

DEFINITY FINANCIAL CORPORATION

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

FOR THE THIRD QUARTER ENDED
SEPTEMBER 30, 2024

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, 2024	December 31, 2023
ASSETS			
Cash and cash equivalents		\$ 245.9	\$ 197.5
Restricted cash	18	185.7	244.0
Investments	6	5,069.4	4,931.0
Income taxes receivable		5.7	-
Reinsurance contract assets	7	358.0	330.4
Property and equipment		105.0	103.1
Deferred income tax assets		14.4	23.6
Goodwill and intangible assets	5	1,327.6	1,229.9
Other assets	9	220.0	200.0
		\$ 7,531.7	\$ 7,259.5
LIABILITIES AND EQUITY			
Insurance contract liabilities	7	\$ 3,659.0	\$ 3,493.8
Accounts payable and other liabilities	10	130.3	131.9
Income taxes payable		32.5	117.9
Deferred income tax liabilities		150.1	150.7
Debt outstanding	17	114.3	114.3
Demutualization amounts outstanding	18	185.7	244.0
		4,271.9	4,252.6
EQUITY			
Share capital	11	2,254.5	2,273.0
Contributed surplus	13	34.5	40.4
Retained earnings		808.2	561.3
Accumulated other comprehensive loss		(7.6)	(27.0)
Equity attributable to common shareholders		3,089.6	2,847.7
Non-controlling interests		170.2	159.2
Total equity		3,259.8	3,006.9
		\$ 7,531.7	\$ 7,259.5

Contingencies 16

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

FOR THE PERIODS ENDED SEPTEMBER 30

(in millions of dollars)

	Notes	Three months ended		Nine months ended	
		2024	2023	2024	2023
Insurance revenue	7	\$ 1,095.5	\$ 984.1	\$ 3,133.5	\$ 2,846.5
Insurance service expenses	7,14	(1,051.7)	(932.2)	(2,750.3)	(2,519.8)
Net expenses from reinsurance contracts held	7,14	(18.2)	(1.5)	(67.8)	(50.2)
Insurance service result		25.6	50.4	315.4	276.5
Net investment income	6	49.0	46.3	147.1	130.1
Recognized gains (losses) on FVTPL investments	6	172.8	(99.8)	206.7	(70.8)
Investment income (loss)		221.8	(53.5)	353.8	59.3
Finance expenses from insurance contracts issued	7	(74.6)	(27.5)	(145.6)	(73.4)
Finance income from reinsurance contracts held	7	7.0	1.8	13.1	5.8
Net insurance financial result		(67.6)	(25.7)	(132.5)	(67.6)
Net insurance and investment result		179.8	(28.8)	536.7	268.2
Distribution revenues		50.6	34.1	139.4	91.6
Other (expenses) income	14	(87.2)	(67.9)	(246.4)	(192.8)
Interest expense		(2.6)	(1.7)	(7.6)	(3.6)
Income (loss) before income taxes		140.6	(64.3)	422.1	163.4
Income tax (expense) recovery	8	(34.3)	18.1	(104.7)	(35.3)
Net income (loss)		\$ 106.3	\$ (46.2)	\$ 317.4	\$ 128.1
Net income (loss) attributable to:					
Common shareholders		104.8	(48.3)	313.8	124.2
Non-controlling interests		1.5	2.1	3.6	3.9
Earnings (loss) per common share (in dollars)	12				
Basic		\$ 0.91	\$ (0.42)	\$ 2.73	\$ 1.08
Diluted		\$ 0.90	\$ (0.42)	\$ 2.69	\$ 1.06
Weighted average common shares outstanding (millions)	12				
Basic		114.8	115.1	115.0	115.0
Diluted		116.6	115.1	116.6	116.6
Dividends paid per common share (in dollars)	11	\$ 0.160	\$ 0.138	\$ 0.480	\$ 0.413

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

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

FOR THE PERIODS ENDED SEPTEMBER 30

(in millions of dollars)

	Notes	Three months ended		Nine months ended	
		2024	2023	2024	2023
Net income (loss)		\$ 106.3	\$ (46.2)	\$ 317.4	\$ 128.1
Item that may be reclassified subsequently to net income (loss):					
Foreign exchange (loss) gain on investments in associates		(0.5)	0.8	0.8	-
		(0.5)	0.8	0.8	-
Items that will not be reclassified subsequently to net income (loss):					
Recognized gains (losses) on FVTOCI investments	6	6.6	(3.3)	25.2	(3.2)
Post-employment benefit obligation gain (loss)		1.0	(1.6)	6.6	(0.2)
Income tax (expense) recovery		(1.9)	1.3	(8.3)	0.9
		5.7	(3.6)	23.5	(2.5)
Other comprehensive income (loss)		5.2	(2.8)	24.3	(2.5)
Comprehensive income (loss)		\$ 111.5	\$ (49.0)	\$ 341.7	\$ 125.6
Comprehensive income (loss) attributable to:					
Common shareholders		110.0	(51.1)	338.1	121.7
Non-controlling interests		1.5	2.1	3.6	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)

2024							
	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Equity attributable to non-controlling interests	Total equity
Balance, December 31, 2023		\$ 2,273.0	\$ 40.4	\$ 561.3	\$ (27.0) ²	\$ 159.2	\$ 3,006.9
Net income attributable to common shareholders		-	-	313.8	-	-	313.8
Net income attributable to non-controlling interests		-	-	-	-	3.6	3.6
Other comprehensive income		-	-	4.9 ¹	19.4	-	24.3
Total comprehensive income		-	-	318.7	19.4	3.6	341.7
Equity-settled share-based compensation	13	15.6	(5.9)	(16.5)	-	-	(6.8)
Shares purchased and held in trust	11	(34.1)	-	-	-	-	(34.1)
Dividends to common shareholders		-	-	(55.3)	-	-	(55.3)
Dividends to non-controlling interests		-	-	-	-	(2.3)	(2.3)
Equity subscriptions	5	-	-	-	-	9.7	9.7
Balance, September 30, 2024		\$ 2,254.5	\$ 34.5	\$ 808.2	\$ (7.6) ²	\$ 170.2	\$ 3,259.8

2023							
	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Equity attributable to non-controlling interests	Total equity
Balance, December 31, 2022		\$ 2,254.2	\$ 40.2	\$ 287.8	\$ (32.4)	\$ 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) ¹	(2.4)	-	(2.5)
Total comprehensive income (loss)		-	-	124.1	(2.4)	3.9	125.6
Equity-settled share-based compensation	13	32.3	(5.5)	(12.1)	-	-	14.7
Shares purchased and held in trust	11	(4.9)	-	-	-	-	(4.9)
Dividends to common shareholders		-	-	(47.5)	-	-	(47.5)
Dividends to non-controlling interests		-	-	-	-	(0.7)	(0.7)
Equity subscriptions		-	-	-	-	44.2	44.2
Balance, September 30, 2023		\$ 2,281.6	\$ 34.7	\$ 352.3	\$ (34.8)	\$ 155.9	\$ 2,789.7

¹ Actuarial gains for the post-employment benefit obligation recognized in retained earnings (net of income tax expense of \$1.7 million (September 30, 2023: nil)).

² Included in accumulated other comprehensive loss was \$5.6 million (December 31, 2023: \$4.8 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	
		2024	2023	2024	2023
Operating activities:					
Income (loss) before income taxes		\$ 140.6	\$ (64.3)	\$ 422.1	\$ 163.4
Income taxes (paid) recovered, net		(22.9)	19.2	(204.7)	11.3
Adjustments for non-cash items	15	(141.5)	127.6	(116.5)	150.6
Changes in operating assets and liabilities	15	194.7	134.6	84.3	(101.5)
Net cash provided by operating activities		170.9	217.1	185.2	223.8
Investing activities:					
Investments purchased		(1,336.7)	(1,407.8)	(5,216.8)	(5,561.3)
Investments sold, redeemed, or matured		1,281.7	1,472.3	5,331.5	5,799.7
Commercial loans advanced		-	(8.8)	-	(8.8)
Commercial loans collected		0.5	0.5	1.5	1.8
Purchases of intangible assets and property and equipment		(19.6)	(26.1)	(61.3)	(70.1)
Business acquisitions, net of cash acquired		(14.8)	(11.6)	(100.0)	(202.6)
Net cash (used in) provided by investing activities		(88.9)	18.5	(45.1)	(41.3)
Financing activities:					
Dividends paid on common shares		(18.4)	(15.9)	(55.3)	(47.5)
Dividends paid to non-controlling interests		(1.0)	(0.3)	(2.3)	(0.7)
Common shares purchased and held in trust	11	(14.8)	-	(34.1)	(4.9)
Change in demutualization amounts outstanding		(24.1)	(11.5)	(58.3)	(44.8)
Net repurchase of securities sold under repurchase agreements		(50.0)	-	-	-
Borrowing on credit facility		-	-	-	114.3
Repayment of demand loans		-	-	-	(39.1)
Net cash used in financing activities		(108.3)	(27.7)	(150.0)	(22.7)
Cash and cash equivalents, and restricted cash:					
Net (decrease) increase during the period		(26.3)	207.9	(9.9)	159.8
Balance, beginning of the period		457.9	454.5	441.5	502.6
Balance, end of the period		\$ 431.6	\$ 662.4	\$ 431.6	\$ 662.4
Cash		\$ 194.8	\$ 321.1	\$ 194.8	\$ 321.1
Cash equivalents		51.1	84.0	51.1	84.0
Total cash and cash equivalents		\$ 245.9	\$ 405.1	\$ 245.9	\$ 405.1
Restricted cash		185.7	257.3	185.7	257.3
Total cash and cash equivalents, and restricted cash		\$ 431.6	\$ 662.4	\$ 431.6	\$ 662.4

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

1. NATURE OF OPERATIONS

Definity Financial Corporation (the “Company”), through its subsidiaries, offers property and casualty insurance in Canada. The Company was incorporated on June 30, 2021 and is domiciled in Canada. Its registered office and principal place of business is 111 Westmount Road South, Waterloo, Ontario, Canada. The Company became the parent company of Definity Insurance Company (“Definity Insurance”) upon completion of the conversion of Definity Insurance from a mutual company to a company with share capital pursuant to the *Insurance Companies Act* (Canada) (“ICA”) and regulations thereunder, a process known as “demutualization”. On January 1, 2024, Definity Financial Corporation ceased to be incorporated under the ICA and continued to the *Canada Business Corporations Act*. The Company’s shares are publicly traded on the Toronto Stock Exchange (TSX: DFY).

These condensed interim consolidated financial statements (“interim financial statements”), which include the Company and its subsidiaries, were authorized for issuance and approved by the Company’s Board of Directors on November 7, 2024.

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, as issued by the International Accounting Standards Board, 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 4 of the Company’s audited consolidated financial statements for the year ended December 31, 2023. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2023.

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, Sonnet Insurance Company, Petline Insurance Company, Westmount Financial Inc., McDougall Insurance Brokers Limited (“McDougall”), Family Insurance Solutions Inc., and TEIG Investment Partnership (which holds the investment portfolio for Definity Insurance and a portion of the investment portfolio for Sonnet Insurance Company). Each of these significant operating 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 interest since acquisition and reduced by any dividends received. All intercompany transactions and balances have been eliminated on consolidation to the extent of the interest in the associate.

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

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements were prepared using the same accounting policies as disclosed in note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2023.

During the nine months ended September 30, 2024, the Company entered into repurchase agreements to manage short-term cash flow requirements. Transactions through the repurchase agreements represent short-term funding transactions where the Company sells securities to major Canadian financial institutions and subsequently repurchases them at a specified price on a specified date in the future. As the Company does not substantially transfer the risks and rewards related to the securities sold, these assets, if any at the end of the period, remain on the interim consolidated balance sheets. The obligation to repurchase the securities sold, if any at the end of the period, is classified as other financial liabilities and is presented as "Securities sold under repurchase agreements" in the interim consolidated balance sheets. The interest expense associated with this obligation is included in "Interest expense" in the interim consolidated statements of comprehensive income (loss).

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

In April 2024, the International Accounting Standards Board ("IASB") issued IFRS 18 – *Presentation and Disclosure in Financial Statements* ("IFRS 18") which replaces IAS 1 – *Presentation of Financial Statements* ("IAS 1"). IFRS 18 carries forward many requirements from IAS 1 unchanged. IFRS 18 introduces new requirements on the presentation of specified categories and defined subtotals in the statements of income, disclosure of management-defined performance measures in the notes to the financial statements, and aggregation and disaggregation of financial information in the financial statements. IFRS 18 also makes certain amendments to IAS 7 – *Statement of Cash Flows*. The standard is effective for annual periods beginning on or after January 1, 2027, with earlier application permitted. Retrospective application is required, with specific transition provisions. The Company is currently assessing the impact of this standard on the presentation and disclosure of its consolidated financial statements.

In May 2024, the IASB issued amendments to IFRS 9 – *Financial Instruments* and IFRS 7 – *Financial Instruments: Disclosures*. The amendments clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest criterion and clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system. The amendment also introduced additional disclosure requirements regarding investments in equity instruments designated at fair value through other comprehensive income ("FVTOCI") and financial instruments with contractual terms that can change cash flows, such as some instruments with features linked to the achievement of environmental, social, and governance targets. The amendments are effective for annual periods beginning on or after January 1, 2026, with earlier application permitted. Retrospective application is required. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

5. BUSINESS COMBINATIONS

During the nine months ended September 30, 2024, the Company's subsidiary McDougall completed several broker acquisitions for total cash and share consideration of approximately \$118 million (subject to post-closing adjustments). The initial purchase price of the acquisitions was funded with cash of \$104 million, net of holdbacks for post-closing adjustments, and \$8 million in equity subscriptions in McDougall. Upon completion of the broker acquisitions during the nine months ended September 30, 2024, the Company's ownership interest in McDougall was approximately 77% (December 31, 2023: 77%).

The allocation of the purchase price of the acquisitions to the fair value of assets acquired and liabilities assumed as at the acquisition dates included customer relationships of \$48.9 million and a residual of \$71.2 million allocated to goodwill. 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 rates which were based on the brokers' weighted-average cost of capital. The acquired customer relationships are being amortized on a straight-line basis over 15 years.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

5. BUSINESS COMBINATIONS (continued)

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

6. INVESTMENTS

(a) Investment income (loss) and balances

Total investment income (loss) recognized in net income (loss) and other comprehensive income (loss) ("OCI") by financial instrument classification was as follows:

<i>(in millions of dollars)</i>	Three months ended September 30, 2024		
	FVTPL	FVTOCI	Total
Interest	\$ 42.0	\$ -	\$ 42.0
Dividends	6.0	2.6	8.6
Investment expenses	-	-	(1.6)
Net investment income	48.0	2.6	49.0
Realized gains on sale of FVTPL investments	20.3	-	20.3
Unrealized gains on FVTPL investments	152.5	-	152.5
Recognized gains on investments in net income	172.8	-	172.8
Realized losses on FVTOCI preferred stocks	-	(1.2)	(1.2)
Unrealized gains on FVTOCI preferred stocks	-	7.8	7.8
Recognized gains on investments in OCI	-	6.6	6.6
	\$ 220.8	\$ 9.2	\$ 228.4

<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	(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>	Nine months ended September 30, 2024		
	FVTPL	FVTOCI	Total
Interest	\$ 124.5	\$ -	\$ 124.5
Dividends	19.5	7.9	27.4
Investment expenses	-	-	(4.8)
Net investment income	144.0	7.9	147.1
Realized gains on sale of FVTPL investments	18.9	-	18.9
Unrealized gains on FVTPL investments	187.8	-	187.8
Recognized gains on investments in net income	206.7	-	206.7
Realized losses on FVTOCI preferred stocks	-	(6.3)	(6.3)
Unrealized gains on FVTOCI preferred stocks	-	31.5	31.5
Recognized gains on investments in OCI	-	25.2	25.2
	\$ 350.7	\$ 33.1	\$ 379.0

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

6. INVESTMENTS (continued)

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

<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 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

Investment carrying values by financial instrument classification were as follows:

<i>(in millions of dollars)</i>	As at September 30, 2024		
	FVTPL	FVTOCI	Total
Short-term investments	\$ 119.5	\$ -	\$ 119.5
Bonds:			
Government	2,387.9	-	2,387.9
Corporate	1,469.1	-	1,469.1
Preferred stocks	147.9	175.0	322.9
Common stocks	677.1	-	677.1
Pooled funds	76.1	-	76.1
Commercial loans	16.8	-	16.8
	\$ 4,894.4	\$ 175.0	\$ 5,069.4

<i>(in millions of dollars)</i>	As at December 31, 2023		
	FVTPL	FVTOCI	Total
Short-term investments	\$ 137.0	\$ -	\$ 137.0
Bonds:			
Government	2,447.3	-	2,447.3
Corporate	1,325.7	-	1,325.7
Preferred stocks	149.1	183.7	332.8
Common stocks	595.5	-	595.5
Pooled funds	74.7	-	74.7
Commercial loans	18.0	-	18.0
	\$ 4,747.3	\$ 183.7	\$ 4,931.0

The fair value of the FVTOCI preferred stocks disposed of during the three months ended September 30, 2024 was \$11.8 million (September 30, 2023: \$8.8 million). The fair value of the FVTOCI preferred stocks disposed of during the nine months ended September 30, 2024 was \$45.3 million (September 30, 2023: \$32.9 million).

The fair value yield as at September 30, 2024 for the bond portfolio was 3.37% (December 31, 2023: 4.01%).

Of the bonds held as at September 30, 2024, 85.5% (December 31, 2023: 85.2%) were rated "A-" or better and 90.6% (December 31, 2023: 81.4%) of the preferred stocks were rated "P2L" or better.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

6. INVESTMENTS (continued)

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

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

	As at September 30, 2024	As at December 31, 2023
Financial services	53.1%	49.8%
Energy	14.7%	14.2%
Communication services	10.7%	11.6%
Utilities	6.7%	7.1%
Industrials	6.0%	6.9%
Consumer staples	3.5%	3.6%
Other	5.3%	6.8%
	100.0%	100.0%

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

	As at September 30, 2024	As at December 31, 2023
Canada	99.0%	99.1%
United States	1.0%	0.9%
	100.0%	100.0%

(b) Financial instruments measured at fair value

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

(in millions of dollars)

	As at September 30, 2024			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 119.5	\$ -	\$ 119.5
Bonds	-	3,857.0	-	3,857.0
Preferred stocks	322.9	-	-	322.9
Common stocks	677.1	-	-	677.1
Pooled funds	-	42.6	33.5	76.1
Commercial loans	-	-	16.8	16.8
	\$ 1,000.0	\$ 4,019.1	\$ 50.3	\$ 5,069.4

(in millions of dollars)

	As at December 31, 2023			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 137.0	\$ -	\$ 137.0
Bonds	-	3,773.0	-	3,773.0
Preferred stocks	332.8	-	-	332.8
Common stocks	595.5	-	-	595.5
Pooled funds	-	48.4	26.3	74.7
Commercial loans	-	-	18.0	18.0
	\$ 928.3	\$ 3,958.4	\$ 44.3	\$ 4,931.0

There were no transfers of financial instruments between the levels during the three or nine months ended September 30, 2024 (year ended December 31, 2023: nil).

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

6. INVESTMENTS (continued)

(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, 2024, the Company had derivative financial assets with a notional amount of \$176.2 million (December 31, 2023: \$103.4 million) and derivative financial liabilities with a notional amount of \$19.1 million (December 31, 2023: nil). These derivatives have an expected maturity date within the next year. The fair value of the derivative financial instruments was not significant.

7. INSURANCE AND REINSURANCE CONTRACTS

(a) Insurance contract liabilities

The roll-forward of the liabilities for insurance contracts issued, showing the liabilities for remaining coverage and the liabilities for incurred claims, is presented in the following tables:

<i>(in millions of dollars)</i>	Three months ended September 30, 2024				
	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	\$ 349.0	\$ 19.5	\$ 2,877.7	\$ 169.8	\$ 3,416.0
Insurance revenue	(1,095.5)	-	-	-	(1,095.5)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	-	(8.4)	844.9	16.5	853.0
Amortization of insurance acquisition cash flows	220.3	-	-	-	220.3
Changes in fulfilment cash flows relating to the liabilities for incurred claims	-	-	(20.4)	(8.6)	(29.0)
Losses on onerous contracts and reversals of such losses	-	7.4	-	-	7.4
Insurance service result	(875.2)	(1.0)	824.5	7.9	(43.8)
Finance expenses from insurance contracts issued	-	-	74.6	-	74.6
Total changes in the interim consolidated statements of income (loss)	(875.2)	(1.0)	899.1	7.9	30.8
Cash flows:					
Premiums received	1,136.8	-	-	-	1,136.8
Claims and other directly attributable expenses paid	-	-	(676.6)	-	(676.6)
Insurance acquisition cash flows	(226.0)	-	-	-	(226.0)
Total cash flows	910.8	-	(676.6)	-	234.2
Other movements	-	-	(22.0)	-	(22.0)
Insurance contract liabilities, end of period	\$ 384.6	\$ 18.5	\$ 3,078.2	\$ 177.7	\$ 3,659.0

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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7. INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Insurance contract liabilities (continued)

<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 liabilities for incurred claims	-	-	(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 income (loss)	(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, 2024

7. INSURANCE AND REINSURANCE CONTRACTS (continued)

(a) Insurance contract liabilities (continued)

<i>(in millions of dollars)</i>	Nine months ended September 30, 2024				
	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	\$ 336.2	\$ 23.1	\$ 2,962.2	\$ 172.3	\$ 3,493.8
Insurance revenue	(3,133.5)	-	-	-	(3,133.5)
Insurance service expenses:					
Incurred claims and other directly attributable expenses	-	(26.9)	2,106.6	44.8	2,124.5
Amortization of insurance acquisition cash flows	652.0	-	-	-	652.0
Changes in fulfilment cash flows relating to the liabilities for incurred claims	-	-	(9.1)	(39.4)	(48.5)
Losses on onerous contracts and reversals of such losses	-	22.3	-	-	22.3
Insurance service result	(2,481.5)	(4.6)	2,097.5	5.4	(383.2)
Finance expenses from insurance contracts issued	-	-	145.6	-	145.6
Total changes in the interim consolidated statements of income (loss)	(2,481.5)	(4.6)	2,243.1	5.4	(237.6)
Cash flows:					
Premiums received	3,202.9	-	-	-	3,202.9
Claims and other directly attributable expenses paid	-	-	(2,062.0)	-	(2,062.0)
Insurance acquisition cash flows	(673.0)	-	-	-	(673.0)
Total cash flows	2,529.9	-	(2,062.0)	-	467.9
Other movements	-	-	(65.1)	-	(65.1)
Insurance contract liabilities, end of period	\$ 384.6	\$ 18.5	\$ 3,078.2	\$ 177.7	\$ 3,659.0

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

7. 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 liabilities for incurred claims	-	-	(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 income (loss)	(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

The composition of the insurance contract liabilities was as follows:

<i>(in millions of dollars)</i>	As at September 30, 2024	As at September 30, 2023
Premiums receivable	\$ (1,412.2)	\$ (1,225.9)
Unearned premiums	2,138.5	1,900.8
Unearned premiums received	726.3	674.9
Unamortized insurance acquisition cash flows	(341.7)	(324.5)
Onerous loss provision	18.5	25.6
Provision for unpaid claims and other directly attributable payables	3,255.9	3,151.9
	\$ 3,659.0	\$ 3,527.9

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

7. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets

The roll-forward of the reinsurance contract assets showing the assets for remaining coverage and the assets for incurred claims is presented in the following tables:

<i>(in millions of dollars)</i>	Three months ended September 30, 2024					
	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	\$ 16.2	\$ -	\$ 289.2	\$ 15.8	\$ 321.2	
Allocation of reinsurance premiums	(85.4)	-	-	-	(85.4)	
Amounts recoverable from reinsurers for incurred claims:						
Amounts recoverable for incurred claims and other directly attributable expenses	-	-	66.9	2.5	69.4	
Changes to amounts recoverable for incurred claims	-	-	(1.2)	(1.0)	(2.2)	
Net expenses from reinsurance contracts held	(85.4)	-	65.7	1.5	(18.2)	
Finance income from reinsurance contracts held	-	-	7.0	-	7.0	
Total changes in the interim consolidated statements of income (loss)	(85.4)	-	72.7	1.5	(11.2)	
Cash flows:						
Premiums paid	75.5	-	-	-	75.5	
Amounts received	-	-	(27.5)	-	(27.5)	
Total cash flows	75.5	-	(27.5)	-	48.0	
Reinsurance contract assets, end of period	\$ 6.3	\$ -	\$ 334.4	\$ 17.3	\$ 358.0	

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

7. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

<i>(in millions of dollars)</i>	Three 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	\$ 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 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 income (loss)	(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, 2024

7. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

<i>(in millions of dollars)</i>	Nine months ended September 30, 2024				
	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	\$ 45.3	\$ -	\$ 270.5	\$ 14.6	\$ 330.4
Allocation of reinsurance premiums	(239.8)	-	-	-	(239.8)
Amounts recoverable from reinsurers for incurred claims:					
Amounts recoverable for incurred claims and other directly attributable expenses	-	-	149.7	5.7	155.4
Changes to amounts recoverable for incurred claims	-	-	19.6	(3.0)	16.6
Net expenses from reinsurance contracts held	(239.8)	-	169.3	2.7	(67.8)
Finance income from reinsurance contracts held	-	-	13.1	-	13.1
Total changes in the interim consolidated statements of income (loss)	(239.8)	-	182.4	2.7	(54.7)
Cash flows:					
Premiums paid	200.8	-	-	-	200.8
Amounts received	-	-	(118.5)	-	(118.5)
Total cash flows	200.8	-	(118.5)	-	82.3
Reinsurance contract assets, end of period	\$ 6.3	\$ -	\$ 334.4	\$ 17.3	\$ 358.0

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

7. INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Reinsurance contract assets (continued)

<i>(in millions of dollars)</i>	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 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 income (loss)	(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

The composition of the reinsurance contract assets was as follows:

<i>(in millions of dollars)</i>	As at September 30, 2024	As at September 30, 2023
Premiums ceded payable	\$ (44.9)	\$ (26.4)
Unearned premiums ceded	63.2	50.1
Unearned reinsurance premiums paid	18.3	23.7
Claims recoverable from reinsurance contracts held	352.0	290.7
Unearned reinsurance commissions received	(12.3)	(8.5)
	\$ 358.0	\$ 305.9

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

8. INCOME TAXES

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

<i>(in millions of dollars)</i>	Three months ended September 30			
	2024		2023	
Income tax expense (recovery) calculated based on statutory tax rates	26.3%	\$ 37.0	26.3%	\$ (16.9)
Investment income not subject to tax	(1.7%)	(2.4)	3.3%	(2.1)
Non-deductible expenses	0.1%	0.2	(0.2%)	0.1
Other	(0.3%)	(0.5)	(1.3%)	0.8
Income tax expense (recovery) recorded in net income (loss)	24.4%	\$ 34.3	28.1%	\$ (18.1)

<i>(in millions of dollars)</i>	Three months ended September 30	
	2024	2023
Current income taxes	\$ 34.6	\$ (15.2)
Deferred income taxes	(0.3)	(2.9)
Income tax expense (recovery)	\$ 34.3	\$ (18.1)

<i>(in millions of dollars)</i>	Nine months ended September 30			
	2024		2023	
Income tax expense calculated based on statutory tax rates	26.3%	\$ 111.0	26.3%	\$ 43.0
Investment income not subject to tax	(1.6%)	(6.7)	(4.0%)	(6.6)
Non-deductible expenses	0.1%	0.4	0.2%	0.3
Other	-	-	(0.9%)	(1.4)
Income tax expense recorded in net income (loss)	24.8%	\$ 104.7	21.6%	\$ 35.3

<i>(in millions of dollars)</i>	Nine months ended September 30	
	2024	2023
Current income taxes	\$ 115.1	\$ 51.2
Deferred income taxes	(10.4)	(15.9)
Income tax expense	\$ 104.7	\$ 35.3

9. OTHER ASSETS

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

<i>(in millions of dollars)</i>	As at	As at
	September 30, 2024	December 31, 2023
Pension asset	\$ 48.5	\$ 41.9
Investments in associates	45.0	52.3
Prepaid expenses and other	42.9	35.1
Accrued investment income	32.6	26.8
Other receivables	51.0	43.9
	\$ 220.0	\$ 200.0

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

<i>(in millions of dollars)</i>	Note	As at September 30, 2024	As at December 31, 2023
Accounts payable and other		\$ 51.3	\$ 54.9
Lease liabilities		37.0	35.6
Other post-employment benefit plan obligation		28.9	28.2
Deferred share unit plans	13	8.8	4.7
Restructuring provision		4.3	8.5
		<u>\$ 130.3</u>	<u>\$ 131.9</u>

11. 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>	Nine months ended September 30			
		2024		2023
	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	(1.0)	(34.8)	(1.5)	(53.6)
Purchased for future settlement of the Long-Term Incentive Plan ("LTIP") and Medium-Term Incentive Plan ("MTIP")	(0.7)	(34.1)	(0.2)	(4.9)
Released for settlement of the LTIP and MTIP	0.4	15.6	0.9	32.3
Shares held in trust, end of period	(1.3)	(53.3)	(0.8)	(26.2)
Issued and outstanding, net of shares held in trust, end of period	114.6	\$ 2,254.5	115.1	\$ 2,281.6

On November 7, 2024, the Board of Directors declared a \$0.16 per share dividend, payable on December 27, 2024 to shareholders of record at the close of business on December 13, 2024.

No preferred shares were issued and outstanding.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

12. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share (“EPS”) is calculated by dividing net income (loss) 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.

<i>(in millions of dollars, except as otherwise noted)</i>	Three months ended September 30	
	2024	2023
Net income (loss) attributable to common shareholders	\$ 104.8	\$ (48.3)
Weighted average common shares outstanding (in millions)	114.8	115.1
Dilutive effect of share-based compensation plans (in millions)	1.8	-
Weighted average of diluted common shares outstanding (in millions)	116.6	115.1
EPS (in dollars)		
Basic	\$ 0.91	\$ (0.42)
Diluted	\$ 0.90	\$ (0.42)

<i>(in millions of dollars, except as otherwise noted)</i>	Nine months ended September 30	
	2024	2023
Net income attributable to common shareholders	\$ 313.8	\$ 124.2
Weighted average common shares outstanding (in millions)	115.0	115.0
Dilutive effect of share-based compensation plans (in millions)	1.6	1.6
Weighted average of diluted common shares outstanding (in millions)	116.6	116.6
EPS (in dollars)		
Basic	\$ 2.73	\$ 1.08
Diluted	\$ 2.69	\$ 1.06

13. SHARE-BASED COMPENSATION PLANS

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

Restricted units (“RUs”) and restricted share units (“RSUs”)

The following tables show the movements in the RUs and RSUs under the MTIP and LTIP during the period:

	Three months ended September 30	
	2024	2023
	Number of units	Number of units
Outstanding, beginning of period	692,047	845,990
Awarded	19,944	29,750
Forfeited	(14,241)	(11,014)
Settled	(955)	(13,178)
Outstanding, end of period	696,795	851,548

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

13. SHARE-BASED COMPENSATION PLANS (continued)

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

	Nine months ended September 30	
	2024	2023
	Number of units	Number of units
Outstanding, beginning of period	857,319	998,685
Awarded	244,697	265,966
Forfeited	(45,442)	(45,056)
Settled	(359,779)	(368,047)
Outstanding, end of period	696,795	851,548

The recorded compensation expense during the three months ended September 30, 2024 for the RUs and RSUs was \$2.2 million (September 30, 2023: \$2.2 million). The recorded compensation expense during the nine months ended September 30, 2024 for the RUs and RSUs was \$6.2 million (September 30, 2023: \$6.4 million). The aggregate contributed surplus balance attributable to the RUs and RSUs as at September 30, 2024 was \$14.2 million (December 31, 2023: \$16.8 million).

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

The following tables show the movements in the PUs and PSUs under the MTIP and LTIP during the period:

	Three months ended September 30	
	2024	2023
	Number of units	Number of units
Outstanding, beginning of period	1,016,944	746,480
Awarded	127,917	5,296
Forfeited	(1,124)	(7,073)
Settled	-	-
Outstanding, end of period	1,143,737	744,703

	Nine months ended September 30	
	2024	2023
	Number of units	Number of units
Outstanding, beginning of period	747,500	915,452
Awarded	727,179	193,747
Forfeited	(13,374)	(22,083)
Settled	(317,568)	(342,413)
Outstanding, end of period	1,143,737	744,703

The recorded compensation expense during the three months ended September 30, 2024 for the PUs and PSUs was \$3.2 million (September 30, 2023: \$2.3 million). The recorded compensation expense during the nine months ended September 30, 2024 for the PUs and PSUs was \$8.1 million (September 30, 2023: \$8.1 million). The aggregate contributed surplus balance attributable to the PUs and PSUs as at September 30, 2024 was \$18.8 million (December 31, 2023: \$23.0 million).

(b) Deferred share unit plans

As at September 30, 2024, there were 161,694 deferred share units (“DSUs”) outstanding (December 31, 2023: 127,439 DSUs). The DSU liability as at September 30, 2024 was \$8.8 million (December 31, 2023: \$4.7 million). The recorded compensation expense during the three months ended September 30, 2024 for the DSUs was \$1.7 million (September 30, 2023: \$0.2 million). The recorded compensation expense during the nine months ended September 30, 2024 for the DSUs was \$4.1 million (September 30, 2023: \$1.6 million).

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

13. SHARE-BASED COMPENSATION PLANS (continued)

(c) Stock option plan

During the three months ended September 30, 2024, no stock options were granted (September 30, 2023: 4,151). During the nine months ended September 30, 2024, 175,655 stock options were granted (September 30, 2023: 182,042). The fair value of stock options granted was measured using the Black-Scholes option pricing model. The recorded compensation expense during the three months ended September 30, 2024 for the stock options was \$0.3 million (September 30, 2023: \$0.1 million). The recorded compensation expense during the nine months ended September 30, 2024 for the stock options was \$0.9 million (September 30, 2023: \$0.3 million).

The key assumptions used to measure the fair value of options granted under the Black-Scholes option pricing model at the date of grant were as follows during the period:

	Nine months ended September 30	
	2024	2023
Share price at the date of grant	\$ 44.01	\$ 36.48
Exercise price	\$ 44.01	\$ 36.48
Expected share price volatility	19%	18.0%
Expected life of options	6.25 years	6.25 years
Expected dividend yield	1.7%	1.6%
Risk-free interest rate	3.5%	3.4%

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

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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14. 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 income (loss), were composed of the following:

<i>(in millions of dollars)</i>	Three months ended September 30, 2024			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	\$ -	\$ 811.1	\$ 13.0	\$ 824.1
Discounting recovery in insurance service expenses	-	(47.9)	-	(47.9)
Risk adjustment expense	-	7.9	-	7.9
Commissions	140.4	12.8	-	153.2
Operating expenses	43.3	47.1	18.8	109.2
Premium taxes	38.0	-	-	38.0
Gains on onerous insurance contracts	-	(1.0)	-	(1.0)
Public company expenses	-	-	8.2	8.2
Distribution:				
Distribution business expenses	-	-	34.8	34.8
Amortization of intangible assets recognized in business combinations on distribution business	-	-	7.7	7.7
Interest on restricted cash, less demutualization and IPO-related expenses	-	-	(1.1)	(1.1)
Share of loss from investments in associates	-	-	1.0	1.0
Other	-	-	4.8	4.8
	\$ 221.7	\$ 830.0	\$ 87.2	\$ 1,138.9
Insurance service expenses				1,051.7
Other expenses (income)				87.2
				\$ 1,138.9

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14. EXPENSES (continued)

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

<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	-	-	6.6	6.6
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	-	-	(2.2)	(2.2)
Share of loss from investments in associates	-	-	0.9	0.9
Other	-	-	2.0	2.0
	\$ 207.6	\$ 724.6	\$ 67.9	\$ 1,000.1
Insurance service expenses				932.2
Other expenses (income)				67.9
				\$ 1,000.1

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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14. EXPENSES (continued)

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

<i>(in millions of dollars)</i>	Nine months ended September 30, 2024			
	Expenses attributed to insurance acquisition cash flows	Other directly attributable expenses	Other expenses (income)	Total
Claims and adjustment expenses	\$ -	\$ 2,032.9	\$ 42.8	\$ 2,075.7
Discounting recovery in insurance service expenses	-	(123.2)	-	(123.2)
Risk adjustment expense	-	5.4	-	5.4
Commissions	409.7	44.1	-	453.8
Operating expenses	137.9	139.6	61.2	338.7
Premium taxes	108.5	-	-	108.5
Gains on onerous insurance contracts	-	(4.6)	-	(4.6)
Public company expenses	-	-	22.4	22.4
Distribution:				
Distribution business expenses	-	-	96.4	96.4
Amortization of intangible assets recognized in business combinations on distribution business	-	-	23.3	23.3
Interest on restricted cash, less demutualization and IPO-related expenses	-	-	(3.5)	(3.5)
Share of loss from investments in associates	-	-	3.3	3.3
Other	-	-	0.5	0.5
	\$ 656.1	\$ 2,094.2	\$ 246.4	\$ 2,996.7
Insurance service expenses				2,750.3
Other expenses (income)				246.4
				\$ 2,996.7

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14. 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	-	-	19.2	19.2
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	-	-	(6.3)	(6.3)
Share of profit from investments in associates	-	-	(0.2)	(0.2)
Other	-	-	1.8	1.8
	\$ 609.4	\$ 1,910.4	\$ 192.8	\$ 2,712.6
Insurance service expenses				2,519.8
Other expenses (income)				192.8
				\$ 2,712.6

(b) Net expenses from reinsurance contracts held

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

<i>(in millions of dollars)</i>	Three months ended September 30	
	2024	2023
Earned reinsurance premiums	\$ 100.1	\$ 80.5
Claims recoverable from reinsurers for incurred claims	(71.4)	(69.4)
Commissions earned on ceded reinsurance	(14.7)	(12.5)
Discounting expense in net expenses from reinsurance contracts held	5.7	2.8
Risk adjustment (recovery) expense	(1.5)	0.1
	\$ 18.2	\$ 1.5

<i>(in millions of dollars)</i>	Nine months ended September 30	
	2024	2023
Earned reinsurance premiums	\$ 283.4	\$ 226.3
Claims recoverable from reinsurers for incurred claims	(183.6)	(153.7)
Commissions earned on ceded reinsurance	(44.9)	(37.4)
Discounting expense in net expenses from reinsurance contracts held	15.6	15.2
Risk adjustment recovery	(2.7)	(0.2)
	\$ 67.8	\$ 50.2

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2024

15. CASH FLOWS FROM OPERATING ACTIVITIES

The following table shows the adjustments for non-cash items and changes in operating assets and liabilities included in the 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	
	2024	2023	2024	2023
Adjustments for non-cash items:				
Amortization and depreciation				
Bond premium/discount	\$ (7.3)	\$ (5.0)	\$ (22.2)	\$ (12.0)
Property and equipment	3.9	3.5	11.3	10.1
Intangible assets	28.0	23.8	82.6	67.2
Recognized (gains) losses on FVTPL investments	(172.8)	99.8	(206.7)	70.8
Share-based compensation	5.7	4.6	15.2	14.7
Share of loss (profit) from investments in associates	1.0	0.9	3.3	(0.2)
	\$ (141.5)	\$ 127.6	\$ (116.5)	\$ 150.6
Changes in operating assets and liabilities:				
Reinsurance contract assets	(36.8)	(3.7)	(27.6)	(0.8)
Other operating assets	(12.3)	1.2	(16.1)	(25.2)
Insurance contract liabilities	243.0	146.3	165.2	(49.8)
Accounts payable and other liabilities	0.8	(9.2)	(37.2)	(25.7)
	\$ 194.7	\$ 134.6	\$ 84.3	\$ (101.5)

The following table shows other operating activity cash flows 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	
	2024	2023	2024	2023
Interest received	\$ 31.2	\$ 27.4	\$ 106.6	\$ 92.1
Dividends received	8.8	9.1	27.6	26.8
Interest paid	2.5	1.6	7.4	3.5

16. CONTINGENCIES

In addition to litigation relating to claims made in respect of insurance policies written, the Company is subject to other litigation arising in the normal course of conducting its business. The Company is of the opinion that this non-claims litigation will not have a significant effect on its financial position, results of operations, or cash flows.

Along with many other P&C insurers in Canada, Definity Insurance has been named as a defendant in litigation for certain business interruption losses related to the COVID-19 pandemic, seeking to establish coverage under insurance policies, including national and regional class proceedings. An Ontario class action on behalf of a national class (excluding Québec) proceeded to trial in 2023 on certain key issues, with a favourable outcome for Definity Insurance and other insurers. The court determined that neither the presence of COVID-19 nor government orders in respect of business activities due to COVID-19 can cause physical loss or damage to property within the meaning of the business interruption provisions of Definity Insurance's property insurance policies. While this was not the end of this litigation and other issues remain outstanding, this 2023 trial decision represents a major success for Definity Insurance and was upheld on appeal in June 2024. 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.

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17. DEBT OUTSTANDING

The Company and certain of its subsidiaries have access to an \$800 million unsecured committed credit facility. The credit facility has a term ending on July 22, 2029, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at September 30, 2024, an amount of \$114.3 million (December 31, 2023: \$114.3 million) had been drawn under this credit facility. As at November 7, 2024, the Company remains in compliance with the covenants. The interest rate applicable for Canadian currency drawings is based on the Canadian prime rate advance, or CORRA plus a margin.

18. SUBSEQUENT EVENT

The amount presented as restricted cash in the interim consolidated balance sheets is comprised of the cash held to satisfy the obligation outstanding to eligible recipients pursuant to the plan setting out the terms for the conversion of Definity Insurance ("Conversion Plan"). A portion of the eligible recipients became Lost Recipients because their address was unknown at the time that benefits were distributed or because they did not act upon their demutualization benefits within six months of the date on which those benefits were sent. Pursuant to the Conversion Plan, the entitlement of Lost Recipients to demutualization benefits ceased following the October 23, 2024 "Lost Recipient Claim Deadline" and any shares issued to Lost Recipients are to be cancelled and any cash benefits being held on behalf of Lost Recipients transferred by the depositary agent to Definity Insurance. We currently estimate an amount of at least \$150 million of such cash benefits will be recorded directly to "Retained earnings", together with any associated tax provision, in the Company's audited consolidated financial statements for the year ended December 31, 2024. The Company has undertaken an administrative processing period following the Lost Recipient Claim Deadline to work with persons who contacted the Company prior to the Lost Recipient Claim Deadline in order to confirm their identity as eligible recipients, and effect distribution of benefits where appropriate. Cash relating to these efforts will remain recorded as restricted cash in the Company's audited consolidated financial statements for the year ended December 31, 2024.