**	**269.5**
Recognized gains on investments in net income	**151.8**	**—**	**151.8**
Realized losses on FVTOCI preferred stocks	**—**	**(11.6)**	**(11.6)**
Unrealized gains on FVTOCI preferred stocks	**—**	**20.1**	**20.1**
Recognized gains on investments in OCI	**—**	**8.5**	**8.5**
	$ 326.1	**$ 19.6**	**$ 339.8**

(in millions of dollars)	2022 (restated)		
	FVTPL	FVTOCI	Total
Interest	$ 105.3	$ —	$ 105.3
Dividends	22.6	10.8	33.4
Investment expenses	—	—	(5.6)
Net investment income	127.9	10.8	133.1
Realized losses on sale of FVTPL investments	(84.2)	—	(84.2)
Unrealized losses on FVTPL investments	(361.9)	—	(361.9)
Recognized losses on investments in net income	(446.1)	—	(446.1)
Realized gains on FVTOCI preferred stocks	—	0.3	0.3
Unrealized losses on FVTOCI preferred stocks	—	(56.1)	(56.1)
Recognized losses on investments in OCI	—	(55.8)	(55.8)
	$ (318.2)	$ (45.0)	$ (368.8)

The fair value yield as at December 31, 2023 for the bond portfolio was 4.01% (2022: 4.39%).

Investment carrying values by financial instrument classification are as follows:

(in millions of dollars)	2023		
	FVTPL	**FVTOCI**	**Total**
Short-term investments	**$ 137.0**	**$ —**	**$ 137.0**
Bonds:			
Government	**2,447.3**	**—**	**2,447.3**
Corporate	**1,325.7**	**—**	**1,325.7**
Preferred stocks	**149.1**	**183.7**	**332.8**
Common stocks	**595.5**	**—**	**595.5**
Pooled funds	**74.7**	**—**	**74.7**
Commercial loans	**18.0**	**—**	**18.0**
	$ 4,747.3	**$ 183.7**	**$ 4,931.0**

6. INVESTMENTS (continued)

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

(in millions of dollars)	2022 (restated)		
	FVTPL	FVTOCI	Total
Short-term investments	$ 89.3	$ —	$ 89.3
Bonds:			
Government	2,315.8	—	2,315.8
Corporate	1,607.9	—	1,607.9
Preferred stocks	119.8	178.2	298.0
Common stocks	517.7	—	517.7
Pooled funds	57.2	—	57.2
Commercial loans	11.3	—	11.3
	$ 4,719.0	$ 178.2	$ 4,897.2

The fair value of the FVTOCI preferred stocks disposed of during 2023 was $38.6 million (2022: $49.7 million).

(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 equity 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. Included in the Level 3 category are private debt pooled funds and commercial loans.

For private debt pooled funds, the fair value for each security within the pooled funds is determined by the managers engaging valuation service providers as well as internal valuation techniques, such as discounted cash flow models, the use of a credit spread based on the terms of the security, and adjustments to the credit and yield as the managers deem relevant in the circumstances. The fair value of commercial loans is measured on a discounted cash flow basis at the current market interest rate for comparable financial instruments with similar terms and risks.

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

(in millions of dollars)	**2023**			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	**$ —**	**$ 137.0**	**$ —**	**$ 137.0**
Bonds	**—**	**3,773.0**	**—**	**3,773.0**
Preferred stocks	**332.8**	**—**	**—**	**332.8**
Common stocks	**595.5**	**—**	**—**	**595.5**
Pooled funds	**—**	**48.4**	**26.3**	**74.7**
Commercial loans	**—**	**—**	**18.0**	**18.0**
	$ 928.3	**$ 3,958.4**	**$ 44.3**	**$ 4,931.0**

6. INVESTMENTS (continued)

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

(in millions of dollars)	2022 (restated)			
	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	—	44.4	12.8	57.2
Commercial loans	—	—	11.3	11.3
	$ 815.7	$4,057.4	$24.1	$4,897.2

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

Investments in equity and debt instruments are not subject to an impairment assessment, as they are measured at FVTPL or FVTOCI without recycling of fair value changes to net income.

(c) 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, 2023, securities with an estimated fair value of $831.8 million (2022: $841.6 million) have been loaned and financial assets with an estimated fair value of $884.5 million (2022: $874.6 million) have been received as collateral from the approved borrowers. Lending collateral as at December 31, 2023 was 100.0% (2022: 100.0%) held in government-backed securities and high quality common and preferred stocks. 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 $1.1 million (2022: $0.7 million), is reflected in the consolidated statements of income in "Net investment income".

(d) 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, 2023, the Company had derivative financial assets with a notional amount of $103.4 million (2022: $74.2 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.

7. FINANCIAL RISK MANAGEMENT

The Company's financial instruments, including investments, are exposed to variability from 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 bond 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, LIC, and AIC. The impact of changes in the measurement of the Company's LIC and AIC due to changes in the market rates underlying the yield curves used for discounting, are mitigated to some extent by the impact of interest rate changes on the Company's bond portfolio. The effect of interest rate risk associated with discounting the LIC and AIC is disclosed in note 9.

7. FINANCIAL RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

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

(in millions of dollars)	**2023**		2022 (restated)	
Change in interest rate (on the measurement of the Company's bond portfolio)	**+ 1 pt**	**- 1 pt**	+ 1 pt	- 1 pt
Impact on income before income taxes	**$ (145.4)**	**$ 162.3**	$ (143.7)	$ 161.5

(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 investment portfolio includes Canadian common stocks with fair value movements that are benchmarked against movements in the S&P/TSX 60 Index, foreign stocks and equity pooled funds with fair values that are benchmarked against movements in the MSCI World Index, and private debt pooled funds with fair values that are benchmarked against movements in the FTSE Canada Short Term Corporate Bond Index. Also included in the investment 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 benchmark 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)	**2023**		2022 (restated)	
Change in the benchmark indices (on the measurement of the Company's equity portfolio)	**+ 10%**	**- 10%**	+ 10%	- 10%
Impact on income before income taxes related to:				
Canadian stocks	**$ 42.2**	**$ (42.2)**	$ 38.3	$ (38.3)
Foreign stocks and pooled funds	**$ 24.3**	**$ (24.3)**	$ 19.7	$ (19.7)
FVTPL preferred stocks	**$ 13.2**	**$ (13.2)**	$ 12.9	$ (12.9)
FVTOCI preferred stocks	**$ 16.3**	**$ (16.3)**	$ 19.2	$ (19.2)

(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, amounts due from policyholders, 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, 2023, 86.3% (2022: 83.8%) were rated "A-" or better and 76.6% (2022: 81.0%) 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:

	2023	2022
Financial services	**49.8%**	50.4%
Energy	**14.2%**	13.5%
Communication services	**11.6%**	10.8%
Utilities	**7.1%**	9.1%
Industrials	**6.9%**	5.3%
Consumer discretionary	**3.7%**	4.8%
Other	**6.7%**	6.1%
	100.0%	100.0%

7. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

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

	2023	2022
Canada	**99.1%**	99.5%
United States	**0.9%**	0.5%
	100.0%	100.0%

Securities lending

As disclosed in note 6, 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, 2023 was 106.3% (2022: 103.9%).

Amounts due from policyholders

The Company's credit exposure to any one individual policyholder or broker 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.

Reinsurance contract assets

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

As at December 31, 2023, 97.6% (2022: 97.7%) 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 amounts due from reinsurers of $0.5 million (2022: $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, 2023, 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 in 2023 (2022: nil). The original purchase price of the outstanding annuities was $232.5 million (2022: $256.9 million).

(d) 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. The Company's foreign exchange risk relates primarily to its foreign common stock and pooled fund holdings, 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 income before income taxes from a 10% change in the US dollar relative to the Canadian dollar is $15.5 million (2022: $12.5 million). Under this same scenario, the impact on the fair value of non-US dollar foreign stocks, pooled funds, and income before income taxes is $2.4 million (2022: $2.4 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 15, subject to compliance with covenants. The Company has a highly-liquid investment portfolio with a large portion of invested assets in highly-liquid federal and provincial government debt to protect against any unanticipated large cash requirements.

As at December 31, 2023, the Company had $197.5 million (2022: $200.5 million) of cash and cash equivalents and $137.0 million (2022: $89.3 million) of short-term investments. The Company also has a highly liquid investment portfolio. As at December 31, 2023, Canadian fixed income investments issued or guaranteed by domestic governments, investment-grade corporate bonds, publicly traded Canadian and foreign equities and the pooled funds had a fair value of $4,694.0 million (2022: $4,741.9 million).

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

For the LIC, maturity profiles are determined based on estimated timing of the remaining contractual net cash flows on an undiscounted basis, excluding the risk adjustment for non-financial risk. Reinsurance contract assets and the LRC for insurance contracts issued are not included in the table. Included in accounts payable and other liabilities are undiscounted lease payments of $9.3 million (2022: $7.0 million) (< 1 year), $8.0 million (2022: $6.7 million) (1 to 2 years), $7.0 million (2022: $5.5 million) (2 to 3 years), $5.6 million (2022: $4.5 million) (3 to 4 years), $4.2 million (2022: $3.9 million) (4 to 5 years), and $13.5 million (2022: $10.7 million) (> 5 years or no fixed maturity). Commercial loans are also presented on an undiscounted basis.

(in millions of dollars)	2023						
	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years or no fixed maturity	Total
Assets:							
Cash and cash equivalents	$ 197.5	$ –	$ –	$ –	$ –	$ –	$ 197.5
Short-term investments	137.0	–	–	–	–	–	137.0
Bonds	122.4	788.0	508.1	530.7	460.6	1,363.2	3,773.0
Preferred stocks	99.7	77.4	19.8	61.8	69.6	4.5	332.8
Commercial loans	1.9	2.1	2.3	2.5	2.7	7.4	18.9
Accrued investment income	26.8	–	–	–	–	–	26.8
Other receivables	43.9	–	–	–	–	–	43.9
	$ 629.2	$ 867.5	$ 530.2	$ 595.0	$ 532.9	$ 1,375.1	$ 4,529.9
Liabilities:							
LIC undiscounted, excluding risk adjustment	$ 1,186.3	$ 566.8	$ 403.9	$ 329.1	$ 254.2	$ 611.3	$ 3,351.6
Accounts payable and other liabilities	79.3	9.7	8.6	7.2	5.7	33.4	143.9
Income taxes payable	117.9	–	–	–	–	–	117.9
Debt outstanding[1]	–	–	–	–	114.3	–	114.3
	$ 1,383.5	$ 576.5	$ 412.5	$ 336.3	$ 374.2	$ 644.7	$ 3,727.7

[1] Debt outstanding pertains to the Company's credit facility, as disclosed in note 15, which has a term ending on July 22, 2028 and is subject to annual renewal.

7. FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

(in millions of dollars)	2022 (restated)						
	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years or no fixed maturity	Total
Assets:							
Cash and cash equivalents	$ 200.5	$ –	$ –	$ –	$ –	$ –	$ 200.5
Short-term investments	89.3	–	–	–	–	–	89.3
Bonds	234.3	552.4	731.4	474.2	557.7	1,373.7	3,923.7
Preferred stocks	54.5	102.7	80.4	17.2	40.9	2.3	298.0
Commercial loans	1.8	1.9	2.1	2.3	0.9	3.0	12.0
Accrued investment income	26.6	–	–	–	–	–	26.6
Income taxes receivable	81.7	–	–	–	–	–	81.7
Other receivables	19.2	–	–	–	–	–	19.2
	$ 707.9	$ 657.0	$ 813.9	$ 493.7	$ 599.5	$1,379.0	$ 4,651.0
Liabilities:							
LIC undiscounted, excluding risk adjustment	$ 1,427.7	$ 582.0	$ 398.5	$ 280.9	$ 196.8	$ 546.3	$ 3,432.2
Accounts payable and other liabilities	89.8	8.4	7.1	6.0	5.3	29.0	145.6
Debt outstanding	3.4	3.4	3.4	3.4	3.3	22.2	39.1
	$ 1,520.9	$ 593.8	$ 409.0	$ 290.3	$ 205.4	$ 597.5	$ 3,616.9

Note 21(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.

There were no significant changes in the Company's objectives, policies, and processes used to manage and measure the Company's financial risks compared to the previous year.

8. INSURANCE AND REINSURANCE CONTRACTS

(a) Insurance contract liabilities

The roll-forward of the liabilities for insurance contracts issued, showing the LRC and the LIC, is presented in the following table:

(in millions of dollars)	2023				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Total
Insurance contract liabilities, beginning of year	**$ 303.3**	**$ 27.7**	**$ 3,068.8**	**$ 177.9**	**$ 3,577.7**
Insurance revenue	**(3,850.3)**	**–**	**–**	**–**	**(3,850.3)**
Insurance service expenses:					
Incurred claims and other directly attributable expenses	**–**	**(43.2)**	**2,601.3**	**50.5**	**2,608.6**
Amortization of insurance acquisition cash flows	**814.2**	**–**	**–**	**–**	**814.2**
Changes in fulfilment cash flows relating to the LIC	**–**	**–**	**(28.2)**	**(56.1)**	**(84.3)**
Losses on onerous contracts and reversals of such losses	**–**	**38.6**	**–**	**–**	**38.6**
Insurance service result	**(3,036.1)**	**(4.6)**	**2,573.1**	**(5.6)**	**(473.2)**
Finance expenses from insurance contracts issued	**–**	**–**	**152.4**	**–**	**152.4**
Total changes in the consolidated statements of income	**(3,036.1)**	**(4.6)**	**2,725.5**	**(5.6)**	**(320.8)**
Cash flows:					
Premiums received	**3,911.7**	**–**	**–**	**–**	**3,911.7**
Claims and other directly attributable expenses paid	**–**	**–**	**(2,752.3)**	**–**	**(2,752.3)**
Insurance acquisition cash flows	**(842.7)**	**–**	**–**	**–**	**(842.7)**
Total cash flows	**3,069.0**	**–**	**(2,752.3)**	**–**	**316.7**
Other movements	**–**	**–**	**(79.8)**	**–**	**(79.8)**
Insurance contract liabilities, end of year	**$ 336.2**	**$ 23.1**	**$ 2,962.2**	**$ 172.3**	**$ 3,493.8**

(in millions of dollars)	2022				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Total
Insurance contract liabilities, beginning of year	$ 282.3	$ 26.3	$ 3,192.2	$ 168.1	$ 3,668.9
Insurance revenue	(3,485.7)	–	–	–	(3,485.7)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	–	(43.6)	2,357.2	46.6	2,360.2
Amortization of insurance acquisition cash flows	765.8	–	–	–	765.8
Changes in fulfilment cash flows relating to the LIC	–	–	(105.3)	(36.8)	(142.1)
Losses on onerous contracts and reversals of such losses	–	45.0	–	–	45.0
Insurance service result	(2,719.9)	1.4	2,251.9	9.8	(456.8)
Finance income from insurance contracts issued	–	–	(96.3)	–	(96.3)
Total changes in the consolidated statements of income	(2,719.9)	1.4	2,155.6	9.8	(553.1)
Cash flows:					
Premiums received	3,541.2	–	–	–	3,541.2
Claims and other directly attributable expenses paid	–	–	(2,211.6)	–	(2,211.6)
Insurance acquisition cash flows	(800.3)	–	–	–	(800.3)
Total cash flows	2,740.9	–	(2,211.6)	–	529.3
Other movements	–	–	(67.4)	–	(67.4)
Insurance contract liabilities, end of year	$ 303.3	$ 27.7	$ 3,068.8	$ 177.9	$ 3,577.7

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Insurance contract liabilities (continued)

The composition of the insurance contract liabilities was as follows as at December 31:

(in millions of dollars)	**2023**	2022
Premiums receivable	**$ (1,271.1)**	$ (1,187.3)
Unearned premiums	**1,928.0**	1,782.8
Unearned premiums received	**656.9**	595.5
Unamortized insurance acquisition cash flows	**(320.7)**	(292.2)
Onerous loss provision	**23.1**	27.7
Provision for unpaid claims and other directly attributable payables	**3,134.5**	3,246.7
	$ 3,493.8	$ 3,577.7

(b) Reinsurance contract assets

The roll-forward of the reinsurance contract assets showing the ARC and the AIC is presented in the following table:

(in millions of dollars)	**2023**				
	Assets for remaining coverage		**Assets for incurred claims**		
	Excluding loss-recovery component	**Loss-recovery component**	**Estimates of the present value of future cash flows**	**Risk adjustment for non-financial risk**	**Total**
Reinsurance contract assets, beginning of year	**$ 18.7**	**$ –**	**$ 272.0**	**$ 14.4**	**$ 305.1**
Allocation of reinsurance premiums	**(258.8)**	**–**	**–**	**–**	**(258.8)**
Amounts recoverable from reinsurers for incurred claims:					
Amounts recoverable for incurred claims and other directly attributable expenses	**–**	**–**	**187.8**	**5.6**	**193.4**
Changes to amounts recoverable for incurred claims	**–**	**–**	**22.0**	**(5.4)**	**16.6**
Net expenses from reinsurance contracts held	**(258.8)**	**–**	**209.8**	**0.2**	**(48.8)**
Finance income from reinsurance contracts held	**–**	**–**	**13.3**	**–**	**13.3**
Total changes in the consolidated statements of income	**(258.8)**	**–**	**223.1**	**0.2**	**(35.5)**
Cash flows:					
Premiums paid	**285.4**	**–**	**–**	**–**	**285.4**
Amounts received	**–**	**–**	**(224.6)**	**–**	**(224.6)**
Total cash flows	**285.4**	**–**	**(224.6)**	**–**	**60.8**
Reinsurance contract assets, end of year	**$ 45.3**	**$ –**	**$ 270.5**	**$ 14.6**	**$ 330.4**

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

(in millions of dollars)	2022				
	Assets for remaining coverage		Assets for incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Total
Reinsurance contract assets, beginning of year	$ 26.2	$ –	$ 201.0	$ 11.2	$ 238.4
Allocation of reinsurance premiums	(198.4)	–	–	–	(198.4)
Amounts recoverable from reinsurers for incurred claims:					
Amounts recoverable for incurred claims and other directly attributable expenses	–	–	182.2	5.3	187.5
Changes to amounts recoverable for incurred claims	–	–	(1.9)	(2.1)	(4.0)
Net expenses from reinsurance contracts held	(198.4)	–	180.3	3.2	(14.9)
Finance expenses from reinsurance contracts held	–	–	(5.2)	–	(5.2)
Total changes in the consolidated statements of income	(198.4)	–	175.1	3.2	(20.1)
Cash flows:					
Premiums paid	190.9	–	–	–	190.9
Amounts received	–	–	(104.1)	–	(104.1)
Total cash flows	190.9	–	(104.1)	–	86.8
Reinsurance contract assets, end of year	$ 18.7	$ –	$ 272.0	$ 14.4	$ 305.1

The composition of the reinsurance contract assets was as follows as at December 31:

(in millions of dollars)	**2023**	2022
Premiums ceded payable	**$ 1.9**	$ (17.9)
Unearned premiums ceded	**52.9**	43.1
Unearned reinsurance premiums paid	**54.8**	25.2
Claims recoverable from reinsurance contracts held	**284.7**	282.8
Unearned reinsurance commissions received	**(9.1)**	(2.9)
	$ 330.4	$ 305.1

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 and for an aggregation of several such occurrences in the same year. These limits were as follows:

(in millions of dollars)	**2023**	2022
Individual loss		
Property		
Net company retention[1]	**$ 5.0**	$ 5.0
Maximum limit[2]	**100.0**	100.0
Auto and general liability		
Net company retention[1]	**4.0**	4.0
Maximum limit	**40.0**	40.0
Catastrophe – primary		
Net company retention[1]	**40.0**	30.0
Maximum limit[2]	**1,950.0**	1,800.0
Catastrophe – aggregate		
Annual aggregate deductible[3]	**65.0**	65.0
Annual aggregate limit[3]	**25.0**	25.0

[1] Excludes reinstatement premiums, co-participations between the retention level and maximum limit, and tax impacts.
[2] Excludes co-participation.
[3] Contributing event to the annual aggregate deductible and limit was a maximum of $27 million on events above $3 million as at December 31, 2023 (2022: maximum $27 million on events above $3 million).

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

For catastrophe events, the Company participated an average of 8.6% on layers between the net company retention and the maximum limit as at December 31, 2023 (2022: 3.4%), including an average of 42.5% between the net company retention and up to a $100 million loss (2022: 0%).

For catastrophe aggregate events, the annual aggregate limit was 100% placed as at December 31, 2023 (2022: 100.0%). Recoveries on this treaty for 2023 of $25 million were fully utilized in 2023 due to the heightened level of catastrophe activity. This treaty extends to December 31, 2024. The Company also retains small participations on other reinsurance treaties based on market conditions and risk appetite.

The Company also purchases other types of reinsurance tailored to individual risks or specific exposures as required by its underwriting guidelines and risk management practices.

Effective January 1, 2024, the Company increased its maximum limit for catastrophe events from $1,950 million to $2,075 million and the net company retention from $40 million to $60 million. The Company retains participations on reinsurance layers between the retention and maximum limit averaging 2.7% including an average of 27.8% between the retention and up to a $100 million loss.

9. INSURANCE RISK MANAGEMENT

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

(a) Underwriting risk

Underwriting and pricing

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

The concentration of insurance revenue by line of business is as follows:

	2023	2022
Personal auto	**41.4%**	43.3%
Personal property	**27.9%**	27.5%
Commercial lines	**30.7%**	29.2%
	100.0%	100.0%

The concentration of insurance revenue by region is as follows:

	2023	2022
Ontario	**56.7%**	57.6%
Alberta and Prairies	**14.8%**	14.6%
British Columbia	**11.5%**	10.0%
Québec	**8.6%**	9.1%
Atlantic	**8.4%**	8.7%
	100.0%	100.0%

A financial loss occurs when the liabilities assumed exceed the expectation reflected in the pricing of an insurance product. The Company prices its products by taking into account numerous factors including product design and features, claim frequency and severity trends, 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.

(a) Underwriting risk (continued)

Underwriting and pricing (continued)

The performance and pricing of all of the Company's products are regularly monitored, and corrective action is taken as considered necessary. Examples of possible corrective actions include modification of product pricing, terms, conditions, or eligibility requirements, modification of the level of capacity provided to a product or a specific region, changes to marketing strategy, 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

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 18 provides information on regulatory capital requirements. Note 22 provides additional details on rate regulation.

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. To mitigate the Company's exposure to these types of legal claims, the Company intends 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 court awards and 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. Note 7 provides information on credit risk. 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 LIC net of the AIC are insufficient to cover future insurance service claim payments and associated expenses related to incurred claims, taking into account the time value of money (i.e. discounting future cash flows) and an explicit adjustment for non-financial risk (i.e. risk adjustment).

(b) Reserve estimate risk (continued)

Nominal claims liabilities

Nominal claims liabilities reflect the estimates of future payment of all incurred claims and claims adjustment expenses with respect to insurance contracts underwritten by the Company (LIC) and future recoveries with respect to reinsurance contracts held by the Company (AIC). The reserve estimate risk related to nominal claims liabilities is the risk that the future payments will differ from the estimated amounts. The estimates do not represent an exact measurement, but rather a best estimate of the expected ultimate future cost of resolution and administration of claims. To address inflation risk, expected inflation is taken into account in the estimation process. The estimation involves the use of models, which exposes the Company to model risk in the event that actual results differ from those modelled.

Nominal claims liabilities include estimates for reported claims, as established by the Company's claims adjusters based on the details of reported claims (referred to as "case reserves"), and provisions established by the Company's corporate actuaries to account for case reserve misestimation and unreported claims (referred to as IBNR), and for the future expense incurred by the Company's claims department to adjudicate and settle claims (referred to as the "internal claims expense" or "ICE" provision).

With respect to case reserves, eligible claim submissions are triaged and assessed for validity and expected cost and salvage or subrogation recoveries through the application of a series of algorithms, real time analytics, and integration of third-party services or by manual review by an adjuster. After the triage stage is complete, the Company leverages artificial intelligence (AI) tools to assign the claim to an appropriate claims adjuster. All 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.

IBNR and ICE are 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 nominal claims liabilities.

Establishing an adequate provision for nominal claims liabilities is an inherently uncertain process and is closely monitored by the Company's corporate actuarial department. Case reserves, IBNR, and ICE are subject to internal and external peer review processes to assess the adequacy of the aggregate provision and compliance with professional standards.

Impact of discounting

The nominal claims liabilities recognize that claims and expense payments and recoveries will be made in the future, and therefore are discounted to reflect the time value of money. The impact of discounting takes into account the expected future timing of payments and recoveries and a selected yield curve. The yield curve used to discount the future payments is based on current risk-free spot rates by maturity, adjusted for liquidity of the insurance contracts.

The expected future timing of payments and recoveries is estimated by the Company's corporate actuaries leveraging generally accepted actuarial techniques. The timing of future payments and recoveries is exposed to uncertainty and estimation risks similar to those listed above with respect to IBNR and ICE. Specifically, this uncertainty is considered with respect to the yield curve used to determine the discount amount, whereas the impact of future yield curve and liquidity premium changes are considered financial risk.

The following table presents the interest rate sensitivity analysis on the net of LIC and AIC as at December 31 for a one percentage point change in interest rates (assuming a parallel shift across the yield curve):

(in millions of dollars)	**2023**		2022	
Change in interest rate (on the net of LIC and AIC)	**+ 1 pt**	**- 1 pt**	+ 1 pt	- 1 pt
Impact on income before income taxes	**$ 63.2**	**$ (67.2)**	$ 59.0	$ (63.2)

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is derived from the present value of the estimated future cash flows and reflects the uncertainty around the amount and timing of the cash flows as the Company fulfils insurance contracts. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer. In effect, this additional provision reduces the likelihood that the net amount of LIC and AIC carried will be insufficient to fulfil future obligations arising from claims incurred, net of reinsurance recoveries.

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 claims severity and

9. INSURANCE RISK MANAGEMENT (continued)

(b) Reserve estimate risk (continued)

frequency is altered significantly. The analysis below also isolates the impact within the average claims severity of a change in ICE on the LIC. The impacts below are on the net of LIC and AIC nominal claims liabilities as at December 31:

(in millions of dollars)	**2023**		2022	
Impact of change on the net of LIC and AIC nominal claims liabilities	**+ 5%**	**- 5%**	+ 5%	- 5%
Impact on income before income taxes due to:				
Change in average claims severity	**$ (139.3)**	**$ 139.3**	$ (143.7)	$143.7
Change in frequency on unreported claims	**$ (15.3)**	**$ 15.3**	$ (13.2)	$ 13.2
Change in ICE	**$ (8.2)**	**$ 8.2**	$ (8.5)	$ 8.5

The following table presents the sensitivity of risk adjustment for a five percentage point change in the confidence level on the net of LIC and AIC as at December 31:

(in millions of dollars)	**2023**		2022	
Change in risk adjustment (on the net of LIC and AIC)	**+ 5 pts**	**- 5 pts**	+ 5 pts	- 5 pts
Impact on income before income taxes	**$ (43.7)**	**$ 35.2**	$ (45.3)	$ 37.0

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 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, net of reinsurance, 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. "Cumulative net claims paid" in the table presents the cumulative amounts paid for claims for each accident year as at December 31, 2023, net of reinsurance.

The triangle in the claims development table excludes FARM and RSP/PRR claims, and the impact of discounting, risk adjustment, and other incurred insurance expenses, which are shown as separate reconciling items below.

Claims development table, net of reinsurance:

	Accident Year										
(in millions of dollars)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Estimate of ultimate claims (net of reinsurance)											
At end of accident year	$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	$2,290.9	
1 year later	1,241.1	1,248.0	1,445.0	1,586.3	1,672.1	1,681.0	1,507.4	1,638.5	2,114.8		
2 years later	1,238.1	1,278.9	1,448.9	1,581.3	1,664.9	1,669.7	1,427.6	1,617.1			
3 years later	1,245.2	1,277.0	1,446.7	1,549.3	1,658.4	1,678.8	1,373.8				
4 years later	1,252.7	1,273.6	1,430.1	1,564.4	1,681.6	1,652.9					
5 years later	1,252.9	1,281.1	1,426.1	1,602.9	1,664.1						
6 years later	1,264.8	1,289.0	1,449.6	1,586.7							
7 years later	1,262.4	1,301.5	1,442.6								
8 years later	1,261.7	1,295.4									
9 years later	1,256.0										
(Favourable) adverse development recognized in the year	(5.7)	(6.1)	(7.0)	(16.2)	(17.5)	(25.9)	(53.8)	(21.4)	78.4		$ (75.2)
Adverse development recognized from 2013 and prior accident years											5.4
Adverse development recognized from FARM and RSP/PRR ceded and assumed in the year											6.8
Total favourable development recognized in the year											$ (63.0)
Current estimate of net ultimate claims	1,256.0	1,295.4	1,442.6	1,586.7	1,664.1	1,652.9	1,373.8	1,617.1	2,114.8	2,290.9	$16,294.3
Cumulative net claims paid	1,221.8	1,255.2	1,374.4	1,457.8	1,481.5	1,429.9	1,132.2	1,289.4	1,622.4	1,228.6	13,493.2
Current net unpaid and unreported claims	34.2	40.2	68.2	128.9	182.6	223.0	241.6	327.7	492.4	1,062.3	2,801.1
Current net unpaid and unreported claims pertaining to 2013 and prior accident years											74.8
FARM and RSP/PRR ceded and assumed claims, unpaid and unreported											98.0
Impact of discounting											(355.1)
Impact of risk adjustment											157.8
Impact of other incurred insurance expenses											120.9
Receivables net of payables included in the LIC and AIC											(48.1)
Net liabilities for incurred claims											$ 2,849.4
LIC											$ 3,134.5
AIC											$ (285.1)

(c) Catastrophe risk

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

The Company manages its catastrophe events exposure by monitoring exposure to concentrations of insured risks, by performing scenario stress testing, 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. While increasing frequency and severity of extreme weather events have resulted in increased catastrophe events and claims, 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 and may increase the variability and amount of claims. 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 seeking to enhance its data and modelling 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.

There were no significant changes in the Company's objectives, policies, and processes used to manage and measure the Company's insurance risks compared to the previous year.

10. PROPERTY AND EQUIPMENT

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

(in millions of dollars)		2023						
	Notes	Land and building structure	Building infrastructure	Building fixtures	Furniture and equipment	Computer equipment	Right-of-use assets	Total
Cost:								
Balance, beginning of year		$ 43.7	$ 27.4	$ 10.5	$ 22.7	$ 10.2	$ 51.2	$ 165.7
Business combinations	5	14.8	–	–	0.4	0.6	3.9	19.7
Additions		4.1	1.9	0.2	3.5	2.0	4.5	16.2
Disposals		(3.2)	–	–	(1.3)	(1.5)	(11.6)	(17.6)
Balance, end of year		$ 59.4	$ 29.3	$ 10.7	$ 25.3	$ 11.3	$ 48.0	$ 184.0
Accumulated depreciation:								
Balance, beginning of year		$ 18.8	$ 10.5	$ 8.5	$ 18.7	$ 5.3	$ 20.1	$ 81.9
Depreciation charge		2.5	0.6	0.2	2.1	2.7	5.3	13.4
Disposals		(3.0)	–	–	(1.3)	(1.5)	(8.6)	(14.4)
Balance, end of year		$ 18.3	$ 11.1	$ 8.7	$ 19.5	$ 6.5	$ 16.8	$ 80.9
Net book value, end of year		$ 41.1	$ 18.2	$ 2.0	$ 5.8	$ 4.8	$ 31.2	$ 103.1

10. PROPERTY AND EQUIPMENT (continued)

(in millions of dollars)		2022						
	Notes	Land and building structure	Building infrastructure	Building fixtures	Furniture and equipment	Computer equipment	Right-of-use assets	Total
Cost:								
Balance, beginning of year		$ 39.7	$ 19.9	$ 10.1	$ 21.0	$ 11.7	$ 32.4	$ 134.8
Business combinations	5	0.3	7.4	0.1	0.6	1.6	4.5	14.5
Additions		4.0	0.1	0.3	2.0	1.3	14.3	22.0
Disposals		(0.3)	–	–	(0.9)	(4.4)	–	(5.6)
Balance, end of year		$ 43.7	$ 27.4	$ 10.5	$ 22.7	$ 10.2	$ 51.2	$ 165.7
Accumulated depreciation:								
Balance, beginning of year		$ 17.0	$ 9.9	$ 8.3	$ 18.8	$ 8.7	$ 15.1	$ 77.8
Depreciation charge		2.1	0.6	0.2	0.8	1.0	5.0	9.7
Disposals		(0.3)	–	–	(0.9)	(4.4)	–	(5.6)
Balance, end of year		$ 18.8	$ 10.5	$ 8.5	$ 18.7	$ 5.3	$ 20.1	$ 81.9
Net book value, end of year		$ 24.9	$ 16.9	$ 2.0	$ 4.0	$ 4.9	$ 31.1	$ 83.8

11. 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	**2023**		2022 (restated)	
Income tax expense calculated based on statutory tax rates		**26.3%**	**$ 122.9**	26.3%	$ 29.9
Canadian dividend income not subject to tax		**(1.8%)**	**(8.3)**	(6.7%)	(7.6)
Non-deductible expenses		**0.2%**	**0.8**	0.6%	0.7
Non-taxable gain arising on business combinations	5	**–**	**–**	(15.6%)	(17.8)
Other		**(0.6%)**	**(2.7)**	(2.6%)	(2.9)
Income tax expense recorded in net income		**24.1%**	**$ 112.7**	2.0%	$ 2.3

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

(in millions of dollars)	**2023**	2022 (restated)
Current income taxes		
Income taxes related to current year	**$ 132.5**	$ (5.0)
Income taxes related to prior years	**(2.9)**	(1.1)
Deferred income taxes	**(16.9)**	8.4
Income tax expense	**$ 112.7**	$ 2.3

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

(in millions of dollars)	**2023**	2022 (restated)
Income tax on items that will not be reclassified subsequently to net income:		
Recognized gains (losses) on FVTOCI investments	**$ 2.2**	$ (14.7)
Post-employment benefit obligation (loss) gain	**(0.3)**	7.0
Income tax expense (recovery)	**$ 1.9**	$ (7.7)

11. INCOME TAXES (continued)

(b) Deferred income taxes

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

(in millions of dollars)	2023	2022 (restated)
Insurance contract liabilities	**$ (5.0)**	$ (23.5)
Post-employment benefit plans	**(3.6)**	(3.7)
Property and equipment	**(7.1)**	(4.8)
Intangible assets	**(145.8)**	(83.9)
Income tax loss carryforwards	**5.5**	7.3
Deferred expenses for tax purposes	**20.9**	21.8
Other	**8.0**	8.5
	$(127.1)	$ (78.3)

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)	2023	2022 (restated)
Balance, beginning of year	**$ (78.3)**	$ 6.0
Income tax expense:		
Recorded in net income	**16.9**	(8.4)
Recorded in OCI	**0.3**	(7.0)
Recorded in equity	**(4.4)**	—
Business combinations	**(61.6)**	(68.9)
Balance, end of year	**$(127.1)**	$(78.3)

12. 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)	2023	2022
Intangible assets	**$ 657.5**	$ 433.6
Goodwill	**572.4**	338.0
	$ 1,229.9	$ 771.6

(a) Intangible assets

(in millions of dollars)		2023					
	Note	Brand	Registry agent license	Software	Customer relationships	Distribution network	Total
Cost:							
Balance, beginning of year		**$ 31.5**	**$ –**	**$ 348.9**	**$ 227.5**	**$ 5.7**	**$ 613.6**
Business combinations	5	**22.7**	**20.7**	**–**	**199.9**	**–**	**243.3**
Additions		**–**	**–**	**73.1**	**–**	**–**	**73.1**
Disposals		**–**	**–**	**(32.4)**	**–**	**–**	**(32.4)**
Balance, end of year		**$ 54.2**	**$ 20.7**	**$ 389.6**	**$ 427.4**	**$ 5.7**	**$ 897.6**
Accumulated amortization:							
Balance, beginning of year		**$ –**	**$ –**	**$ 168.7**	**$ 8.2**	**$ 3.1**	**$ 180.0**
Amortization expense		**–**	**–**	**70.3**	**21.7**	**0.5**	**92.5**
Disposals		**–**	**–**	**(32.4)**	**–**	**–**	**(32.4)**
Balance, end of year		**$ –**	**$ –**	**$ 206.6**	**$ 29.9**	**$ 3.6**	**$ 240.1**
Net book value, end of year		**$ 54.2**	**$ 20.7**	**$ 183.0**	**$ 397.5**	**$ 2.1**	**$ 657.5**

12. GOODWILL AND INTANGIBLE ASSETS (continued)

(a) Intangible assets (continued)

(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	5	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

Included in software is $24.4 million (2022: $33.1 million) that has not yet commenced being amortized as the assets are still under development.

(b) Goodwill and intangible assets with indefinite lives

Goodwill and intangible assets with indefinite lives have been allocated to three individual CGUs. The carrying amount of goodwill and intangible assets with indefinite lives allocated to each of the CGUs is shown below:

		Goodwill		Intangible assets	
(in millions of dollars)	Notes	**2023**	2022	**2023**	2022
Definity Insurance		**$ 26.9**	$ 26.9	**$ –**	$ –
Petline		**19.2**	19.2	**4.2**	4.2
Distribution business	5	**526.3**	291.9	**70.7**	27.3
		$572.4	$ 338.0	**$ 74.9**	$ 31.5

Goodwill and intangible assets with indefinite lives are 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 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 2.5% - 4.0% were used in the terminal value calculations.
- After-tax, market adjusted discount rates ranging from 7.9% - 10.3% 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 and intangible assets with indefinite lives impairment testing for the current year determined that there was no evidence of impairment (2022: nil).

13. OTHER ASSETS

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

(in millions of dollars)	Notes	2023	2022 (restated)
Investments in associates		**$ 52.3**	$ 36.7
Other receivables		**43.9**	19.2
Pension asset	21	**41.9**	40.3
Prepaid expenses and other		**35.1**	29.7
Accrued investment income		**26.8**	26.6
		$ 200.0	$152.5

The Company has only individually immaterial associates. The Company's share of the comprehensive income of individually immaterial associates in 2023 was $0.8 million (2022: $6.7 million).

14. 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	2023	2022 (restated)
Accounts payable and other		**$ 54.9**	$ 77.9
Lease liabilities		**35.6**	31.7
Pension and non-pension benefit obligations	21	**28.2**	26.3
Restructuring provision		**8.5**	—
Deferred share unit plans	20	**4.7**	3.1
		$ 131.9	$139.0

15. DEBT OUTSTANDING

The Company and certain of its subsidiaries have access to an unsecured committed credit facility. The credit facility increased from $150 million to $700 million on January 1, 2024 following the continuance of Definity Financial Corporation to the CBCA. In 2023, the Company drew $75 million on the Company's credit facility in connection with the Company's purchase of McFarlan Rowlands, and $39.3 million to repay McDougall's outstanding demand loans. The credit facility has a term ending on July 22, 2028, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at December 31, 2023 the Company had drawn $114.3 million under this credit facility (2022: nil).

As at February 15, 2024, the Company remains in compliance with the covenants. The interest rate applicable is based on the current period's bankers' acceptance rate, Canadian prime rate, or SOFR plus a margin.

16. NON-CONTROLLING INTERESTS

On October 3, 2022, the Company increased its ownership interest in McDougall from approximately 25% to 75%. Upon completion of the acquisitions of McFarlan Rowlands and Drayden in 2023, the Company's ownership interest in McDougall increased to approximately 77%. McDougall operates in Canada.

Certain summarized financial information of McDougall, before any inter-company eliminations, is provided below. The 2022 information for McDougall is for the period from October 3, 2022 to December 31, 2022, when McDougall became a subsidiary of the Company.

(in millions of dollars)	2023	2022
Distribution revenues	**$ 137.0**	$ 21.6
Net income and total comprehensive income	**27.5**	5.1
Total assets	**738.2**	156.7
Total liabilities	**355.4**	48.8

17. 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)	**2023**		2022	
	Number of shares (in millions)	**Amount**	Number of shares (in millions)	Amount
Issued and outstanding, beginning and end of year	**115.9**	**$2,307.8**	115.9	$2,307.8
Shares held in trust, beginning of year	**(1.5)**	**(53.6)**	—	—
Purchased for future settlement of the LTIP and Medium-Term Incentive Plan ("MTIP")	**(0.4)**	**(13.9)**	(1.5)	(53.6)
Released for the settlement of the LTIP and MTIP	**0.9**	**32.7**	—	—
Shares held in trust, end of year	**(1.0)**	**(34.8)**	(1.5)	(53.6)
Issued and outstanding, net of shares held in trust, end of year	**114.9**	**$2,273.0**	114.4	$2,254.2

On February 15, 2024, the Board of Directors declared a $0.16 per share dividend, payable on March 28, 2024 to shareholders of record at the close of business on March 15, 2024.

No preferred shares were issued and outstanding.

18. CAPITAL MANAGEMENT

(a) Capital management framework

Capital deployment is carefully considered within the context of the Company's access to capital, 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:

- Establishment of flexible capital management tools to support the business strategy;
- Maximizing long-term shareholder value through capital optimization;
- Ensuring an appropriate level of liquidity to support operational and other corporate requirements;
- Maintaining strong credit ratings to support capital raising; and
- Maintaining strong regulatory capital in the Company's operating insurance entities to safeguard policyholders.

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.

(b) Capital management of the Company

The Company focuses on promoting internal capital mobility so that all entities are appropriately capitalized while ensuring there is sufficient liquid capital at the Company to support the servicing of debt obligations, payment of shareholder dividends, and for other capital deployment, including acquisitions.

(c) Regulatory capital management

The amount of capital required in any company is dependent on its risk profile, strategic plans, and 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:

- Insurance subsidiaries are subject to regulatory capital requirements established by Office of the Superintendent of Financial Institutions ("OSFI") and the ICA.
- OSFI evaluates capital adequacy through the Minimum Capital Test ("MCT") ratio, which measures available capital against required risk-weighted capital.
- OSFI has established a regulatory supervisory target MCT ratio of 150%, which provides a cushion above the minimum MCT ratio of 100%.

As at December 31, 2023, the MCT ratio of each of the Company's insurance subsidiaries exceeded the minimum capital ratio of 150% required by OSFI.

Management actively monitors the MCT of the Company's insurance subsidiaries and the effect that external and internal actions have on the capital base of the Company. Capital levels are managed with an objective of ensuring that policyholders are not put at unacceptable risk. The Board of Directors reviews the MCT of the Company's insurance subsidiaries 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.

19. 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)	**2023**	2022 (restated)
Net income attributable to common shareholders	**$ 350.1**	$ 110.9
Weighted average common shares outstanding (in millions)	**115.0**	115.1
Dilutive effect of share-based compensation plans (in millions)	**1.6**	1.8
Weighted average of diluted common shares outstanding (in millions)	**116.6**	116.9
EPS (in dollars)		
Basic	**$ 3.04**	$ 0.96
Diluted	**$ 3.00**	$ 0.95

20. 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:

	2023	2022
	Number of units	Number of units
Outstanding, beginning of year	**998,685**	1,102,254
Awarded	**278,103**	305,334
Forfeited	**(47,090)**	(64,561)
Settled	**(372,379)**	(344,342)
Outstanding, end of year	**857,319**	998,685

The recorded compensation expense in 2023 for the RUs and RSUs was $8.6 million (2022: $7.4 million), and the aggregate contributed surplus balance attributable to the RUs and RSUs as at December 31, 2023 was $16.8 million (2022: $15.9 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.

Performance units ("PUs") and PSUs

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

	2023	2022
	Number of units	Number of units
Outstanding, beginning of year	**915,452**	972,752
Awarded	**196,544**	265,027
Forfeited	**(22,083)**	(37,583)
Settled	**(342,413)**	(284,744)
Outstanding, end of year	**747,500**	915,452

The recorded compensation expense in 2023 for the PUs and PSUs was $11.2 million (2022: $13.5 million), and the aggregate contributed surplus balance attributable to the PUs and PSUs as at December 31, 2023 was $23.0 million (2022: $24.3 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.

MTIP

Under the Definity Insurance MTIP, notional units (RUs or PUs) were granted annually to certain employees. Following completion of the initial public offering ("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 in 2021 so that such awards appreciate and depreciate based on the Company's share price, rather than with Definity Insurance's consolidated book value. The outstanding MTIP awards granted in 2019 were cash-settled in 2022, while the 2020 awards were equity-settled in 2023. The 2021 tranche of RUs and PUs maturing in 2024 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 starting in 2022.

20. SHARE-BASED COMPENSATION PLANS (continued)

(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. As at December 31, 2023, there were 127,439 DSUs outstanding (2022: 80,757 DSUs). The DSU liability as at December 31, 2023 was $4.7 million (2022: $3.1 million). The recorded compensation expense in 2023 for the DSUs was $1.6 million (2022: $3.1 million)

(c) Stock option plan

The Company has a stock option plan in place for certain employees, which became effective as of November 23, 2021. Grants under this plan made in 2023 amounted to 182,042 stock options (2022: nil). The recorded compensation expense in 2023 for the stock options was $0.6 million (2022: nil).

The fair value of stock options granted was measured using the Black-Scholes option pricing model. The fair value of stock options granted in 2023 was $1.4 million (2022: nil). The key assumptions used to measure the fair value of options granted under the Black-Scholes option pricing model at the date of grant were as follows:

Share price at the date of grant	$	36.48
Exercise price	$	36.48
Expected share price volatility		18.0%
Expected life of options		6.25 Years
Expected dividend yield		1.6%
Risk-free interest rate		3.4%

Given the Company's IPO was in November 2021, the Company does not yet have sufficient history to use the volatility of its own share price to determine the Company's expected share price volatility. As a result, the Company also considered the volatility of share prices of comparable companies.

21. 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, 2023. 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 $1.5 million in 2024. The contributions are expected to be made in the form of cash. Discretionary pension contributions in 2023 were nil (2022: 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 $21.8 million in 2023 (2022: $20.1 million).

21. 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)	2023				
	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			**$ 26.3**	**$ 172.1**	**$ 212.4**
Current service cost	**$ 2.4**	**$ –**	**0.7**	**1.7**	**–**
Interest cost	**9.9**	**–**	**1.3**	**8.6**	**–**
Interest income	**(10.8)**	**–**	**–**	**–**	**10.8**
Return on plan assets excluding interest income	**–**	**(12.1)**	**–**	**–**	**12.1**
Actuarial losses (gains)					
Due to changes in demographic assumptions	**–**	**–**	**–**	**–**	**–**
Due to changes in financial assumptions	**0.4**	**11.6**	**2.0**	**10.0**	**–**
Due to changes in experience losses	**(0.3)**	**1.8**	**(0.3)**	**1.8**	**–**
Contributions by employer	**–**	**–**	**–**	**–**	**1.3**
Administration cost	**0.5**	**–**	**–**	**–**	**(0.5)**
Contributions by plan participants	**–**	**–**	**–**	**0.1**	**0.1**
Benefits paid	**–**	**–**	**(1.8)**	**(11.4)**	**(11.4)**
Balance, end of year	**$ 2.1**	**$ 1.3**	**$ 28.2**	**$ 182.9**	**$ 224.8**

(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

The amounts recognized in net income were recorded in either "Insurance service expenses" or "Other (expenses) income".

The actual return on plan assets was a gain of $22.9 million in 2023 (2022: $24.9 million loss).

21. 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 are as follows:

(in millions of dollars)	2023	2022
Defined benefit obligation	$ (182.9)	$ (172.1)
Fair value of plan assets	224.8	212.4
Net defined benefit asset	$ 41.9	$ 40.3
Actuarial (gains) losses on plan assets	$ (12.1)	$ 31.9
Actuarial losses (gains) on plan liabilities	$ 11.8	$ (51.7)

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

(in millions of dollars)	2023	2022
Defined benefit obligation	$ (28.2)	$ (26.3)
Actuarial losses (gains) on plan liabilities	$ 1.7	$ (7.6)

(c) Maturity analysis of defined benefit obligations

The weighted average duration of the pension plan obligation is 11 years (2022: 11 years) and the weighted average duration of the other benefit plans obligation is 11 years (2022: 11 years).

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

(in millions of dollars)	2023				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
Pension plans	$ 12.3	$ 42.3	$ 44.4	$ 83.9	$ 182.9
Other benefit plans	1.9	6.4	6.3	13.6	28.2
	$ 14.2	$ 48.7	$ 50.7	$ 97.5	$ 211.1

(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

(d) Pension plan asset allocation

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

(in millions of dollars)	2023		2022	
Cash	$ 9.5	4.2%	$ 9.0	4.3%
Canadian fixed income securities (investment grade)				
Government of Canada	30.1	13.4%	31.2	14.7%
Provincial and municipal	81.9	36.4%	65.8	31.0%
Corporate	40.3	17.9%	48.5	22.8%
Pooled equity funds				
Canadian	23.5	10.5%	23.2	10.9%
Foreign	30.8	13.7%	25.6	12.1%
Other	8.7	3.9%	9.1	4.2%
	$ 224.8	100.0%	$ 212.4	100.0%

21. 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:

	2023	2022
Utilities	**26.9%**	17.8%
Energy	**19.6%**	19.1%
Industrials	**17.0%**	9.3%
Financial services	**16.4%**	31.0%
Communication services	**10.9%**	10.9%
Consumer discretionary	**3.6%**	4.0%
Consumer staples	**3.3%**	4.1%
Other	**2.3%**	3.8%
	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	
	2023	2022	**2023**	2022
To determine benefit obligation, end of year:				
Discount rate	**4.7%**	5.2%	**4.7%**	5.2%
Future salary increases	**–**	–	**2.5%**	2.5%
Inflation assumption	**–**	–	**2.0%**	2.0%
Prescription drug cost increase	**4.9%**	4.7%	**–**	–
Medical claims cost increase	**5.0%**	4.8%	**–**	–
To determine benefit expense for the 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%	**–**	–

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, 2023 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)	**2023**		2022	
Impact on:	**+ 1%**	**- 1%**	+ 1%	- 1%
Defined benefit obligation – pension plans	**$ (17.5)**	**$ 21.0**	$ (16.5)	$ 20.5
Defined benefit obligation – other benefit plans	**$ (2.7)**	**$ 3.2**	$ (2.5)	$ 3.0

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

(in millions of dollars)	**2023**		2022	
Impact on:	**+ 1%**	**- 1%**	+ 1%	- 1%
Defined benefit obligation – other benefit plans	**$ 3.0**	**$ (2.6)**	$ 2.6	$ (2.3)
Aggregate of total service cost and interest cost	**$ 0.1**	**$ (0.1)**	$ 0.1	$ (0.1)

21. 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.

22. RATE REGULATION

In common with the P&C insurance industry in general, the Company's insurance subsidiaries are 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 comprised 44.0% (2022: 46.2%) of the Company's insurance revenue in 2023. 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

23. EXPENSES

(a) Insurance service expenses and other (expenses) income

Insurance service expenses and other (expenses) income incurred by the Company, as presented in the consolidated statements of income, are composed of the following:

(in millions of dollars)	2023			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	$ –	$ 2,481.6	$ 54.6	$ 2,536.2
Discounting recovery in insurance service expenses	–	(157.9)	–	(157.9)
Risk adjustment recovery	–	(5.6)	–	(5.6)
Commissions	495.7	60.3	–	556.0
Operating expenses	189.8	184.2	78.7	452.7
Premium taxes	133.6	–	–	133.6
Gains on onerous insurance contracts	–	(4.6)	–	(4.6)
Public company expenses	–	–	26.5	26.5
Distribution:				
Distribution business expenses	–	–	88.1	88.1
Amortization of intangible assets recognized in business combinations on distribution business	–	–	20.4	20.4
Interest on restricted cash, less demutualization and IPO-related expenses	–	–	(11.0)	(11.0)
Share of loss from investments in other associates	–	–	0.1	0.1
Restructuring expenses	–	–	11.1	11.1
Other	–	–	3.0	3.0
	$ 819.1	$ 2,558.0	$ 271.5	$ 3,648.6
Insurance service expenses				3,377.1
Other expenses (income)				271.5
				$ 3,648.6

23. EXPENSES (continued)

(a) Insurance service expenses and other (expenses) income (continued)

(in millions of dollars)	2022			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	$ –	$ 2,134.2	$ 64.0	$ 2,198.2
Discounting recovery in insurance service expenses	–	(122.6)	–	(122.6)
Risk adjustment expense	–	9.8	–	9.8
Commissions	461.5	77.2	–	538.7
Operating expenses	185.5	160.3	87.7	433.5
Premium taxes	121.6	–	–	121.6
Losses on onerous insurance contracts	–	1.4	–	1.4
Public company expenses	–	–	26.5	26.5
Distribution:				
Distribution business expenses	–	–	15.1	15.1
Share of distribution profit from investments in associates	–	–	(6.9)	(6.9)
Amortization of intangible assets recognized in business combinations on distribution business	–	–	4.9	4.9
Interest on restricted cash, less demutualization and IPO-related expenses	–	–	(0.7)	(0.7)
Share of loss from investments in other associates	–	–	0.5	0.5
Revaluation gain on acquisition of McDougall			(67.0)	(67.0)
Other	–	–	1.4	1.4
	$ 768.6	$ 2,260.3	$ 125.5	$ 3,154.4
Insurance service expenses				3,028.9
Other expenses (income)				125.5
				$ 3,154.4

(b) Net expenses from reinsurance contracts held

Net expenses from reinsurance contracts held incurred by the Company, as presented in the consolidated statements of income, are composed of the following:

(in millions of dollars)	**2023**	2022
Earned reinsurance premiums	**$ 307.7**	$ 234.5
Claims recoverable from reinsurers for incurred claims	**(225.9)**	(195.1)
Commissions earned on ceded reinsurance	**(50.3)**	(36.5)
Discounting in net expenses from reinsurance contracts held	**17.5**	15.2
Risk adjustment	**(0.2)**	(3.2)
	$ 48.8	$ 14.9

24. CASH FLOWS FROM OPERATING ACTIVITIES

The following table shows the adjustments for non-cash items and changes in operating assets and liabilities included in the consolidated statements of cash flows:

(in millions of dollars)	**2023**	2022
Adjustments for non-cash items:		
Amortization and depreciation		
Bond premium/discount	**$ (18.4)**	$ 8.4
Property and equipment	**13.4**	9.7
Intangible assets	**92.4**	63.3
Recognized (gains) losses on FVTPL investments	**(151.8)**	446.1
Revaluation gain on acquisition of McDougall	**—**	(67.0)
Share-based compensation	**20.5**	20.9
Share of loss (profit) from investments in associates	**0.1**	(6.4)
Other net losses	**1.9**	0.8
	$ (41.9)	$ 475.8
Changes in operating assets and liabilities:		
Reinsurance contract assets	**$ (25.3)**	$ (66.7)
Other operating assets	**(14.7)**	(9.4)
Insurance contract liabilities	**(83.9)**	(91.2)
Accounts payable and other liabilities	**(15.0)**	0.3
	$ (138.9)	$ (167.0)

The following table shows other operating activity cash flows included in the consolidated statements of cash flows:

(in millions of dollars)	**2023**	2022
Interest received	**$ 134.7**	$ 108.4
Dividends received	**37.0**	39.1
Interest paid	**5.3**	0.6

25. COMMITMENTS AND CONTINGENCIES

Commitments

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

(in millions of dollars)	**2023**
Within 1 year	**$ 78.4**
Later than 1 year but not later than 5 years	**84.5**
Later than 5 years	**25.5**

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.

26. RELATED PARTY TRANSACTIONS

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

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

(in millions of dollars)	**2023**	2022
Salaries	**$ 6.3**	$ 6.1
Short-term incentive plan	**4.0**	5.0
Share-based compensation plans	**11.0**	16.3
Retention and signing bonuses	**0.1**	1.4
Post-employment defined contribution pension benefits	**0.9**	0.8
Other short-term employment benefits	**0.3**	0.1
Directors' fees*	**1.3**	1.5
	$ 23.9	$ 31.2

* 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 21.

27. OPERATING SEGMENTS

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

28. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS

Geopolitical events have resulted in heightened economic uncertainty, volatile global financial markets, and 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'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.

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 class action on behalf of a national class (excluding Québec) proceeded to trial in 2023 on certain key issues, with a favourable outcome for Definity Insurance and other insurers. The court determined that neither the presence of COVID-19 nor government orders in respect of business activities due to COVID-19 can cause physical loss or damage to property within the meaning of the business interruption provisions of Definity Insurance's property insurance policies. While this was not the end of this litigation and other issues remain outstanding, this 2023 trial decision represents a major success for Definity Insurance. The plaintiffs have appealed this decision. Definity Insurance was also previously a defendant in class proceedings in Québec and other provinces, all of which have either been rejected or discontinued as against Definity Insurance.

FIVE-YEAR FINANCIAL HISTORY

(in millions of dollars, except as otherwise noted)	2023	2022	2021	2020	2019
Consolidated financial results					
GWP[1,2]	4,005.2	3,662.3	3,258.1	2,829.2	2,533.9
Net underwriting revenue[1] / Net earned premiums	3,542.6	3,251.2	2,833.6	2,508.7	2,343.2
Underwriting income (loss)[1]	144.9	189.4	194.5	136.4	(118.3)
Net investment income	179.5	133.1	96.8	100.3	105.4
Recognized gains (losses) on FVTPL investments / Recognized gains (losses) on investments	151.8	(446.1)	(20.8)	79.8	68.3
Effective tax rate	24.1%	2.0%	24.2%	23.3%	18.0%
Net income	354.5	111.5	213.2	153.9	17.4
Distribution income[1]	39.3	14.1	8.0	4.1	3.5
Operating income (loss)[1]	321.4	307.7	290.9	242.1	(9.9)
Non-operating gains (losses)[1]	140.7	(194.7)	(9.7)	(41.5)	31.1
Operating net income (loss)[1]	246.5	236.8	220.4	184.4	(5.4)
Claims ratio[1]	65.1%	61.7%	60.8%	62.3%	73.1%
Expense ratio[1]	30.8%	32.5%	32.3%	32.3%	31.9%
Combined ratio[1]	95.9%	94.2%	93.1%	94.6%	105.0%
Per share measures (in dollars)					
Earnings per common share, basic	$3.04	$0.96	$2.03	$1.48	$0.17
Earnings per common share, diluted	$3.00	$0.95	$2.02	$1.48	$0.17
Operating earnings (loss) per share[1]	$2.11	$2.03	$2.09	$1.77	$(0.05)
Book value per share[1]	$24.78	$22.30	$20.68	$17.48	$15.49
Return on equity (for the last 12 months)					
ROE[1]	13.0%	4.3%	10.7%	9.0%	1.1%
Operating ROE[1]	9.2%	9.4%	11.5%	11.0%	(0.3%)
Financial position					
Total investments	4,931.0	4,897.2	5,365.8	4,366.3	4,191.0
Total assets	7,259.5	6,819.7	7,891.4	6,620.3	5,956.5
Total equity	3,006.9	2,658.3	2,396.3	1,818.0	1,611.0
Financial capacity[3]	1,269.6	658.5	1,057.8	n/a	n/a

Note: The years 2019-2021 are under IFRS 4 and 2022-2023 are under IFRS 17

1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 13 – “Supplementary financial measures and non-GAAP financial measures and ratios” in the MD&A for further details.
2. Restated under current GWP definition.
3. Financial capacity prior to 2023 has not been restated to reflect the adoption of IFRS 17 and IFRS 9, nor OSFI's MCT 2023 guidelines. Financial capacity as at December 31, 2023 is shown pro forma for the CBCA continuance effective January 1, 2024

(in millions of dollars, except as otherwise noted)	2023	2022	2021	2020	2019
Underwriting performance by line of business					
Personal auto					
Policies in force (thousands) (at period end)	763.5	785.0	761.6	727.0	718.8
GWP[1,2]	1,657.1	1,579.1	1,453.2	1,349.9	1,284.8
Net underwriting revenue[1] / Net earned premiums	1,529.2	1,457.8	1,332.5	1,251.2	1,195.6
Underwriting income (loss)[1]	26.5	69.7	116.8	45.2	(139.4)
Claims ratio[1]	71.8%	66.7%	62.2%	67.7%	83.1%
Expense ratio[1]	26.5%	28.5%	29.0%	28.7%	28.6%
Combined ratio[1]	98.3%	95.2%	91.2%	96.4%	111.7%
Personal property					
Policies in force (thousands) (at period end)	835.2	837.6	789.1	689.1	623.0
GWP[1]	1,113.1	1,012.7	894.6	750.7	632.3
Net underwriting revenue[1] / Net earned premiums	1,020.5	915.9	761.2	641.7	551.8
Underwriting income[1]	7.2	33.1	10.8	69.0	31.0
Claims ratio[1]	64.5%	60.2%	63.0%	53.7%	59.8%
Expense ratio[1]	34.8%	36.2%	35.6%	35.5%	34.6%
Combined ratio[1]	99.3%	96.4%	98.6%	89.2%	94.4%
Commercial lines					
GWP[1]	1,235.0	1,070.5	910.3	728.6	616.8
Net underwriting revenue[1] / Net earned premiums	992.9	877.5	739.9	615.8	595.8
Underwriting income[1]	111.2	86.6	66.9	22.2	(9.9)
Claims ratio[1]	55.3%	54.8%	55.8%	60.1%	65.6%
Expense ratio[1]	33.5%	35.3%	35.2%	36.3%	36.1%
Combined ratio[1]	88.8%	90.1%	91.0%	96.4%	101.7%

Note: The years 2019-2021 are under IFRS 4 and 2022-2023 are under IFRS 17.

1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 13 – "Supplementary financial measures and non-GAAP financial measures and ratios" in the MD&A for further details.
2. Restated under current GWP definition.

TWO-YEAR QUARTERLY FINANCIAL HISTORY

(in millions of dollars, except as otherwise noted)	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022
Consolidated financial results								
GWP[1,2]	1,033.2	1,040.0	1,085.1	846.9	951.9	954.5	995.8	760.1
Net underwriting revenue[1]	922.4	903.6	877.5	839.1	850.4	832.4	803.1	765.3
Underwriting income (loss)[1]	87.0	(22.8)	41.2	39.5	66.7	27.1	37.8	57.8
Net investment income	49.4	46.3	42.8	41.0	39.5	36.0	31.8	25.8
Recognized gains (losses) on FVTPL investments	222.6	(99.8)	(62.7)	91.7	18.1	(39.2)	(227.2)	(197.8)
Effective tax rate	25.5%	28.1%	23.6%	23.5%	17.6%	18.5%	28.3%	31.4%
Net income (loss)	226.4	(46.2)	72.2	102.1	185.6	35.7	(77.2)	(32.6)
Distribution income[1]	8.8	11.2	9.8	9.5	4.8	1.7	2.9	4.7
Operating income[1]	134.9	20.9	85.0	80.6	101.2	57.6	66.3	82.6
Non-operating gains (losses)[1]	168.9	(87.9)	8.8	50.9	123.2	(13.8)	(174.0)	(130.1)
Operating net income[1]	100.7	17.6	64.8	63.4	76.6	45.8	51.1	63.3
Claims ratio[1]	61.1%	72.9%	63.7%	62.6%	59.5%	64.7%	63.3%	59.1%
Expense ratio[1]	29.5%	29.6%	31.6%	32.7%	32.7%	32.0%	32.0%	33.3%
Combined ratio[1]	90.6%	102.5%	95.3%	95.3%	92.2%	96.7%	95.3%	92.4%
Per share measures (in dollars)								
Earnings (loss) per common share, basic	1.96	(0.42)	0.62	0.88	1.60	0.31	(0.67)	(0.28)
Earnings (loss) per common share, diluted	1.94	(0.42)	0.61	0.87	1.59	0.31	(0.67)	(0.28)
Operating earnings per share[1]	0.86	0.15	0.56	0.54	0.66	0.39	0.44	0.54
Book value per share[1]	24.78	22.87	23.42	22.90	22.30	20.86	20.78	21.68
Return on equity (for the last 12 months)								
ROE[1]	13.0%	12.3%	15.5%	9.5%	4.3%	n/a	n/a	n/a
Operating ROE[1]	9.2%	8.8%	9.8%	9.3%	9.4%	n/a	n/a	n/a
Financial position								
Total investments	4,931.0	4,604.3	4,758.2	4,881.5	4,897.2	4,854.3	4,914.6	5,141.8
Total assets	7,259.5	6,928.2	6,863.0	6,739.5	6,819.7	6,478.2	6,351.2	6,252.5
Total equity	3,006.9	2,789.7	2,850.3	2,746.8	2,658.3	2,392.4	2,389.9	2,506.9
Financial capacity[3]	1,269.6	585.9	665.4	845.9	658.5	884.4	909.5	1,020.9

Note: The figures in 2022 have been restated under IFRS 17.

1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 13 – "Supplementary financial measures and non-GAAP financial measures and ratios" in the MD&A for further details.
2. Restated under current GWP definition.
3. Financial capacity prior to 2023 has not been restated to reflect the adoption of IFRS 17 and IFRS 9, nor OSFI's MCT 2023 guidelines. Financial capacity as at December 31, 2023 is shown pro forma for the CBCA continuance effective January 1, 2024.

(in millions of dollars, except as otherwise noted)	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022
Underwriting performance by line of business								
Personal auto								
Policies in force (thousands) (at period end)	763.5	772.2	782.6	784.2	785.0	785.1	778.6	770.5
GWP[1,2]	416.0	441.2	442.1	357.8	386.6	421.6	431.1	339.8
Net underwriting revenue[1]	392.4	389.1	382.0	365.7	375.8	373.1	362.7	346.2
Underwriting income (loss)[1]	16.2	4.3	9.2	(3.2)	16.7	13.7	26.3	13.0
Claims ratio[1]	71.2%	73.7%	69.9%	72.4%	67.1%	68.1%	64.9%	66.7%
Expense ratio[1]	24.7%	25.2%	27.7%	28.5%	28.5%	28.2%	27.9%	29.5%
Combined ratio[1]	95.9%	98.9%	97.6%	100.9%	95.6%	96.3%	92.8%	96.2%
Personal property								
Policies in force (thousands) (at period end)	835.2	847.1	847.5	842.5	837.6	826.0	817.4	805.9
GWP[1]	278.0	308.0	301.8	225.3	268.0	275.6	268.7	200.4
Net underwriting revenue[1]	267.1	261.6	250.8	241.0	241.6	234.3	224.5	215.5
Underwriting income (loss)[1]	53.1	(61.0)	(6.4)	21.5	24.0	(0.3)	(6.6)	16.0
Claims ratio[1]	46.6%	89.6%	67.3%	54.2%	53.2%	64.9%	67.3%	55.5%
Expense ratio[1]	33.5%	33.7%	35.2%	36.9%	36.9%	35.2%	35.6%	37.1%
Combined ratio[1]	80.1%	123.3%	102.5%	91.1%	90.1%	100.1%	102.9%	92.6%
Commercial lines								
GWP[1]	339.2	290.8	341.2	263.8	297.3	257.3	296.0	219.9
Net underwriting revenue[1]	262.9	252.9	244.7	232.4	233.0	225.0	215.9	203.6
Underwriting income[1]	17.7	33.9	38.4	21.2	26.0	13.7	18.1	28.8
Claims ratio[1]	60.5%	54.3%	50.4%	55.9%	54.0%	58.8%	56.2%	49.9%
Expense ratio[1]	32.8%	32.3%	33.9%	35.0%	34.8%	35.1%	35.4%	36.0%
Combined ratio[1]	93.3%	86.6%	84.3%	90.9%	88.8%	93.9%	91.6%	85.9%

Note: The figures in 2022 have been restated under IFRS 17.

1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 13 – "Supplementary financial measures and non-GAAP financial measures and ratios" in the MD&A for further details.
2. Restated under current GWP definition.

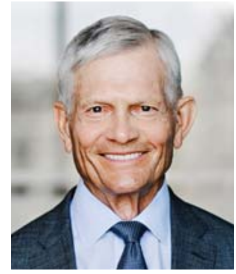
BOARD OF DIRECTORS*

John Bowey
Chair

Elizabeth DelBianco
(2,3)

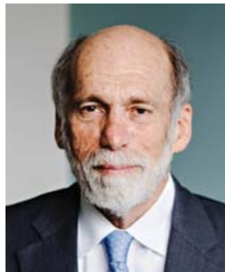
Daniel Fortin
(3,4)

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, 2024

EXECUTIVE LEADERSHIP TEAM*

Rowan Saunders
President and Chief Executive Officer

Innes Dey
Senior Vice-President, Legal and Strategy

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

Craig Richardson
Senior Vice-President and Chief Claims Officer

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

* As of March 31, 2024

CORPORATE INFORMATION

Credit ratings as of March 31, 2024

FINANCIAL STRENGTH RATINGS (FSR)

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

ISSUER CREDIT RATING (ICR) / ISSUER RATING

	AM Best	DBRS
Definity Financial Corporation	bbb- (good)	BBB (high)

Issuer 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 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: May 17, 2024
Time: 10 a.m. Eastern Standard Time
Place: Live online webcast

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, Canada
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	Q2	Q3	Q4
May 10, 2024	August 2, 2024	November 8, 2024	February 14, 2025

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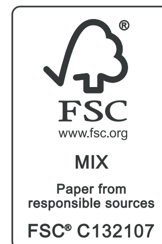
Eligible dividend designation

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, 2024	March 28, 2024	$0.16
December 15, 2023	December 28, 2023	$0.1375
September 15, 2023	September 28, 2023	$0.1375
June 15, 2023	June 28, 2023	$0.1375
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[1]

1. 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:



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