

Definity Financial Corporation
Management's Discussion and Analysis
For the year ended December 31, 2023

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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.

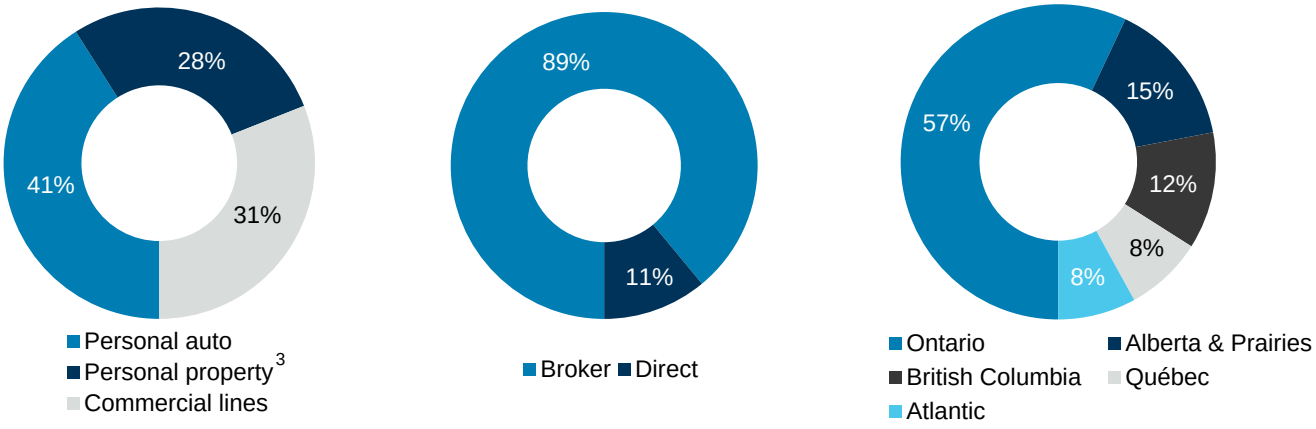
Our P&C insurance business is supported by our investment management activities. We had over $4.9 billion in investments as at December 31, 2023. A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high quality assets. Our investment portfolio includes a significant component of short-duration, investment grade fixed income investments.

[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.

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

2023 GWP



[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.

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.

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

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.

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.

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

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.

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:

(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
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

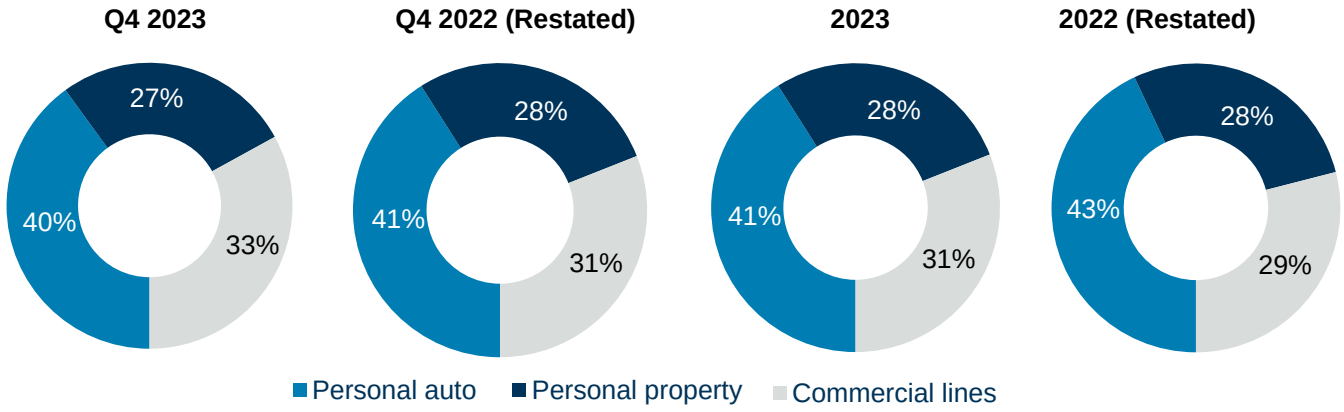
Operating ROE decreased slightly to 9.2% in 2023 compared to 9.4% in 2022, as the growth in average adjusted equity attributable to common shareholders, which includes mark-to-market gains on our bond portfolio, outpaced the growth in operating net income.

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.

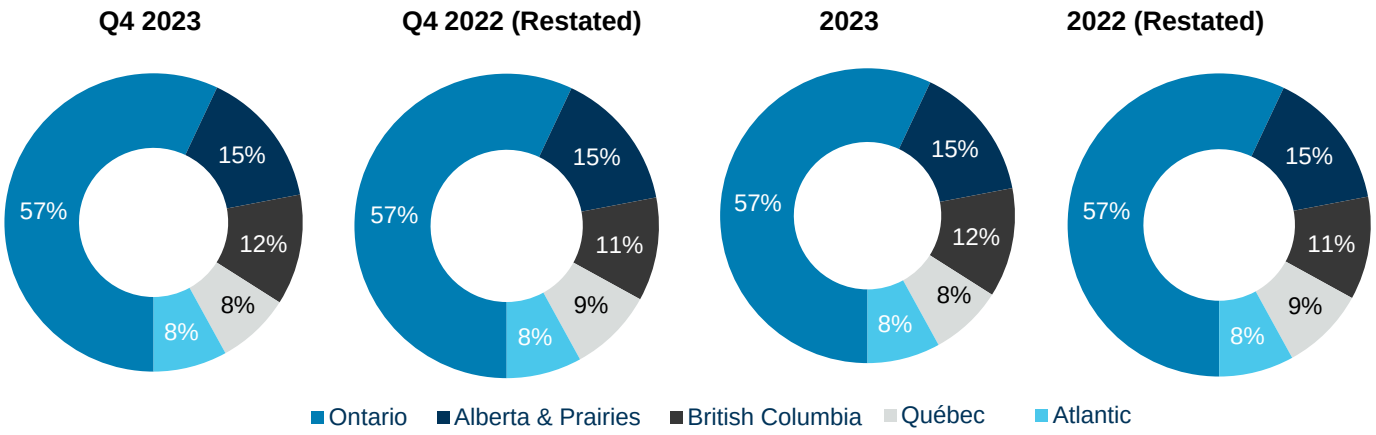
The following charts illustrate our GWP mix on this basis for the three months and years ended December 31, 2023 and 2022:

GWP by Line of Business(1)



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.

GWP by Region(1)



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.

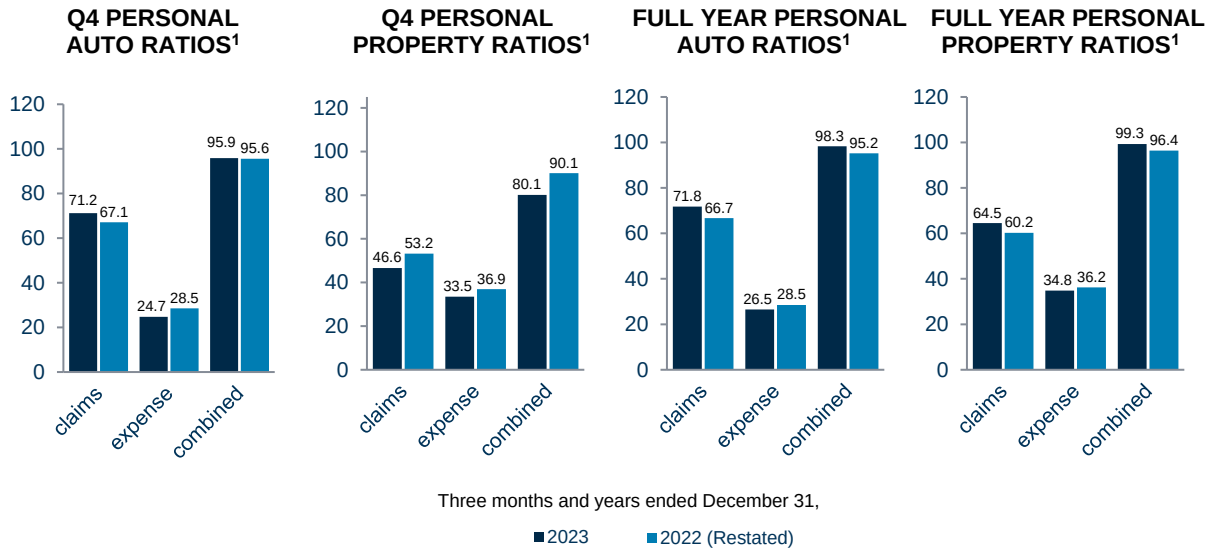
	Three months ended December 31,			Years ended December 31,		
(in millions of dollars, except as otherwise noted)	2023	2022 (Restated)	Change	2023	2022 (Restated)	Change
Policies in force (thousands) (at period end)						
Auto	763.5	785.0	(2.7%)	763.5	785.0	(2.7%)
Property	835.2	837.6	(0.3%)	835.2	837.6	(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

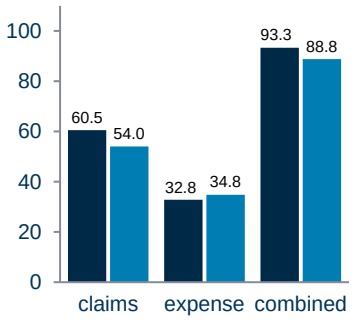
The table below sets forth selected results of operations of our commercial lines of business for the three months and years ended December 31, 2023 and 2022.

	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

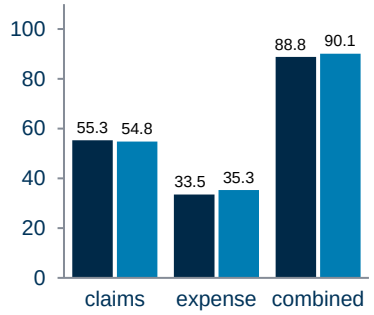
Notes:
(1) Gross written premiums is a supplementary financial measure.
(2) Net underwriting revenue, net claims and adjustment expenses, net underwriting expenses, and underwriting income are non-GAAP financial measures.
Refer to Section 13 - "Supplementary Financial Measures and Non-GAAP Financial 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:

(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 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:

(in millions of dollars)	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)	
	($)	**Ratio[1]**	**($)**	**($)**	**($)**	**($)**	**($)**		**($)**	**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.

Personal auto	• 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.
Personal property	• 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.

Commercial lines	• 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.

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.

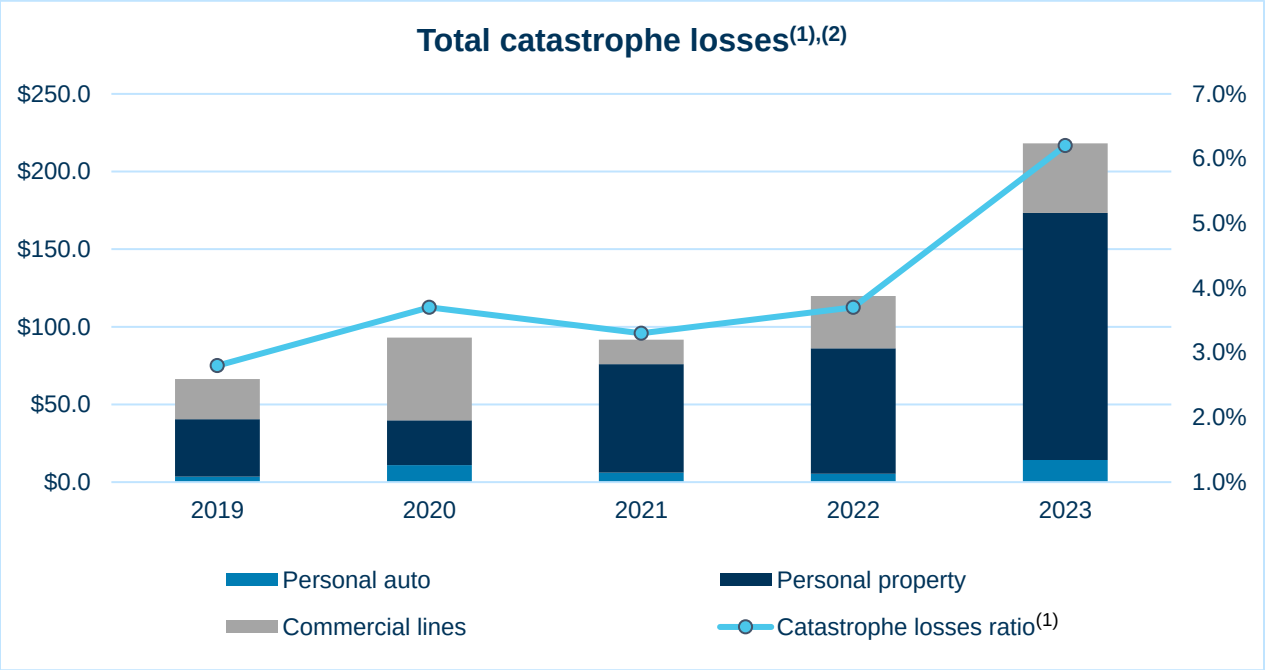
CATASTROPHE LOSSES

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		As at December 31, 2022	
	Carrying value	Percent of carrying value	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:

(in millions of dollars, except as otherwise noted)	As at December 31, 2023		As at December 31, 2022	
	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:

(in millions of dollars, except as otherwise noted)	For the year ended December 31[1]									
	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 / NEP[2]	$ 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.

	As at December 31, 2023[5]	As at December 31, 2022[1]
(in millions of dollars, except as otherwise noted)		
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

BOARD OF DIRECTORS

Audit Committee	Corporate Governance Committee	Human Resources & Compensation Committee	Risk Review Committee	Ad hoc committees (as required)

Senior Management

(including management committees e.g. Executive Leadership Committee, Management Risk Committee, Executive Investment Committee, Management Pension Committee, Public Disclosure Committee, ESG Steering Committee, Capital and Treasury Steering Committee)

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:

First Line of Risk Management	Second Line of Risk Management	Third Line of Risk Management
Business management provide day-to-day risk management and control: • Responsibility to identify, take, assess, manage, and mitigate risk on a daily basis, adhering to our approved risk appetite statements, and supporting policies and practices • Monitor and report on risks and compliance with risk mitigation activities • Comply with internal and external policies and regulations	**Enterprise risk management and compliance functions provide risk policies, tools, methodologies, and oversight:** • Develop and support the enterprise risk management framework to identify, measure, assess, report, monitor, and respond to risk • Perform independent review, challenge and monitoring of risk-taking and risk management activities • Through the ORSA, assesses level of capital required to support future solvency • Communicates internal and external compliance requirements and provide support to help ensure compliance • Management Risk Committee, along with other executive management committees, oversee the management of major existing and emerging enterprise risks and control activities, monitoring whether the magnitude of those risks remain within our approved risk appetite	**Internal audit provides periodic independent assurance:** • Provide assurance on the adequacy and effectiveness of first line internal controls, as well as enterprise risk management framework, and related processes and practices • Review compliance with policies, standards, and required practices using a risk-based approach

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

Enterprise Risk Management			
	Strategic Risk		
	Strategy adequacy risk / Strategic execution risk / Climate change risk / Business, economic, political, and social environment risks / Competition risk / Acquisition risk / Distribution risk / Capital management risk / Reputational risk		
	Insurance Risk	**Financial Risk**	**Operational Risk**
	Underwriting risk Reserve estimate risk Catastrophe risk	Interest rate risk Equity / stock price risk Credit risk Foreign exchange risk Liquidity risk	People risk Conduct risk Fraud risk Model risk Information security risk Cyber security risk Information technology risk Implementation of IFRS 17 and IFRS 9 risk Regulatory and legal risks Business interruption risk
Risk Culture			

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:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	**2023**	**2022**	**2023**	**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:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	**2023**	**2022 (Restated)**	**2023**	**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:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	**2023**	**2022 (Restated)**	**2023**	**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:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	**2023**	**2022 (Restated)**	**2023**	**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:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	**2023**	**2022 (Restated)**	**2023**	**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:

(in millions of dollars, except as otherwise noted)	Years ended December 31, 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.