

**DEFINITY FINANCIAL CORPORATION**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**

FOR THE THIRD QUARTER ENDED  
SEPTEMBER 30, 2023

# DEFINITY FINANCIAL CORPORATION

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions of dollars)

		As at		
	Notes	September 30, 2023	December 31, 2022 Restated	January 1, 2022 Restated
<b>ASSETS</b>				
Cash and cash equivalents		\$ 405.1	\$ 200.5	\$ 387.3
Restricted cash		257.3	302.1	110.8
Investments	7	4,604.3	4,897.2	5,364.9
Income taxes receivable		22.0	81.7	0.2
Reinsurance contract assets	8	305.9	305.1	238.4
Property and equipment		105.0	83.8	57.0
Deferred income tax assets		21.9	25.2	23.3
Goodwill and intangible assets	6	1,005.2	771.6	219.7
Other assets	10	201.5	152.5	136.3
		<b>\$ 6,928.2</b>	<b>\$ 6,819.7</b>	<b>\$ 6,537.9</b>
<b>LIABILITIES AND EQUITY</b>				
Insurance contract liabilities	8	\$ 3,527.9	\$ 3,577.7	\$ 3,668.9
Accounts payable and other liabilities	11	115.7	139.0	130.9
Income taxes payable		3.6	-	55.6
Deferred income tax liabilities		119.7	103.5	17.3
Debt outstanding	12	114.3	39.1	-
Demutualization amounts outstanding		257.3	302.1	110.8
		<b>4,138.5</b>	<b>4,161.4</b>	<b>3,983.5</b>
<b>EQUITY</b>				
Share capital	13	2,281.6	2,254.2	2,307.8
Contributed surplus	15	34.7	40.2	19.3
Retained earnings		352.3	287.8	220.8
Accumulated other comprehensive (loss) income		(34.8)	(32.4)	6.5
Equity attributable to common shareholders		<b>2,633.8</b>	<b>2,549.8</b>	<b>2,554.4</b>
Non-controlling interests		155.9	108.5	-
Total equity		<b>2,789.7</b>	<b>2,658.3</b>	<b>2,554.4</b>
		<b>\$ 6,928.2</b>	<b>\$ 6,819.7</b>	<b>\$ 6,537.9</b>

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF (LOSS) INCOME (UNAUDITED)

FOR THE PERIODS ENDED SEPTEMBER 30

(in millions of dollars)

	Notes	Three months ended		Nine months ended	
		2023	2022 Restated	2023	2022 Restated
Insurance revenue	8	\$ 984.1	\$ 895.9	\$ 2,846.5	\$ 2,574.0
Insurance service expenses	8,17	(932.2)	(835.7)	(2,519.8)	(2,251.1)
Net (expenses) income from reinsurance contracts held	8,17	(1.5)	30.9	(50.2)	(14.2)
<b>Insurance service result</b>		<b>50.4</b>	<b>91.1</b>	<b>276.5</b>	<b>308.7</b>
Net investment income	7	46.3	36.0	130.1	93.6
Recognized losses on FVTPL investments	7	(99.8)	(39.2)	(70.8)	(464.2)
<b>Investment (loss) income</b>		<b>(53.5)</b>	<b>(3.2)</b>	<b>59.3</b>	<b>(370.6)</b>
Finance (expenses) income from insurance contracts issued	8	(27.5)	(2.7)	(73.4)	79.8
Finance income (expenses) from reinsurance contracts held	8	1.8	0.5	5.8	(4.6)
<b>Net insurance financial result</b>		<b>(25.7)</b>	<b>(2.2)</b>	<b>(67.6)</b>	<b>75.2</b>
<b>Net insurance and investment result</b>		<b>(28.8)</b>	<b>85.7</b>	<b>268.2</b>	<b>13.3</b>
Distribution revenues		34.1	-	91.6	-
Other (expenses) income	17	(67.9)	(41.9)	(192.8)	(124.7)
Interest expense		(1.7)	-	(3.6)	-
<b>(Loss) income before income taxes</b>		<b>(64.3)</b>	<b>43.8</b>	<b>163.4</b>	<b>(111.4)</b>
Income tax recovery (expense)	9	18.1	(8.1)	(35.3)	37.3
<b>Net (loss) income</b>		<b>\$ (46.2)</b>	<b>\$ 35.7</b>	<b>\$ 128.1</b>	<b>\$ (74.1)</b>
Net (loss) income attributable to:					
Common shareholders		(48.3)	35.7	124.2	(74.1)
Non-controlling interests		2.1	-	3.9	-
(Loss) earnings per common share (in dollars)	14				
Basic		\$ (0.42)	\$ 0.31	\$ 1.08	\$ (0.64)
Diluted		\$ (0.42)	\$ 0.31	\$ 1.06	\$ (0.64)
Weighted average common shares outstanding (millions)	14				
Basic		115.1	114.9	115.0	115.3
Diluted		115.1	116.8	116.6	115.3
Dividends paid per common share (in dollars)	13	\$ 0.138	\$ 0.125	\$ 0.413	\$ 0.425

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

FOR THE PERIODS ENDED SEPTEMBER 30

(in millions of dollars)

	Notes	Three months ended		Nine months ended	
		2023	2022 Restated	2023	2022 Restated
<b>Net (loss) income</b>		\$ (46.2)	\$ 35.7	\$ 128.1	\$ (74.1)
Item that may be reclassified subsequently to net (loss) income:					
Foreign exchange gain on investments in associates		0.8	2.1	-	2.6
		0.8	2.1	-	2.6
Items that will not be reclassified subsequently to net (loss) income:					
Recognized losses on FVTOCI investments	7	(3.3)	(19.9)	(3.2)	(46.2)
Post-employment benefit obligation (loss) gain	16	(1.6)	-	(0.2)	24.1
Income tax recovery		1.3	5.2	0.9	5.9
		(3.6)	(14.7)	(2.5)	(16.2)
<b>Other comprehensive loss</b>		(2.8)	(12.6)	(2.5)	(13.6)
<b>Comprehensive (loss) income</b>		\$ (49.0)	\$ 23.1	\$ 125.6	\$ (87.7)
Comprehensive (loss) income attributable to:					
Common shareholders		(51.1)	23.1	121.7	(87.7)
Non-controlling interests		2.1	-	3.9	-

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30

(in millions of dollars)

2023							
	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Equity attributable to non-controlling interests	Total equity
Balance, December 31, 2022 (restated)	3	\$ 2,254.2	\$ 40.2	\$ 287.8	\$ (32.4) <sup>2</sup>	\$ 108.5	\$ 2,658.3
Net income attributable to common shareholders		-	-	124.2	-	-	124.2
Net income attributable to non-controlling interests		-	-	-	-	3.9	3.9
Other comprehensive loss		-	-	(0.1) <sup>1</sup>	(2.4)	-	(2.5)
Total comprehensive income (loss)		-	-	124.1	(2.4)	3.9	125.6
Equity-settled share-based compensation	15	32.3	(5.5)	(12.1)	-	-	14.7
Shares purchased and held in trust	13	(4.9)	-	-	-	-	(4.9)
Dividends to common shareholders		-	-	(47.5)	-	-	(47.5)
Dividends to non-controlling interests		-	-	-	-	(0.7)	(0.7)
Equity subscriptions	6	-	-	-	-	44.2	44.2
Balance, September 30, 2023		\$ 2,281.6	\$ 34.7	\$ 352.3	\$ (34.8) <sup>2</sup>	\$ 155.9	\$ 2,789.7

2022 Restated							
	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total equity	
Balance, January 1, 2022 (restated)	3	\$ 2,307.8	\$ 19.3	\$ 220.8	\$ 6.5	\$ 2,554.4	
Net loss attributable to common shareholders (restated)		-	-	(74.1)	-	(74.1)	
Other comprehensive income (loss) (restated)		-	-	17.8 <sup>1</sup>	(31.4)	(13.6)	
Total comprehensive loss (restated)		-	-	(56.3)	(31.4)	(87.7)	
Equity-settled share-based compensation	15	-	15.1	-	-	15.1	
Shares purchased and held in trust	13	(40.4)	-	-	-	(40.4)	
Dividends to common shareholders		-	-	(49.0)	-	(49.0)	
Balance, September 30, 2022 (restated)		\$ 2,267.4	\$ 34.4	\$ 115.5	\$ (24.9)	\$ 2,392.4	

<sup>1</sup> Actuarial (losses) gains for the post-employment benefit obligation recognized in retained earnings (net of income tax expense of nil (September 30, 2022: \$6.3 million)).

<sup>2</sup> Included in accumulated other comprehensive (loss) income ("AOCI") is \$5.7 million (December 31, 2022: \$5.7 million) related to the cumulative foreign exchange gain on investments in associates.

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE PERIODS ENDED SEPTEMBER 30

(in millions of dollars)

	Notes	Three months ended		Nine months ended	
		2023	2022	2023	2022
Operating activities:					
(Loss) income before income taxes		\$ (64.3)	\$ 43.8	\$ 163.4	\$ (111.4)
Income taxes recovered (paid), net		19.2	(0.8)	11.3	(112.5)
Adjustments for non-cash items	18	127.6	62.0	150.6	532.7
Changes in operating assets and liabilities	18	134.6	68.0	(101.5)	(115.5)
Net cash provided by operating activities		217.1	173.0	223.8	193.3
Investing activities:					
Investments purchased		(1,407.8)	(1,159.7)	(5,561.3)	(4,302.5)
Investments sold, redeemed, or matured		1,472.3	1,152.6	5,799.7	4,283.9
Commercial loans advanced		(8.8)	-	(8.8)	(8.0)
Commercial loans collected		0.5	8.0	1.8	17.7
Purchases of intangible assets and property and equipment		(26.1)	(18.5)	(70.1)	(70.4)
Business acquisitions, net of cash acquired		(11.6)	-	(202.6)	(15.0)
Net cash provided by (used in) investing activities		18.5	(17.6)	(41.3)	(94.3)
Financing activities:					
Dividends paid on common shares		(15.9)	(14.3)	(47.5)	(49.0)
Dividends paid to non-controlling interests		(0.3)	-	(0.7)	-
Common shares purchased and held in trust	13	-	(12.5)	(4.9)	(40.4)
Change in demutualization amounts outstanding		(11.5)	(8.7)	(44.8)	199.6
Borrowing on credit facility	12	-	-	114.3	-
Repayment of demand loans	12	-	-	(39.1)	-
Net cash (used in) provided by financing activities		(27.7)	(35.5)	(22.7)	110.2
Cash and cash equivalents, restricted cash, and cash held in escrow:					
Net increase during the period		207.9	119.9	159.8	209.2
Balance, beginning of the period		454.5	587.4	502.6	498.1
Balance, end of the period		\$ 662.4	\$ 707.3	\$ 662.4	\$ 707.3
Cash		\$ 321.1	\$ 161.6	\$ 321.1	\$ 161.6
Cash equivalents		84.0	32.3	84.0	32.3
Total cash and cash equivalents		\$ 405.1	\$ 193.9	\$ 405.1	\$ 193.9
Restricted cash		257.3	310.3	257.3	310.3
Cash held in escrow		-	203.1	-	203.1
Total cash and cash equivalents, restricted cash, and cash held in escrow		\$ 662.4	\$ 707.3	\$ 662.4	\$ 707.3

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**1. NATURE OF OPERATIONS**

Definity Financial Corporation (the “Company”), through its subsidiaries, offers property and casualty (“P&C”) insurance in Canada. The Company was incorporated on June 30, 2021 and is domiciled in Canada. Its registered office and principal place of business is 111 Westmount Road South, Waterloo, Ontario, Canada. The Company became the parent company of Definity Insurance Company (“Definity Insurance”), upon completion of the conversion of Definity Insurance from a mutual company to a company with share capital pursuant to the *Insurance Companies Act* (Canada) and regulations thereunder, a process known as “demutualization”.

These condensed interim consolidated financial statements (“interim financial statements”) were authorized for issuance and approved by the Company’s Board of Directors on November 9, 2023.

**2. BASIS OF PREPARATION**

The interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting* (“IAS 34”). Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed. The preparation of interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 5 of the Company’s audited consolidated financial statements for the year ended December 31, 2022, excluding the changes arising from the adoption of IFRS 9 – *Financial Instruments* (“IFRS 9”) and IFRS 17 – *Insurance Contracts* (“IFRS 17”) which are discussed in note 5 of the Company’s interim financial statements. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2022.

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

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

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

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

**DEFINITY FINANCIAL CORPORATION**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SEPTEMBER 30, 2023**

**3. ADOPTION OF NEW ACCOUNTING STANDARDS**

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

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

**IFRS 17**

In May 2017, the IASB issued IFRS 17. IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued and reinsurance contracts held. There are two measurement methodologies under IFRS 17 that may be applicable to the Company, the general measurement model (“GMM”) and the premium allocation approach (“PAA”). The PAA is a simplified measurement model that can be applied to insurance contracts with coverage periods of one year or less (which is the coverage period of most P&C insurance contracts), or where the PAA approximates the GMM. Under IFRS 17, the Company’s insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the PAA.

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

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

Insurance contract liabilities	The sum of the liabilities for remaining coverage (“LRC”) and the liabilities for incurred claims (“LIC”).
Liabilities for remaining coverage	<p>The LRC consists of unearned premiums received less unamortized acquisition cash flows paid, plus a loss component for onerous contracts.</p> <p>Insurance acquisition cash flows: IFRS 17 broadened the costs eligible for deferral, which has resulted in an increase in the amount deferred, as compared to the deferred policy acquisition expenses recorded under IFRS 4.</p> <p>Onerous contracts: Where facts and circumstances indicate that a group of insurance contracts may be non-profitable at initial recognition, the Company performs analyses to determine if a group of contracts is onerous. For groups of contracts that are onerous, the Company recognizes a loss in net income (loss) for the expected net outflow, resulting in earlier recognition compared to IFRS 4. These losses are reversed to net income (loss) over the term of the contracts.</p>

**DEFINITY FINANCIAL CORPORATION**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SEPTEMBER 30, 2023**

**3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)**

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

<p>Liabilities for incurred claims</p>	<p>The LIC includes estimates of the Company’s obligation to pay claim liabilities and other incurred insurance expenses. Measurement of the LIC is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk.</p> <p>Risk adjustment: The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the uncertainty around the amount and timing of the cash flows as the Company fulfils insurance contracts. The risk adjustment replaces the provision for adverse deviation (“PfAD”) under IFRS 4. Changes in the risk adjustment impacts insurance service expenses.</p> <p>Discounting: Under IFRS 17, cash flows are discounted using risk-free yield curves adjusted to reasonably reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The risk-free yield curves are adjusted by an illiquidity premium using a reference portfolio to reflect the liquidity characteristics of the insurance contracts. The selection of reference portfolios is based on market instruments that reflect the nature of the insurance contracts in terms of amount, timing, currency, and liquidity. In contrast to using a liquidity-adjusted risk-free rate, the impact of discounting under IFRS 4 was calculated using a rate derived from investment returns of the Company’s investment portfolio backing the claim liabilities. Under IFRS 17, the impact of discounting continues to be recorded by the Company entirely in net income (loss). The impact of discounting is included in “Insurance service expenses” and in “Finance (expenses) income from insurance contracts issued.”</p>
<p>Reinsurance contract assets</p>	<p>The sum of the assets for remaining coverage (“ARC”) and the assets for incurred claims (“AIC”).</p>
<p>Assets for remaining coverage</p>	<p>Measurement of the ARC reflects unearned reinsurance premiums paid for reinsurance contracts held. The ARC is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.</p>
<p>Assets for incurred claims</p>	<p>Measurement of the AIC reflects estimates of claims recoverable from reinsurance contracts held and is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The risk adjustment is included in the interim consolidated statements of income (loss) in “Net (expenses) income from reinsurance contracts held”. The impact of discounting is included in “Net (expenses) income from reinsurance contracts held” and in “Finance income (expenses) from reinsurance contracts held.”</p>

**DEFINITY FINANCIAL CORPORATION**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SEPTEMBER 30, 2023**

**3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)**

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

The Company's policies for classification and measurement of insurance and reinsurance contracts are explained in note 4.

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

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

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

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

Insurance revenue	The Company allocates the expected premiums to each period based on the passage of time similar to IFRS 4. Other underwriting revenues, which consist of various customer service fees, are included in "Insurance revenue" in the interim consolidated statements of income (loss) under IFRS 17.
Insurance service expenses	Insurance service expenses include incurred claims and other incurred directly attributable expenses, amortization of insurance acquisition cash flows, changes that relate to past service (changes in fulfilment cash flows relating to the liabilities for incurred claims), and changes that relate to future service (losses on onerous groups of contracts and reversals of such losses).  Costs that do not relate directly to the fulfilment of an insurance contract are included in "Other (expenses) income" in the interim consolidated statements of income (loss), whereas under IFRS 4 these costs were included within underwriting income.
Net (expenses) income from reinsurance contracts held	Income and expenses from reinsurance contracts held, other than insurance finance income or expenses, are presented on a net basis as "Net (expenses) income from reinsurance contracts held" in the insurance service result in the interim consolidated statements of income (loss). Net (expenses) income from reinsurance contracts held include revenue and expenses related to ceded business.
Insurance finance income or expenses	Insurance finance income or expenses comprise the change in the carrying amounts of the group of insurance contracts and reinsurance contracts held arising from the impact of discounting unwinding, changes in discount rates, and the effect of financial risk.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)**

(c) Transition (IFRS 17)

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

**IFRS 9**

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

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

In December 2021, the IASB amended IFRS 17 to add a transition option for a “classification overlay” to address possible accounting mismatches between financial assets measured under IFRS 9 and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. Applying the classification overlay, an entity is permitted to present comparative information for a financial asset as if the classification and measurement requirements in IFRS 9 had been applied to that financial asset. The Company has applied the classification overlay to all financial assets derecognized in the comparative period.

Under IFRS 9, financial instruments are classified as amortized cost, fair value through other comprehensive income (“FVTOCI”), or fair value through profit or loss (“FVTPL”). The determination of the appropriate classification is based upon the entity’s business model, contractual cash flow characteristics of the instrument, and the entity’s election, if any, on classification. Equity instruments are classified as FVTPL unless the entity qualifies and elects them as FVTOCI.

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

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

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

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

*(in millions of dollars)*

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

<sup>1</sup> Included in this amount is a fair value adjustment with respect to commercial loans of \$0.9 million.

The Company's classification and measurement of financial instruments is explained in note 4.

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

The transition to IFRS 9 has resulted in changes to the composition of gains and losses on investments between net income (loss) and OCI in the interim consolidated statements of income (loss). As more of the Company's investments are designated as FVTPL, unrealized gains and losses on these investments that previously were recorded in OCI will now be recorded in net income (loss). As a result, the Company expects there may be additional volatility in net income (loss). Unrealized losses on investments of \$15.5 million have been recognized in net (loss) income during the three-month period ended September 30, 2022 and \$239.2 million during the nine-month period ended September 30, 2022 that were previously recognized in OCI. Realized gains on FVTOCI preferred stocks of \$0.4 million have been recognized in OCI during the three-month period ended September 30, 2022 and \$1.8 million during the nine-month period ended September 30, 2022 that were previously recognized in net (loss) income. Under IFRS 9, gains or losses on equity instruments classified as FVTOCI are not reclassified to profit and loss and are therefore no longer required to be reviewed for impairment.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(c) Transition (IFRS 9)

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

**Impact of IFRS 17 and IFRS 9 transition adjustments on equity**

The estimated effects of adopting IFRS 17 and IFRS 9 on retained (deficit) earnings and AOCI in the interim consolidated statements of changes in equity as at January 1, 2022 are as follows:

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

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

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

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

The estimated effects of adopting IFRS 17 and IFRS 9 on the interim consolidated statements of changes in equity as at December 31, 2022 are as follows:

		2022 Restated					
	Notes	Share capital	Contributed surplus	Retained (deficit) earnings	Accumulated other comprehensive income (loss)	Equity attributable to non-controlling interests	Total equity
Balance, December 31, 2021, as previously reported		\$ 2,307.8	\$ 19.3	\$ (28.8)	\$ 98.0	\$ -	\$ 2,396.3
Impact of initial application of IFRS 17	3	-	-	158.8	-	-	158.8
Impact of initial application of IFRS 9	3	-	-	90.8	(91.5)	-	(0.7)
Restated balance, January 1, 2022		2,307.8	19.3	220.8	6.5	-	2,554.4
Net income attributable to common shareholders (restated)		-	-	110.9	-	-	110.9
Net income attributable to non-controlling interests		-	-	-	-	0.6	0.6
Other comprehensive income (loss) (restated)		-	-	19.4	(38.9)	-	(19.5)
Total comprehensive income (loss) (restated)		-	-	130.3	(38.9)	0.6	92.0
Equity-settled share-based compensation	15	-	20.9	-	-	-	20.9
Shares purchased and held in trust	13	(53.6)	-	-	-	-	(53.6)
Dividends to common shareholders		-	-	(63.3)	-	-	(63.3)
Non-controlling interests		-	-	-	-	107.9	107.9
Balance, December 31, 2022 (restated)		\$ 2,254.2	\$ 40.2	\$ 287.8	\$ (32.4)	\$ 108.5	\$ 2,658.3

4. ACCOUNTING POLICIES

The interim financial statements were prepared using the same accounting policies as disclosed in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2022, except for the accounting for insurance contracts and reinsurance contracts, and financial instruments due to the adoption of IFRS 17 and IFRS 9 as discussed in note 3 of the Company's interim financial statements. The accounting policies for insurance contracts and reinsurance contracts, and financial instruments are set out below.

(a) Insurance and reinsurance contracts

*Insurance and reinsurance contracts classification*

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders by agreeing to compensate the policyholder if a specified event (the insured event) with uncertain timing or amount occurs. Similarly, by purchasing reinsurance, the Company transfers significant insurance risk to the reinsurers. As a general guideline, the Company determines whether significant insurance risk has been transferred for insurance and reinsurance contracts by comparing whether significantly more would be paid or received if the insured event occurs, versus if the insured event did not occur.

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

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**4. ACCOUNTING POLICIES (continued)**

## (a) Insurance and reinsurance contracts (continued)

*Level of aggregation*

IFRS 17 requires entities to determine the level of aggregation for applying its requirements. The Company has identified a contract as the smallest 'unit'. However, the Company makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as stand-alone contracts. The level of aggregation is determined by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks that are managed together. The Company currently divides its business into portfolios by taking into consideration its lines of businesses, distribution channels, and geographic regions.

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

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

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

*Contract boundary*

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

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

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

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

*Recognition*

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

- The beginning of the coverage period of the group of contracts (i.e., the period during which the Company provides services in respect of any premiums within the boundary of the contracts);
- The date when the first payment from a policyholder in the group becomes due; and
- For a group of onerous contracts, when the group becomes onerous.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**4. ACCOUNTING POLICIES (continued)**

## (a) Insurance and reinsurance contracts (continued)

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

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

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

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

*Insurance contracts – initial measurement*

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

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

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

*Insurance contracts – subsequent measurement*

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

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**4. ACCOUNTING POLICIES (continued)****(a) Insurance and reinsurance contracts (continued)**

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

The claim liabilities included in the LIC consist of reserves for reported claims as determined on a case-by-case basis by claims adjusters and an actuarially determined provision for incurred but not reported claims. Measurement uncertainty exists due to internal and external factors that can substantially impact the ultimate settlement costs. Consequently, the Company reviews and re-evaluates claims and reserves on a regular basis and any resulting adjustments are included in “Insurance service expenses” in the interim consolidated statements of income (loss) in the period the adjustment is made. The claim liabilities are extinguished when the obligation to pay a claim expires, is discharged, or is cancelled.

*Reinsurance contracts held – initial measurement*

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

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

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

*Reinsurance contracts held – subsequent measurement*

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

*Insurance acquisition cash flows*

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

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**4. ACCOUNTING POLICIES (continued)****(a) Insurance and reinsurance contracts (continued)**

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

*Insurance contracts – modification and derecognition*

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

*Presentation*

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

*Insurance revenue*

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

*Insurance service expenses*

Insurance service expenses arising from insurance contracts are recognized in the interim consolidated statements of income (loss) generally as they are incurred. Insurance service expenses include incurred claims and other incurred directly attributable expenses, amortization of insurance acquisition cash flows, changes that relate to past service (changes in fulfilment cash flows relating to the LIC), and changes that relate to future service (losses on onerous groups of contracts and reversals of such losses).

*Net (expenses) income from reinsurance contracts held*

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

*Insurance finance income or expenses*

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

*Insurance contract liabilities and reinsurance contract assets*

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

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**4. ACCOUNTING POLICIES (continued)**

(b) Financial instruments including investments

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

- Amortized cost
- FVTPL
- FVTOCI

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

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

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

The expected frequency, value, and timing of asset sales are also important aspects of the Company's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As a second step of its classification process, the Company assesses the contractual terms to identify whether they meet the SPPI test. The SPPI test involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are SPPI on the principal amount outstanding. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset due to repayments of principal or amortization of the premium/discount. The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgment and considers relevant factors.

The classification of financial instruments at initial recognition depends on their contractual terms and the Company's business model for managing the instruments. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a settlement-date basis. Transaction costs are expensed as incurred for FVTPL financial instruments. For equity instruments designated as FVTOCI, transaction costs are included in the instrument's carrying value.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**4. ACCOUNTING POLICIES (continued)**

(b) Financial instruments including investments (continued)

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

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

*Financial assets measured at fair value through profit or loss*

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are required to be measured at fair value under IFRS 9. This category includes equity investments whose cash flow characteristics fail the SPPI criterion and debt (including short-term) investments that are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. This includes short-term investments, bonds, certain preferred stocks, common stocks, pooled funds, and commercial loans. Short-term investments consist of term deposits having original maturities of greater than ninety days and less than one year.

Changes in fair values as well as gains and losses on disposal of FVTPL financial instruments are recorded in "Recognized losses on FVTPL investments" in the interim consolidated statements of income (loss) with the related tax impact included in "Income tax (expense) recovery". Gains and losses on the sale of FVTPL financial instruments are calculated on an average cost basis. As changes in the fair value of FVTPL financial instruments are reflected directly within net income (loss) in the interim consolidated statements of income (loss), it is not necessary to record an impairment loss when there has been a decline in the fair value of FVTPL financial instruments.

*Derivative financial instruments*

Derivatives are financial instruments that have value derived from underlying interest rates or other financial instrument prices or indices. Derivatives are mandatorily measured at FVTPL because they do not give rise to cash flows that are SPPI. There are currently no derivatives designated as a hedge for accounting purposes. Derivatives are initially measured at fair value at the settlement date and subsequently remeasured at fair value at the end of each reporting date. The gains and losses arising from remeasuring the derivatives at fair value are recognized in "Recognized losses on FVTPL investments" in the interim consolidated statements of income (loss) with the related tax impact included in "Income tax (expense) recovery".

*Equity instruments measured at fair value through other comprehensive income*

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

*Other receivables/Other financial liabilities*

Other receivables and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value in the interim consolidated statements of income (loss).

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

**4. ACCOUNTING POLICIES (continued)**

(b) Financial instruments including investments (continued)

*Investment income recognition*

Interest income is recognized on bonds and commercial loans on the accrual basis and includes the amortization of premiums and discounts over the life of the investment using the effective interest rate method. The treatment of recognized gains and losses on disposal of FVTPL and FVTOCI investments is discussed in “Financial assets measured at fair value through profit or loss” and “Equity instruments measured at fair value through other comprehensive income” above.

Dividend income is recognized on the ex-dividend date.

(c) Comparative figures

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the current period’s interim financial statements.

**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company’s interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as at the reporting date, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. The most complex and significant judgments, estimates and assumptions used in preparing the Company’s interim financial statements are discussed in note 5 of the Company’s audited consolidated financial statements for the year ended December 31, 2022, excluding the changes arising from the adoption of IFRS 9 and IFRS 17 discussed below.

Under IFRS 9, as changes in the fair value of FVTPL financial instruments are reflected directly within net income (loss), and changes in the fair value of FVTOCI financial instruments remain within OCI in the interim consolidated statements of comprehensive income (loss), it is no longer necessary to record an impairment loss when there has been a decline in the fair value of these financial instruments. As a result, impairment on investments is no longer a significant estimate.

Under IFRS 17, the Company has applied judgment in its determination of groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently, and in the determination of cash flows that relate directly to the fulfilment of insurance contracts.

The Company has used estimates in the determination of the carrying amount of LIC. The Company is required by applicable insurance laws, regulations, and IFRS to establish liabilities for payment of claims and claims adjustment expenses that arise from the Company’s insurance products. These liabilities, which are included in the LIC, represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the reporting date. The estimates used in the valuation of claim liabilities are consistent with those under IFRS 4, except for discounting and risk adjustment, which are described below.

*Discount rates*

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

**DEFINITY FINANCIAL CORPORATION**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SEPTEMBER 30, 2023**

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

Discount rates applied for discounting of future cash flows are listed below:

Yield curve	Insurance contracts issued / Reinsurance contracts held							
	1 year	2 years	3 years	4 years	5 years	6 years	7 years	>7 years*
As at September 30, 2023	6.1%	5.9%	5.6%	5.4%	5.2%	5.2%	5.1%	5.1%
As at December 31, 2022	5.5%	5.3%	5.0%	4.8%	4.7%	4.6%	4.6%	4.8%

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

*Risk adjustment for non-financial risk*

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

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

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

**6. BUSINESS COMBINATIONS**

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

On May 8, 2023, the Company through its subsidiary McDougall Insurance Brokers Limited ("McDougall") acquired 100% of the shares of McFarlan Rowlands Insurance Brokers Inc. and affiliated entities ("McFarlan Rowlands") for cash and share consideration of approximately \$233 million (subject to post-closing adjustments). The initial purchase price was funded with cash of \$189 million, of which approximately \$75 million was drawn on the Company's credit facility, and \$44 million in equity subscriptions in McDougall by McFarlan Rowlands' shareholders. After the equity subscriptions, the Company's ownership interest in McDougall decreased from approximately 75% to approximately 74%. McFarlan Rowlands is a leading Ontario-based insurance brokerage, with over 200 employees in 18 office locations across southwestern Ontario, and over \$200 million in annual premiums. In addition to its P&C brokerage operations, McFarlan Rowlands also has expertise in claims adjusting, life and group benefits brokering, and investment counselling and portfolio management services.

The Company incurred acquisition-related costs of \$0.1 million during the three-month period ended September 30, 2023 (\$0.8 million during the nine-month period ended September 30, 2023), which is included in "Other (expenses) income" in the interim consolidated statements of (loss) income related to the acquisition. During the three-month period ended September 30, 2023, the Company recognized \$11.3 million (\$19.1 million during the nine-month period ended September 30, 2023) in revenue (included in "Distribution revenues") and \$1.5 million (\$2.8 million during the nine-month period ended September 30, 2023) of net income from the acquisition in the interim consolidated statements of (loss) income. Net income is after the inclusion of intangible asset amortization of \$1.3 million during the three-month period ended September 30, 2023 (\$2.1 million during the nine-month period ended September 30, 2023), net of income taxes.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

6. BUSINESS COMBINATIONS (continued)

On a pro forma basis, for the nine-month period ended September 30, 2023, distribution revenues would have increased by \$35 million and net income would have increased by \$6 million if the acquisition was consolidated from January 1, 2023. This pro forma information does not purport to represent what the Company's actual results would have been had the acquisition occurred at January 1, 2023, or to project the Company's results for any future period.

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

(in millions of dollars)

Purchase price consideration (net of cash acquired of \$2.4 million)	\$ 230.8
Allocated to:	
Property and equipment	16.6
Other assets	7.0
Accounts payable and other liabilities	(1.4)
Income taxes payable	(3.2)
Deferred income tax liabilities	(32.4)
Net identifiable tangible liabilities acquired	(13.4)
Customer relationships	102.3
Brand	14.0
Goodwill	127.9
	\$ 230.8

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

The goodwill is attributable to expected growth and profitability contributions and the workforce of the acquired business. The goodwill arising from this acquisition is not deductible for income tax purposes.

On October 3, 2023, McDougall completed the acquisition of 100% of the shares of Drayden Insurance Ltd. ("Drayden") for \$208 million (subject to closing and post-closing adjustments). The transaction was funded by the Company, through McDougall, using a combination of excess capital and the issuance to selling shareholders of shares of McDougall. After accounting for all related transactions, the Company's ownership interest in McDougall was increased to approximately 78% from approximately 74%. Founded in 1965, Drayden is a leading Alberta insurance broker with approximately \$125 million in annual premiums and strong operating margins. Through its insurance broker and government registry service operations, Drayden employs over 170 people across eight locations in the Edmonton area.

On October 3, 2022, the Company increased its ownership interest in McDougall. The purchase price allocation of McDougall was finalized during the three-month period ended June 30, 2023, with a downward adjustment to goodwill of \$0.8 million.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

7. INVESTMENTS

(a) Investment (loss) income and balances

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

<i>(in millions of dollars)</i>	Three months ended September 30, 2023		
	FVTPL	FVTOCI	Total
Interest	\$ 38.8	\$ -	\$ 38.8
Dividends	6.2	2.6	8.8
Investment expenses	-	-	(1.3)
Net investment income	45.0	2.6	46.3
Realized losses on sale of FVTPL investments	(28.7)	-	(28.7)
Unrealized losses on FVTPL investments	(71.1)	-	(71.1)
Recognized losses on investments in net (loss) income	(99.8)	-	(99.8)
Realized losses on FVTOCI preferred stocks	-	(3.9)	(3.9)
Unrealized gains on FVTOCI preferred stocks	-	0.6	0.6
Recognized losses on investments in OCI	-	(3.3)	(3.3)
	\$ (54.8)	\$ (0.7)	\$ (56.8)

<i>(in millions of dollars)</i>	Three months ended September 30, 2022		
	FVTPL	FVTOCI	Total
Interest	\$ 28.5	\$ -	\$ 28.5
Dividends	5.4	3.3	8.7
Investment expenses	-	-	(1.2)
Net investment income	33.9	3.3	36.0
Realized losses on sale of FVTPL investments	(19.4)	-	(19.4)
Unrealized losses on FVTPL investments	(19.8)	-	(19.8)
Recognized losses on investments in net (loss) income	(39.2)	-	(39.2)
Realized gains on FVTOCI preferred stocks	-	0.3	0.3
Unrealized losses on FVTOCI preferred stocks	-	(20.2)	(20.2)
Recognized losses on investments in OCI	-	(19.9)	(19.9)
	\$ (5.3)	\$ (16.6)	\$ (23.1)

<i>(in millions of dollars)</i>	Nine months ended September 30, 2023		
	FVTPL	FVTOCI	Total
Interest	\$ 108.1	\$ -	\$ 108.1
Dividends	18.0	8.3	26.3
Investment expenses	-	-	(4.3)
Net investment income	126.1	8.3	130.1
Realized losses on sale of FVTPL investments	(86.5)	-	(86.5)
Unrealized gains on FVTPL investments	15.7	-	15.7
Recognized losses on investments in net (loss) income	(70.8)	-	(70.8)
Realized losses on FVTOCI preferred stocks	-	(8.3)	(8.3)
Unrealized gains on FVTOCI preferred stocks	-	5.1	5.1
Recognized losses on investments in OCI	-	(3.2)	(3.2)
	\$ 55.3	\$ 5.1	\$ 56.1

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

7. INVESTMENTS (continued)

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

<i>(in millions of dollars)</i>	Nine months ended September 30, 2022		
	FVTPL	FVTOCI	Total
Interest	\$ 73.0	\$ -	\$ 73.0
Dividends	15.9	8.7	24.6
Investment expenses	-	-	(4.0)
Net investment income	88.9	8.7	93.6
Realized losses on sale of FVTPL investments	(68.6)	-	(68.6)
Unrealized losses on FVTPL investments	(395.6)	-	(395.6)
Recognized losses on investments in net (loss) income	(464.2)	-	(464.2)
Realized gains on FVTOCI preferred stocks	-	1.8	1.8
Unrealized losses on FVTOCI preferred stocks	-	(48.0)	(48.0)
Recognized losses on investments in OCI	-	(46.2)	(46.2)
	\$ (375.3)	\$ (37.5)	\$ (416.8)

Investment carrying values by financial instrument classification are as follows:

<i>(in millions of dollars)</i>	As at September 30, 2023		
	FVTPL	FVTOCI	Total
Short-term investments	\$ 96.6	\$ -	\$ 96.6
Bonds:			
Government	2,255.8	-	2,255.8
Corporate	1,314.3	-	1,314.3
Preferred stocks	131.2	169.0	300.2
Common stocks	549.5	-	549.5
Pooled funds	69.4	-	69.4
Commercial loans	18.5	-	18.5
	\$ 4,435.3	\$ 169.0	\$ 4,604.3

<i>(in millions of dollars)</i>	As at December 31, 2022		
	FVTPL	FVTOCI	Total
Short-term investments	\$ 89.3	\$ -	\$ 89.3
Bonds:			
Government	2,315.8	-	2,315.8
Corporate	1,607.9	-	1,607.9
Preferred stocks	119.8	178.2	298.0
Common stocks	517.7	-	517.7
Pooled funds	57.2	-	57.2
Commercial loans	11.3	-	11.3
	\$ 4,719.0	\$ 178.2	\$ 4,897.2

The fair value of the FVTOCI preferred stocks disposed of during the three-month period ended September 30, 2023 was \$8.8 million (September 30, 2022: \$3.6 million). The fair value of the FVTOCI preferred stocks disposed of during the nine-month period ended September 30, 2023 was \$32.9 million (September 30, 2022: \$42.4 million).

The fair value yield as at September 30, 2023 for the bond portfolio was 5.08% (December 31, 2022: 4.39%).

Of the bonds held as at September 30, 2023, 86.7% (December 31, 2022: 83.8%) were rated "A-" or better and 73.9% (December 31, 2022: 81.0%) of the preferred stocks were rated "P2L" or better.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

7. INVESTMENTS (continued)

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

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

	As at September 30, 2023	As at December 31, 2022
Financial services	51.4%	50.4%
Energy	12.3%	13.5%
Communication services	11.4%	10.8%
Industrials	7.5%	5.3%
Utilities	6.9%	9.1%
Real estate	2.5%	4.1%
Other	8.0%	6.8%
	100.0%	100.0%

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

	As at September 30, 2023	As at December 31, 2022
Canada	99.1%	99.5%
United States	0.9%	0.5%
	100.0%	100.0%

(b) Financial instruments measured at fair value

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

- (i) Level 1 fair value measurements reflect unadjusted, quoted prices in active markets for identical assets, and liabilities that the Company has the ability to access at the measurement date.
- (ii) Level 2 fair value measurements use inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable but are not prices such as interest rates and credit risks and inputs that are derived from or corroborated by observable market data.
- (iii) Level 3 fair value measurements use significant non-market observable inputs, including assumptions about risk or liquidity.

**DEFINITY FINANCIAL CORPORATION**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SEPTEMBER 30, 2023**

**7. INVESTMENTS (continued)**

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

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

<i>(in millions of dollars)</i>	As at September 30, 2023			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 96.6	\$ -	\$ 96.6
Bonds	-	3,570.1	-	3,570.1
Preferred stocks	300.2	-	-	300.2
Common stocks	549.5	-	-	549.5
Pooled funds	-	44.5	24.9	69.4
Commercial loans	-	-	18.5	18.5
	<b>\$ 849.7</b>	<b>\$ 3,711.2</b>	<b>\$ 43.4</b>	<b>\$ 4,604.3</b>

<i>(in millions of dollars)</i>	As at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 89.3	\$ -	\$ 89.3
Bonds	-	3,923.7	-	3,923.7
Preferred stocks	298.0	-	-	298.0
Common stocks	517.7	-	-	517.7
Pooled funds	-	44.4	12.8	57.2
Commercial loans	-	-	11.3	11.3
	<b>\$ 815.7</b>	<b>\$ 4,057.4</b>	<b>\$ 24.1</b>	<b>\$ 4,897.2</b>

There were no transfers of financial instruments between the levels during the three-month or nine-month periods ended September 30, 2023 (year ended December 31, 2022: nil).

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

(c) Derivative financial instruments

The Company holds futures contracts, which are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organized market. The futures contracts are exchange-traded and collateralized by cash. As at September 30, 2023, the Company had derivative financial assets with a notional amount of \$100.4 million (December 31, 2022: \$74.2 million). These derivatives have an expected maturity date within the next year. The fair value of the derivative financial instruments is not significant.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS

(a) Insurance contract liabilities

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

<i>(in millions of dollars)</i>	Three months ended September 30, 2023				
	Liabilities for remaining coverage		Liabilities for incurred claims		Total
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	
Insurance contract liabilities, beginning of period	\$ 298.3	\$ 25.2	\$ 2,885.8	\$ 172.3	\$ 3,381.6
Insurance revenue	(984.1)	-	-	-	(984.1)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	-	(10.8)	745.3	12.6	747.1
Amortization of insurance acquisition cash flows	206.3	-	-	-	206.3
Changes in fulfilment cash flows relating to the LIC	-	-	(19.1)	(13.3)	(32.4)
Losses on onerous contracts and reversals of such losses	-	11.2	-	-	11.2
Insurance service result	(777.8)	0.4	726.2	(0.7)	(51.9)
Finance expenses from insurance contracts issued	-	-	27.5	-	27.5
Total changes in the interim consolidated statements of (loss) income	(777.8)	0.4	753.7	(0.7)	(24.4)
Cash flows:					
Premiums received	1,030.1	-	-	-	1,030.1
Claims and other directly attributable expenses paid	-	-	(638.9)	-	(638.9)
Insurance acquisition cash flows	(200.2)	-	-	-	(200.2)
Total cash flows	829.9	-	(638.9)	-	191.0
Other movements	-	-	(20.3)	-	(20.3)
Insurance contract liabilities, end of period	\$ 350.4	\$ 25.6	\$ 2,980.3	\$ 171.6	\$ 3,527.9

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Insurance contract liabilities (continued)

<i>(in millions of dollars)</i>	Three months ended September 30, 2022				
	Liabilities for remaining coverage		Liabilities for incurred claims		Total
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	
Insurance contract liabilities, beginning of period	\$ 260.7	\$ 26.7	\$ 3,073.8	\$ 163.0	\$ 3,524.2
Insurance revenue	(895.9)	-	-	-	(895.9)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	-	(11.1)	652.8	12.3	654.0
Amortization of insurance acquisition cash flows	194.4	-	-	-	194.4
Changes in fulfilment cash flows relating to the LIC	-	-	(15.4)	(9.4)	(24.8)
Losses on onerous contracts and reversals of such losses	-	12.1	-	-	12.1
Insurance service result	(701.5)	1.0	637.4	2.9	(60.2)
Finance expenses from insurance contracts issued	-	-	2.7	-	2.7
Total changes in the interim consolidated statements of (loss) income	(701.5)	1.0	640.1	2.9	(57.5)
Cash flows:					
Premiums received	936.0	-	-	-	936.0
Claims and other directly attributable expenses paid	-	-	(544.2)	-	(544.2)
Insurance acquisition cash flows	(203.3)	-	-	-	(203.3)
Total cash flows	732.7	-	(544.2)	-	188.5
Other movements	-	-	(17.1)	-	(17.1)
Insurance contract liabilities, end of period	\$ 291.9	\$ 27.7	\$ 3,152.6	\$ 165.9	\$ 3,638.1

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Insurance contract liabilities (continued)

<i>(in millions of dollars)</i>	Nine months ended September 30, 2023				
	Liabilities for remaining coverage		Liabilities for incurred claims		Total
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	
Insurance contract liabilities, beginning of period	\$ 303.3	\$ 27.7	\$ 3,068.7	\$ 178.0	\$ 3,577.7
Insurance revenue	(2,846.5)	-	-	-	(2,846.5)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	-	(32.9)	1,952.3	39.7	1,959.1
Amortization of insurance acquisition cash flows	605.8	-	-	-	605.8
Changes in fulfilment cash flows relating to the LIC	-	-	(29.8)	(46.1)	(75.9)
Losses on onerous contracts and reversals of such losses	-	30.8	-	-	30.8
Insurance service result	(2,240.7)	(2.1)	1,922.5	(6.4)	(326.7)
Finance expenses from insurance contracts issued	-	-	73.4	-	73.4
Total changes in the interim consolidated statements of (loss) income	(2,240.7)	(2.1)	1,995.9	(6.4)	(253.3)
Cash flows:					
Premiums received	2,925.9	-	-	-	2,925.9
Claims and other directly attributable expenses paid	-	-	(2,025.2)	-	(2,025.2)
Insurance acquisition cash flows	(638.1)	-	-	-	(638.1)
Total cash flows	2,287.8	-	(2,025.2)	-	262.6
Other movements	-	-	(59.1)	-	(59.1)
Insurance contract liabilities, end of period	\$ 350.4	\$ 25.6	\$ 2,980.3	\$ 171.6	\$ 3,527.9

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Insurance contract liabilities (continued)

<i>(in millions of dollars)</i>	Nine months ended September 30, 2022				
	Liabilities for remaining coverage		Liabilities for incurred claims		Total
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	
Insurance contract liabilities, beginning of period	\$ 282.3	\$ 26.3	\$ 3,192.2	\$ 168.1	\$ 3,668.9
Insurance revenue	(2,574.0)	-	-	-	(2,574.0)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	-	(32.3)	1,767.8	40.8	1,776.3
Amortization of insurance acquisition cash flows	566.1	-	-	-	566.1
Changes in fulfilment cash flows relating to the LIC	-	-	(82.0)	(43.0)	(125.0)
Losses on onerous contracts and reversals of such losses	-	33.7	-	-	33.7
Insurance service result	(2,007.9)	1.4	1,685.8	(2.2)	(322.9)
Finance income from insurance contracts issued	-	-	(79.8)	-	(79.8)
Total changes in the interim consolidated statements of (loss) income	(2,007.9)	1.4	1,606.0	(2.2)	(402.7)
Cash flows:					
Premiums received	2,622.8	-	-	-	2,622.8
Claims and other directly attributable expenses paid	-	-	(1,596.1)	-	(1,596.1)
Insurance acquisition cash flows	(605.3)	-	-	-	(605.3)
Total cash flows	2,017.5	-	(1,596.1)	-	421.4
Other movements	-	-	(49.5)	-	(49.5)
Insurance contract liabilities, end of period	\$ 291.9	\$ 27.7	\$ 3,152.6	\$ 165.9	\$ 3,638.1

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Insurance contract liabilities (continued)

The composition of the insurance contract liabilities is as follows:

<i>(in millions of dollars)</i>	As at September 30, 2023	As at September 30, 2022
Premiums receivable	\$ (1,225.9)	\$ (1,155.4)
Unearned premiums	1,900.8	1,744.1
Unearned premiums received	674.9	588.7
Unamortized insurance acquisition cash flows	(324.5)	(296.8)
Onerous loss provision	25.6	27.7
Provision for unpaid claims and other directly attributable payables	3,151.9	3,318.5
	<b>\$ 3,527.9</b>	<b>\$ 3,638.1</b>

(b) Reinsurance contract assets

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

<i>(in millions of dollars)</i>	Three months ended September 30, 2023					Total
	Assets for remaining coverage		Assets for incurred claims			
	Excluding loss- recovery component	Loss- recovery component	Estimates of the present value of future cash flows	Risk adjustment for non- financial risk		
Reinsurance contract assets, beginning of period	\$ 17.3	\$ -	\$ 270.2	\$ 14.7	\$ 302.2	
Allocation of reinsurance premiums	(68.0)	-	-	-	(68.0)	
Amounts recoverable from reinsurers for incurred claims:						
Amounts recoverable for incurred claims and other directly attributable expenses	-	-	68.1	1.8	69.9	
Changes to amounts recoverable for incurred claims	-	-	(1.5)	(1.9)	(3.4)	
Net (expenses) income from reinsurance contracts held	(68.0)	-	66.6	(0.1)	(1.5)	
Finance income from reinsurance contracts held	-	-	1.8	-	1.8	
Total changes in the interim consolidated statements of (loss) income	(68.0)	-	68.4	(0.1)	0.3	
Cash flows:						
Premiums paid	66.1	-	-	-	66.1	
Amounts received	-	-	(62.7)	-	(62.7)	
Total cash flows	66.1	-	(62.7)	-	3.4	
Reinsurance contract assets, end of period	\$ 15.4	\$ -	\$ 275.9	\$ 14.6	\$ 305.9	

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

(in millions of dollars)

	Three months ended September 30, 2022					Total
	Assets for remaining coverage		Assets for incurred claims			
	Excluding loss-recovery component	Loss-recovery component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk		
Reinsurance contract assets, beginning of period	\$ 22.9	\$ -	\$ 207.3	\$ 11.2	\$	241.4
Allocation of reinsurance premiums	(54.3)	-	-	-		(54.3)
Amounts recoverable from reinsurers for incurred claims:						
Amounts recoverable for incurred claims and other directly attributable expenses	-	-	73.6	2.2		75.8
Changes to amounts recoverable for incurred claims	-	-	9.7	(0.3)		9.4
Net (expenses) income from reinsurance contracts held	(54.3)	-	83.3	1.9		30.9
Finance income from reinsurance contracts held	-	-	0.5	-		0.5
Total changes in the interim consolidated statements of (loss) income	(54.3)	-	83.8	1.9		31.4
Cash flows:						
Premiums paid	50.4	-	-	-		50.4
Amounts received	-	-	(28.7)	-		(28.7)
Total cash flows	50.4	-	(28.7)	-		21.7
Reinsurance contract assets, end of period	\$ 19.0	\$ -	\$ 262.4	\$ 13.1	\$	294.5

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

(in millions of dollars)

	Nine months ended September 30, 2023				
	Assets for remaining coverage		Assets for incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Total
Reinsurance contract assets, beginning of period	\$ 18.7	\$ -	\$ 272.0	\$ 14.4	\$ 305.1
Allocation of reinsurance premiums	(189.9)	-	-	-	(189.9)
Amounts recoverable from reinsurers for incurred claims:					
Amounts recoverable for incurred claims and other directly attributable expenses	-	-	132.7	4.2	136.9
Changes to amounts recoverable for incurred claims	-	-	6.8	(4.0)	2.8
Net (expenses) income from reinsurance contracts held	(189.9)	-	139.5	0.2	(50.2)
Finance income from reinsurance contracts held	-	-	5.8	-	5.8
Total changes in the interim consolidated statements of (loss) income	(189.9)	-	145.3	0.2	(44.4)
Cash flows:					
Premiums paid	186.6	-	-	-	186.6
Amounts received	-	-	(141.4)	-	(141.4)
Total cash flows	186.6	-	(141.4)	-	45.2
Reinsurance contract assets, end of period	\$ 15.4	\$ -	\$ 275.9	\$ 14.6	\$ 305.9

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

<i>(in millions of dollars)</i>	Nine months ended September 30, 2022				
	Assets for remaining coverage		Assets for incurred claims		Total
	Excluding loss-recovery component	Loss-recovery component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	
Reinsurance contract assets, beginning of period	\$ 26.2	\$ -	\$ 201.0	\$ 11.2	\$ 238.4
Allocation of reinsurance premiums	(145.9)	-	-	-	(145.9)
Amounts recoverable from reinsurers for incurred claims:					
Amounts recoverable for incurred claims and other directly attributable expenses	-	-	137.7	4.7	142.4
Changes to amounts recoverable for incurred claims	-	-	(7.9)	(2.8)	(10.7)
Net (expenses) income from reinsurance contracts held	(145.9)	-	129.8	1.9	(14.2)
Finance expenses from reinsurance contracts held	-	-	(4.6)	-	(4.6)
Total changes in the interim consolidated statements of (loss) income	(145.9)	-	125.2	1.9	(18.8)
Cash flows:					
Premiums paid	138.7	-	-	-	138.7
Amounts received	-	-	(63.8)	-	(63.8)
Total cash flows	138.7	-	(63.8)	-	74.9
Reinsurance contract assets, end of period	\$ 19.0	\$ -	\$ 262.4	\$ 13.1	\$ 294.5

The composition of the reinsurance contract assets is as follows:

<i>(in millions of dollars)</i>	As at September 30, 2023	As at September 30, 2022
Premiums ceded payable	\$ (26.4)	\$ (14.3)
Unearned premiums ceded	50.1	40.2
Unearned reinsurance premiums paid	23.7	25.9
Claims recoverable from reinsurance contracts held	290.7	271.8
Unearned reinsurance commissions received	(8.5)	(3.2)
	\$ 305.9	\$ 294.5

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2023

8. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

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

<i>(in millions of dollars)</i>	As at September 30, 2023	As at December 31, 2022
Individual loss		
Property		
Net company retention <sup>1</sup>	\$ 5.0	\$ 5.0
Maximum limit <sup>2</sup>	100.0	100.0
Auto and general liability		
Net company retention <sup>1</sup>	4.0	4.0
Maximum limit	40.0	40.0
Catastrophe – primary		
Net company retention <sup>1</sup>	40.0	30.0
Maximum limit <sup>2</sup>	1,950.0	1,800.0
Catastrophe – aggregate		
Annual aggregate deductible <sup>3</sup>	65.0	65.0
Annual aggregate limit <sup>3</sup>	25.0	25.0

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

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

<sup>3</sup> Contributing event to the annual aggregate deductible and limit is a maximum of \$27 million on events above \$3 million as at September 30, 2023 (December 31, 2022: maximum \$27 million on events above \$3 million).

For catastrophe events, the Company participated an average of 8.6% on layers between the net Company retention and the maximum limit as at September 30, 2023 (December 31, 2022: 3.4%), including an average of 42.5% between the net Company retention and up to a \$100 million loss (December 31, 2022: 0%).

For catastrophe aggregate events, the annual aggregate limit was 100% placed as at September 30, 2023 (December 31, 2022: 100.0%). Recoveries on this treaty for 2023 of \$25 million were fully utilized during the three-month period ended September 30, 2023 due to the heightened level of catastrophe activity. This treaty extends to December 31, 2024. The Company also retains small participations on other reinsurance treaties based on market conditions and risk appetite.

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

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9. INCOME TAXES

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

<i>(in millions of dollars, except as otherwise noted)</i>	Three months ended September 30			
	2023		2022	
Income tax (recovery) expense calculated based on statutory tax rates	26.3%	\$ (16.9)	26.3%	\$ 11.5
Canadian dividend income not subject to tax	3.3%	(2.1)	(4.8%)	(2.1)
Non-deductible expenses	(0.2%)	0.1	0.7%	0.3
Other	(1.3%)	0.8	(3.7%)	(1.6)
Income tax (recovery) expense recorded in net (loss) income	28.1%	\$ (18.1)	18.5%	\$ 8.1

<i>(in millions of dollars)</i>	Three months ended September 30			
	2023		2022	
Current income taxes		\$ (15.2)		\$ 8.3
Deferred income taxes		(2.9)		(0.2)
Income tax (recovery) expense		\$ (18.1)		\$ 8.1

<i>(in millions of dollars, except as otherwise noted)</i>	Nine months ended September 30			
	2023		2022	
Income tax expense (recovery) calculated based on statutory tax rates	26.3%	\$ 43.0	26.3%	\$ (29.3)
Canadian dividend income not subject to tax	(3.9%)	(6.3)	5.3%	(5.9)
Non-deductible expenses	0.2%	0.3	(0.4%)	0.5
Other	(1.0%)	(1.7)	2.3%	(2.6)
Income tax expense (recovery) recorded in net (loss) income	21.6%	\$ 35.3	33.5%	\$ (37.3)

<i>(in millions of dollars)</i>	Nine months ended September 30			
	2023		2022	
Current income taxes		\$ 51.2		\$ (31.8)
Deferred income taxes		(15.9)		(5.5)
Income tax expense (recovery)		\$ 35.3		\$ (37.3)

10. OTHER ASSETS

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

<i>(in millions of dollars)</i>	Notes	As at	
		September 30, 2023	December 31, 2022
Pension asset	16	\$ 40.3	\$ 40.3
Investments in associates		49.0	36.7
Prepaid expenses and other		40.1	29.7
Accrued investment income		31.8	26.6
Other receivables		40.3	19.2
		\$ 201.5	\$ 152.5

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

<i>(in millions of dollars)</i>	Notes	As at September 30, 2023	As at December 31, 2022
Accounts payable and other		\$ 49.7	\$ 77.9
Lease liabilities		35.3	31.7
Pension and non-pension benefit obligations	16	26.0	26.3
Deferred share unit plans	15	4.7	3.1
		<b>\$ 115.7</b>	<b>\$ 139.0</b>

12. DEBT OUTSTANDING

The Company and certain of its subsidiaries have access to a \$150 million unsecured committed credit facility, which will automatically increase to \$700 million if and when the Company is continued under the *Canada Business Corporations Act*. During the three-month period ended September 30, 2023, no amounts were drawn on the Company's credit facility. During the nine months ended September 30, 2023, the Company drew \$75 million on the Company's credit facility in connection with the Company's purchase of McFarlan Rowlands, and \$39.3 million to repay McDougall's outstanding demand loans. The credit facility has a term ending on July 22, 2028, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets.

As at November 9, 2023, the Company is in compliance with the covenants and an amount of \$114.3 million has been drawn under this credit facility. The interest rate applicable is based on the current period's bankers' acceptance rate, Canadian prime rate, or SOFR plus a margin.

13. SHARE CAPITAL

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

<i>(in millions of dollars, except as otherwise noted)</i>	Three months ended September 30			
		2023		2022
	Number of shares (in millions)	Amount	Number of shares (in millions)	Amount
Issued and outstanding, beginning and end of period	115.9	\$ 2,307.8	115.9	\$ 2,307.8
Shares held in trust, beginning of period	(0.8)	(26.2)	(0.9)	(27.9)
Purchased for future settlement of the Long-Term Incentive Plan ("LTIP") and Medium-Term Incentive Plan ("MTIP")	-	-	(0.3)	(12.5)
Shares held in trust, end of period	(0.8)	(26.2)	(1.2)	(40.4)
Issued and outstanding, net of shares held in trust, end of period	115.1	\$ 2,281.6	114.7	\$ 2,267.4

DEFINITY FINANCIAL CORPORATION

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SEPTEMBER 30, 2023

13. SHARE CAPITAL (continued)

			Nine months ended September 30	
			2023	2022
	Number of shares (in millions)	Amount	Number of shares (in millions)	Amount
<i>(in millions of dollars, except as otherwise noted)</i>				
Issued and outstanding, beginning and end of period	115.9	\$ 2,307.8	115.9	\$ 2,307.8
Shares held in trust, beginning of period	(1.5)	(53.6)	-	-
Purchased for future settlement of the LTIP and MTIP	(0.2)	(4.9)	(1.2)	(40.4)
Released for settlement of the LTIP and MTIP	0.9	32.3	-	-
Shares held in trust, end of period	(0.8)	(26.2)	(1.2)	(40.4)
Issued and outstanding, net of shares held in trust, end of period	115.1	\$ 2,281.6	114.7	\$ 2,267.4

On May 11, 2023, the Company's Board of Directors approved the renewal of the normal course issuer bid ("NCIB"). Under the NCIB, the Company is authorized to purchase up to 3,476,781 common shares, representing 3% of the Company's issued and outstanding common shares during the period commencing May 31, 2023 and ending May 30, 2024. As at September 30, 2023, no common shares had been repurchased and cancelled under the initial or renewed NCIB.

On November 9, 2023, the Board of Directors 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.

No preferred shares were issued and outstanding.

14. (LOSS) EARNINGS PER COMMON SHARE

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

	Three months ended September 30	
	2023	2022
<i>(in millions of dollars, except as otherwise noted)</i>		
Net (loss) income attributable to common shareholders	\$ (48.3)	\$ 35.7
Weighted average common shares outstanding (in millions)	115.1	114.9
Dilutive effect of share-based compensation plans (in millions)	-	1.9
Weighted average of diluted common shares outstanding (in millions)	115.1	116.8
EPS (in dollars)		
Basic	\$ (0.42)	\$ 0.31
Diluted	\$ (0.42)	\$ 0.31

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14. (LOSS) EARNINGS PER COMMON SHARE (continued)

<i>(in millions of dollars, except as otherwise noted)</i>	Nine months ended September 30	
	2023	2022
Net income (loss) attributable to common shareholders	\$ 124.2	\$ (74.1)
Weighted average common shares outstanding (in millions)	115.0	115.3
Dilutive effect of share-based compensation plans (in millions)	1.6	-
Weighted average of diluted common shares outstanding (in millions)	116.6	115.3
EPS (in dollars)		
Basic	\$ 1.08	\$ (0.64)
Diluted	\$ 1.06	\$ (0.64)

15. SHARE-BASED COMPENSATION PLANS

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

*Restricted units ("RUs") and restricted share units ("RSUs")*

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

	Three months ended September 30	
	2023	2022
	Number of units	Number of units
Outstanding, beginning of period	845,990	1,004,583
Awarded	29,750	9,920
Forfeited	(11,014)	(5,678)
Settled	(13,178)	(2,876)
Outstanding, end of period	851,548	1,005,949

	Nine months ended September 30	
	2023	2022
	Number of units	Number of units
Outstanding, beginning of period	998,685	1,102,254
Awarded	265,966	284,994
Forfeited	(45,056)	(36,957)
Settled	(368,047)	(344,342)
Outstanding, end of period	851,548	1,005,949

The recorded compensation expense during the three-month period ended September 30, 2023 for the RUs and RSUs was \$2.2 million (September 30, 2022: \$2.0 million). The recorded compensation expense during the nine-month period ended September 30, 2023 for the RUs and RSUs was \$6.4 million (September 30, 2022: \$5.7 million). The aggregate contributed surplus balance attributable to the RUs and RSUs as at September 30, 2023 was \$14.6 million (December 31, 2022: \$15.9 million).

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15. SHARE-BASED COMPENSATION PLANS (continued)

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

*Performance units (“PUs”) and performance share units (“PSUs”)*

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

	Three months ended September 30	
	2023	2022
	Number of units	Number of units
Outstanding, beginning of period	746,480	924,892
Awarded	5,296	2,936
Forfeited	(7,073)	(7,714)
Outstanding, end of period	744,703	920,114

	Nine months ended September 30	
	2023	2022
	Number of units	Number of units
Outstanding, beginning of period	915,452	972,752
Awarded	193,747	260,699
Forfeited	(22,083)	(28,593)
Settled	(342,413)	(284,744)
Outstanding, end of period	744,703	920,114

The recorded compensation expense during the three-month period ended September 30, 2023 for the PUs and PSUs was \$2.3 million (September 30, 2022: \$4.2 million). The recorded compensation expense during the nine-month period ended September 30, 2023 for the PUs and PSUs was \$8.1 million (September 30, 2022: \$9.5 million). The aggregate contributed surplus balance attributable to the PUs and PSUs as at September 30, 2023 was \$19.9 million (December 31, 2022: \$24.3 million).

(b) Deferred share unit plans

As at September 30, 2023, there were 126,988 deferred share units (“DSUs”) outstanding (December 31, 2022: 80,757 DSUs). The DSU liability as at September 30, 2023 was \$4.7 million (December 31, 2022: \$3.1 million).

(c) Stock option plan

The Company has a stock option plan in place for certain employees, which became effective as of November 23, 2021. Grants under this plan made during the three-month period ended September 30, 2023 amounted to 4,151 stock options. Grants under this plan made during the nine-month period ended September 30, 2023 amounted to 182,042 stock options. The recorded compensation expense during the three-month period ended September 30, 2023 for the stock options was \$0.1 million (September 30, 2022: nil). The recorded compensation expense during the nine-month period ended September 30, 2023 for the stock options was \$0.3 million (September 30, 2022: nil).

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16. POST-EMPLOYMENT BENEFITS

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

The contribution to be paid by the Company to the defined benefit pension plans is determined each year by the Company's pension actuaries based on the latest actuarial valuations of all its plans. The total contributions to the defined benefit pension plans made by the Company during the three-month period ended September 30, 2023 were \$0.3 million (September 30, 2022: \$0.4 million) and for the nine-month period ended September 30, 2023 were \$1.3 million (September 30, 2022: \$1.3 million).

Under the defined contribution component of the pension plan, the Company contributes a fixed percentage of an employee's pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan during the three-month period ended September 30, 2023 were \$5.5 million (September 30, 2022: \$5.2 million) and for the nine-month period ended September 30, 2023 were \$17.1 million (September 30, 2022: \$15.5 million).

The following table presents the actuarial (losses) gains for the post-employment benefit obligation recognized in OCI during the period:

<i>(in millions of dollars)</i>	Three months ended September 30	
	2023	2022
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	\$ 11.6	\$ -
Return on plan assets excluding interest income	(13.2)	-
	\$ (1.6)	\$ -

<i>(in millions of dollars)</i>	Nine months ended September 30	
	2023	2022
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	\$ 7.2	\$ 57.0
Return on plan assets excluding interest income	(7.4)	(32.9)
	\$ (0.2)	\$ 24.1

The discount rate as at September 30, 2023 used to determine the defined benefit obligations for the Company's pension plans was 5.7% (December 31, 2022: 5.2%) and other benefit plans was 5.7% (December 31, 2022: 5.2%).

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17. EXPENSES

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

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

<i>(in millions of dollars)</i>	Three months ended September 30, 2023			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	\$ -	\$ 714.3	\$ 13.1	\$ 727.4
Discounting recovery in insurance service expenses	-	(43.0)	-	(43.0)
Risk adjustment recovery	-	(0.7)	-	(0.7)
Commissions	125.7	12.2	-	137.9
Operating expenses	47.9	41.4	19.3	108.6
Premium taxes	34.0	-	-	34.0
Losses on onerous insurance contracts	-	0.4	-	0.4
Public company expenses	-	-	6.7	6.7
Distribution:				
Distribution business expenses	-	-	22.8	22.8
Amortization of intangible assets recognized in business combinations on distribution business	-	-	5.4	5.4
Interest on restricted cash, less demutualization and IPO-related expenses	-	-	(2.8)	(2.8)
Share of loss from investments in other associates	-	-	0.9	0.9
Other	-	-	2.5	2.5
	\$ 207.6	\$ 724.6	\$ 67.9	\$ 1,000.1
Insurance service expenses				932.2
Other expenses (income)				67.9
				\$ 1,000.1

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17. EXPENSES (continued)

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

<i>(in millions of dollars)</i>	Three months ended September 30, 2022			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	\$ -	\$ 610.1	\$ 15.9	\$ 626.0
Discounting recovery in insurance service expenses	-	(33.1)	-	(33.1)
Risk adjustment expense	-	2.9	-	2.9
Commissions	117.0	17.1	-	134.1
Operating expenses	47.4	42.1	21.4	110.9
Premium taxes	31.2	-	-	31.2
Losses on onerous insurance contracts	-	1.0	-	1.0
Public company expenses	-	-	6.5	6.5
Distribution:				
Share of distribution profit from investments in associates	-	-	(1.3)	(1.3)
Amortization of intangible assets recognized in business combinations on distribution business	-	-	0.4	0.4
Interest on restricted cash, less demutualization and IPO-related expenses	-	-	(1.3)	(1.3)
Share of profit from investments in other associates	-	-	(0.6)	(0.6)
Other	-	-	0.9	0.9
	<b>\$ 195.6</b>	<b>\$ 640.1</b>	<b>\$ 41.9</b>	<b>\$ 877.6</b>
Insurance service expenses				835.7
Other expenses (income)				41.9
				<b>\$ 877.6</b>

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17. EXPENSES (continued)

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

<i>(in millions of dollars)</i>	Nine months ended September 30, 2023			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	\$ -	\$ 1,856.2	\$ 42.2	\$ 1,898.4
Discounting recovery in insurance service expenses	-	(123.8)	-	(123.8)
Risk adjustment recovery	-	(6.4)	-	(6.4)
Commissions	367.8	47.2	-	415.0
Operating expenses	142.5	139.3	61.2	343.0
Premium taxes	99.1	-	-	99.1
Gains on onerous insurance contracts	-	(2.1)	-	(2.1)
Public company expenses	-	-	19.0	19.0
Distribution:				
Distribution business expenses	-	-	61.0	61.0
Amortization of intangible assets recognized in business combinations on distribution business	-	-	13.9	13.9
Interest on restricted cash, less demutualization and IPO-related expenses	-	-	(8.2)	(8.2)
Share of profit from investments in other associates	-	-	(0.2)	(0.2)
Other	-	-	3.9	3.9
	\$ 609.4	\$ 1,910.4	\$ 192.8	\$ 2,712.6
Insurance service expenses				2,519.8
Other expenses (income)				192.8
				\$ 2,712.6

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17. EXPENSES (continued)

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

<i>(in millions of dollars)</i>	Nine months ended September 30, 2022			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	\$ -	\$ 1,587.7	\$ 47.3	\$ 1,635.0
Discounting recovery in insurance service expenses	-	(79.5)	-	(79.5)
Risk adjustment recovery	-	(2.2)	-	(2.2)
Commissions	342.1	55.0	-	397.1
Operating expenses	137.6	119.2	64.1	320.9
Premium taxes	89.8	-	-	89.8
Losses on onerous insurance contracts	-	1.4	-	1.4
Public company expenses	-	-	18.3	18.3
Distribution:				
Share of distribution profit from investments in associates	-	-	(6.9)	(6.9)
Amortization of intangible assets recognized in business combinations on distribution business	-	-	1.0	1.0
Interest on restricted cash, less demutualization and IPO-related expenses	-	-	1.0	1.0
Share of profit from investments in other associates	-	-	(1.3)	(1.3)
Other	-	-	1.2	1.2
	\$ 569.5	\$ 1,681.6	\$ 124.7	\$ 2,375.8
Insurance service expenses				2,251.1
Other expenses (income)				124.7
				\$ 2,375.8

(b) Net (expenses) income from reinsurance contracts held

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

<i>(in millions of dollars)</i>	Three months ended September 30	
	2023	2022
Earned reinsurance premiums	\$ 80.5	\$ 63.5
Claims recoverable from reinsurers for incurred claims	(69.4)	(88.9)
Commissions earned on ceded reinsurance	(12.5)	(9.0)
Discounting in net (expenses) income from reinsurance contracts held	2.8	5.4
Risk adjustment	0.1	(1.9)
	\$ 1.5	\$ (30.9)

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17. EXPENSES (continued)

(b) Net (expenses) income from reinsurance contracts held (continued)

<i>(in millions of dollars)</i>	Nine months ended September 30	
	2023	2022
Earned reinsurance premiums	\$ 226.3	\$ 173.2
Claims recoverable from reinsurers for incurred claims	(153.7)	(138.3)
Commissions earned on ceded reinsurance	(37.4)	(27.8)
Discounting in net (expenses) income from reinsurance contracts held	15.2	9.0
Risk adjustment	(0.2)	(1.9)
	\$ 50.2	\$ 14.2

18. CASH FLOWS FROM OPERATING ACTIVITIES

The following table shows the changes in operating assets and liabilities included in the interim consolidated statements of cash flows during the period:

<i>(in millions of dollars)</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
Adjustments for non-cash items:				
Amortization and depreciation				
Bond premium/discount	\$ (5.0)	\$ 1.0	\$ (12.0)	\$ 10.1
Property and equipment	3.5	2.1	10.1	7.2
Intangible assets	23.8	15.0	67.2	43.3
Net investment losses	99.8	39.2	70.8	464.2
Share-based compensation	4.6	6.2	14.7	15.1
Share of loss (profit) from investments in associates	0.9	(1.5)	(0.2)	(7.2)
	\$ 127.6	\$ 62.0	\$ 150.6	\$ 532.7
Changes in operating assets and liabilities:				
Reinsurance contract assets	(3.7)	(53.1)	(0.8)	(56.1)
Other operating assets	1.2	(5.6)	(25.2)	(20.2)
Insurance contract liabilities	146.3	113.9	(49.8)	(30.8)
Accounts payable and other liabilities	(9.2)	12.8	(25.7)	(8.4)
	\$ 134.6	\$ 68.0	\$ (101.5)	\$ (115.5)

19. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS

Geopolitical events and the COVID-19 pandemic have resulted in heightened economic uncertainty, volatile global financial markets, and further economic challenges, including rising inflation and global supply chain disruption. Persistent and rising inflation has prompted central banks to significantly raise interest rates. The Company's strong capital position and its proactive capital and risk management practices developed in recent years have enabled the Company to react rapidly to the changing environment.

DEFINITY FINANCIAL CORPORATION

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**19. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS (continued)**

Along with many other P&C insurers in Canada, Definity Insurance has been named as a defendant in litigation for certain business interruption losses related to the COVID-19 pandemic, seeking to establish coverage under insurance policies, including national and regional class proceedings. An Ontario class action on behalf of a national class (excluding Québec) proceeded to trial earlier this year 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 June 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.

**20. INSURANCE RISK MANAGEMENT**

By the very nature of an insurance contract, there is uncertainty as to whether an insured event will occur and the amount of loss that would arise in such an event. In the course of these insurance activities, there are several risks the Company must address by applying appropriate underwriting and claims policies and processes. Note 10 of the Company's audited consolidated financial statements for the year ended December 31, 2022 outlines the most significant insurance risks and the practices employed to mitigate these risks. The below has been updated as at December 31, 2022, as applicable, to reflect the adoption of IFRS 17.

The following table presents the interest rate sensitivity analysis for a one percentage point change in interest rates on the LIC after risk mitigation by reinsurance as at December 31, 2022:

*(in millions of dollars)*

		+1 pt	-1 pt
LIC after risk mitigation by reinsurance	\$	(59.0)	\$ 63.2

The analysis below demonstrates the impact of changing assumptions for all lines of business and regions in such a way that the average claim severity and frequency is altered significantly. The analysis below also isolates the impact within the average claims severity of a change in internal claims expenses on the LIC. The impacts below are on the LIC after risk mitigation by reinsurance as at December 31, 2022.

*(in millions of dollars)*

		+5%	-5%
Change in average claims severity	\$	143.7	\$ (143.7)
Change in frequency on unreported claims	\$	13.2	\$ (13.2)
Change in internal claims expenses	\$	8.5	\$ (8.5)

The following table presents the sensitivity of risk adjustment for a five percentage point change in the confidence level on the LIC after risk mitigation by reinsurance as at December 31, 2022.

*(in millions of dollars)*

		+5 pts	-5 pts
Change in risk adjustment	\$	45.3	\$ (37.0)

DEFINITY FINANCIAL CORPORATION

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21. FINANCIAL RISK MANAGEMENT

The Company's financial instruments, including investments, are exposed to interest rate risk (including the impact of credit spreads), equity market price risk and preferred stock price risk, credit risk, foreign exchange risk, and liquidity risk as disclosed in note 8 of the Company's audited consolidated financial statements for the year ended December 31, 2022. The below has been updated as at December 31, 2022 to reflect the adoption of IFRS 9.

(a) Interest rate risk

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

<i>(in millions of dollars)</i>	December 31, 2022	
	Change in assumption	Impact on income (loss) before income taxes
Fair value of bonds	+ 1 pt	\$ (143.7)
Fair value of bonds	- 1 pt	\$ 161.5

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

The estimated impact of a 10% movement in the indices (S&P/Toronto Stock Exchange 60 Index - Canadian common stocks, MSCI World Index - foreign stocks and pooled funds, and Solactive Canadian Rate Reset Preferred Share Index - preferred stocks) with all other variables held constant, to the extent the Company does not dispose of any of these equities during the year, is as follows:

<i>(in millions of dollars)</i>	December 31, 2022	
	Change in assumption	Impact on income (loss) before income taxes
Fair value of Canadian stocks	+ 10%	\$ 38.3
Fair value of foreign stocks and pooled funds	+ 10%	\$ 19.7
Fair value of FVTPL preferred stocks	+ 10%	\$ 12.9
Fair value of Canadian stocks	- 10%	\$ (38.3)
Fair value of foreign stocks and pooled funds	- 10%	\$ (19.7)
Fair value of FVTPL preferred stocks	- 10%	\$ (12.9)

<i>(in millions of dollars)</i>	December 31, 2022	
	Change in assumption	Impact on OCI before income taxes
Fair value of FVTOCI preferred stocks	+ 10%	\$ 19.2
Fair value of FVTOCI preferred stocks	- 10%	\$ (19.2)