

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only to persons permitted to sell such securities.

These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or the securities laws of any state of the United States and may not be offered, sold or delivered, directly or indirectly, in the United States, except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of these securities in the United States. See “Plan of Distribution”.

SUPPLEMENTED PREP PROSPECTUS

Initial Public Offering

November 17, 2021

definity.

Definity Financial Corporation

\$1,400,000,140

63,636,370 Common Shares

This prospectus qualifies the distribution (the “Offering”) of 63,636,370 common shares (“Common Shares”) of Definity Financial Corporation (“Definity”), a newly formed company incorporated under, and governed by, the *Insurance Companies Act* (Canada) (the “ICA”), at a price of \$22.00 per Common Share (the “Offering Price”). The Offering is being made in connection with the conversion of Economical Mutual Insurance Company (“Economical Insurance”) from a mutual insurance company to a company with share capital pursuant to the ICA and regulations thereunder, a process known as “demutualization” (the “Demutualization”). Definity will be the parent holding company of Economical Insurance following the completion of the Demutualization. The Demutualization is expected to occur immediately prior to the closing of the Offering. Following the completion of the Demutualization, eligible policyholders and other specified recipients will receive financial benefits in the form of Common Shares, cash or a combination of both. See “Demutualization”. The net proceeds of the Offering will be used to fund the distribution of cash benefits of the Demutualization to eligible policyholders and such other specified recipients. See “Use of Proceeds”. The Offering is being underwritten by BMO Nesbitt Burns Inc. (“BMO”), RBC Dominion Securities Inc. (“RBC”), Barclays Capital Canada Inc. (“Barclays”), Scotia Capital Inc. (“Scotia”) and TD Securities Inc. (“TD”, and together with BMO, RBC, Barclays and Scotia, collectively, the “Joint Bookrunners”), CIBC World Markets Inc. (“CIBC”), National Bank Financial Inc. (“NBF”), UBS Securities Canada Inc., Desjardins Securities Inc., Raymond James Ltd., Canaccord Genuity Corp. and Cormark Securities Inc. (together with the Joint Bookrunners, collectively, the “Underwriters”).

Price: \$22.00 per Common Share

	Price to the Public ⁽¹⁾	Underwriters’ Fee ⁽²⁾⁽³⁾	Net Proceeds to Definity ⁽⁴⁾
Per Common Share	\$22.00	\$0.99	\$21.01
Total Offering ⁽⁵⁾⁽⁶⁾	\$1,400,000,140	\$63,000,006	\$1,337,000,134

(1) The Offering Price has been determined by negotiation between Definity and the Underwriters. See “Plan of Distribution”.

(2) Definity will pay a cash fee equal to 4.50% (the “Underwriters’ Fee”) of the aggregate gross proceeds raised from the Common Shares sold pursuant to the Offering.

(3) Does not include the fee payable to BMO and RBC in respect of the Common Shares to be purchased by the Cornerstone Investors (as defined herein) pursuant to the Cornerstone Private Placements (as defined herein). See “The Cornerstone Private Placements”.

(4) After deducting the Underwriters’ Fee payable by Definity but before deducting the expenses of the Offering of \$9,500,000, which, together with the Underwriters’ Fee, will be paid out of the proceeds of the Offering.

(5) Definity has granted the Underwriters an option (the “Over-Allotment Option”), exercisable in whole or in part at any time for a period of 30 days after the Closing Date (as defined herein), to purchase up to an additional 9,545,455 Common Shares at the Offering Price, representing 15% of the Common Shares sold pursuant to the Offering, to cover over-allotments, if any. This prospectus also qualifies the distribution of the Over-Allotment Option to the Underwriters and the distribution of the Common Shares issuable upon the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters’ over-allocation position acquires those Common Shares under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Over-Allotment Option is exercised in full, the total Price to the Public will be \$1,610,000,150, the total Underwriters’ Fee will be \$72,450,007 and the Net Proceeds to Definity will be \$1,537,550,143. See “Plan of Distribution”.

(6) Does not include the Common Shares to be purchased by the Cornerstone Investors pursuant to the Cornerstone Private Placements. See “The Cornerstone Private Placements”.

The following table sets out the number of Common Shares that may be issued by Definity pursuant to the Over-Allotment Option:

Underwriters' Position	Maximum Size or Number of Securities Available	Exercise Period	Exercise Price
Over-Allotment Option	9,545,455 Common Shares	For a period of 30 days after the Closing Date	\$22.00 per Common Share

In connection with the Offering, the Underwriters may, subject to applicable law, over-allocate or effect transactions that stabilize, maintain or otherwise affect the market price of the Common Shares at levels other than those that otherwise might prevail on the open market. **The Underwriters may offer the Common Shares at a price lower than the price stated above. See “Plan of Distribution”.**

There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. An investment in the Common Shares is subject to a number of risks that should be considered by a prospective purchaser. Prospective purchasers should carefully consider the risk factors described under “Risk Factors” before purchasing the Common Shares.

The Common Shares have been conditionally approved for listing on the Toronto Stock Exchange (the “**TSX**”) under the symbol “**DFY**”. Listing is subject to the Company fulfilling all of the requirements of the TSX on or before February 8, 2022, including distribution of these securities to a minimum number of public shareholders. See “Plan of Distribution”.

In connection with the Offering, Healthcare of Ontario Pension Plan (“**HOOPP**”) and Swiss Re Investments Holding Company Ltd (“**Swiss Re**”, and together with HOOPP, the “**Cornerstone Investors**”) have agreed to purchase Common Shares on a private placement basis at the Offering Price. HOOPP is one of Canada’s largest defined benefit pension plans with over \$100 billion of plan assets as of December 31, 2020. Swiss Re is part of the Swiss Re Group, which is one of the world’s leading providers of reinsurance and insurance, with a prominent presence in the Canadian market. HOOPP has agreed to purchase, in two tranches, an aggregate number of Common Shares that will be equal to 19.9% of the issued and outstanding Common Shares (on a non-diluted basis and excluding the issuance of Common Shares, if any, concurrently with the closing of the Offering on exercise by the Underwriters of the Over-Allotment Option) immediately following the completion of the second tranche issuance (together, the “**HOOPP Offering Shares**”), pursuant to a subscription agreement dated as of May 31, 2021 between Economical Insurance and HOOPP, as amended by an amending agreement dated as of November 5, 2021 (collectively, the “**HOOPP Subscription Agreement**”). Pursuant to a joinder agreement among Definity, Economical Insurance and HOOPP dated as of November 5, 2021, Definity became bound by, and was deemed to be a party to, the HOOPP Subscription Agreement. HOOPP has also agreed that, in the event that any Common Shares are issued to the Underwriters pursuant to the exercise of the Over-Allotment Option, HOOPP will purchase such additional number of Common Shares that, when added to the HOOPP Offering Shares, will be equal to 19.9% of the issued and outstanding Common Shares (on a non-diluted basis) after taking into account the issuance of Common Shares to the Underwriters pursuant to the exercise of the Over-Allotment Option and the issuance of such additional Common Shares to HOOPP (the “**HOOPP Over-Allotment Private Placement**”). Swiss Re has agreed to purchase, concurrently with the closing of the Offering, an aggregate number of Common Shares equal to the quotient determined by dividing (x) the Canadian dollar equivalent of US\$200 million by (y) the Offering Price pursuant to a subscription agreement dated as of July 9, 2021 between Economical Insurance and Swiss Re, as amended by a joinder and amending agreement dated as of November 5, 2021 among Definity, Economical Insurance and Swiss Re pursuant to which, among other things, Definity became bound by, and was deemed to be a party to, the subscription agreement (collectively, the “**Swiss Re Subscription Agreement**”, and together with the HOOPP Subscription Agreement, the “**Subscription Agreements**”). See “The Cornerstone Private Placements – Subscription Agreements”.

All references in this prospectus to the “**Cornerstone Private Placements**” or a “**Cornerstone Private Placement**” are to the investments by each of HOOPP and Swiss Re pursuant to the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement, respectively, and, unless otherwise indicated, do not include the HOOPP Over-Allotment Private Placement. BMO and RBC are acting as private placement agents for the Cornerstone Private Placements. Completion of each Cornerstone Private Placement is subject to a number of conditions, including the completion of the Demutualization and the concurrent closing of the Offering. See “The Cornerstone Private Placements”. See “Risk Factors – Risks Relating to the Offering and the Ownership of Common Shares – The Cornerstone Private Placements may fail to close”.

The Underwriters, as principals, conditionally offer the Common Shares qualified under this prospectus, subject to prior sale, if, as and when issued by Definity and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement (as defined herein) and subject to the approval of certain legal matters on behalf of Definity by Blake, Cassels & Graydon LLP, and on behalf of the Underwriters by Davies Ward Phillips & Vineberg LLP.

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. The closing of the Offering (the “**Closing**”) is expected to occur on or about November 23, 2021 (the “**Closing Date**”) or such later date as Definity and the Underwriters may agree, but in any event not later than December 3, 2021. The Common Shares will be deposited with CDS (as defined herein) in electronic form on the Closing Date through the non-certificated inventory system administered by CDS. A purchaser of Common Shares will receive only a customer confirmation from the registered dealer from or through which the Common Shares are purchased. See “Plan of Distribution – Non-Certificated Inventory System”.

Each of BMO, RBC, Barclays, Scotia, TD, CIBC and NBF is, directly or indirectly, an affiliate of a bank which is a lender to Definity or its affiliates. In addition, BMO and RBC are providing advisory services, and acting as private placement agents, in connection with the Cornerstone Private Placements and may receive a fee in connection therewith. Consequently, under applicable securities laws in Canada, Definity may be considered to be a connected issuer to such Underwriters. See “Plan of Distribution”, the “Cornerstone Private Placements” and “Description of Material Indebtedness”.



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Our Purpose

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

Our Promise

- Making insurance better



OUR BRANDS

definity.



Product offerings

- Personal lines: auto, property, liability, and pet
- Commercial lines: fleet, individually rated commercial auto, property, liability, and specialty

Canada-wide

- More than **one million policies** in force
- Broker base of more than **27,000** individual brokers
- Approximately **2,900 employees** in **12 regional locations**

Financial Overview

- Canadian market share of **4.6%***
- **Seventh largest provider** of property and casualty insurance in Canada
- **\$3.1 billion** GWP for twelve months ended September 30, 2021

* Market share of Canadian P&C insurance industry DWP of \$65.6 billion for the twelve months ended June 30, 2021.



A LEADING CANADIAN P&C INSURER

definity.

Superior Customer and Broker Experience

"To be able to do everything online is a huge benefit and I will recommend Sonnet to everyone."

- **Sonnet customer**

"It's nice to see an insurance company support the broker channel and simplify business for our consumers."

- **Economical Broker**

Innovative Digital Platforms



Sophisticated Commercial Insurance Capabilities

- Agriculture
- Auto / Motor
- Business
- Cannabis
- Construction
- Manufacturing
- Non-Profit
- Power Generation and Natural Resources
- Professional Services
- Property and Real Estate
- Retail Trade
- Transportation
- Wholesale Trade

Dynamic Corporate Culture



- Customer-Focused
- Diverse & Inclusive
- Fosters Innovation



OUR PATH FORWARD



- Capitalize on the expanding digital direct insurance market with Canada's leading fully digital direct insurance platform, Sonnet
- Leverage Vyne, our broker digital platform, to increase share in the broker channel
- Grow and diversify the commercial insurance business
- Maintain our pace of innovation
- Diversify and strengthen growth through acquisitions and partnerships
- Attract and retain top talent to empower a high performance culture that delivers on our brand

definity.



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GENERAL MATTERS

In this prospectus, unless the context otherwise requires, the terms “Company”, “we”, “our”, “ours”, “us” or similar terms refer, at all times prior to the Demutualization, to Economical Insurance and its consolidated subsidiaries, including Definity, and, at all times on or after the Demutualization, to Definity and its consolidated subsidiaries, including Economical Insurance.

Investors should assume that the information appearing in this prospectus is accurate only as at the date hereof, or as otherwise indicated, regardless of its time of delivery or of any sale of Common Shares. An investor should rely only on the information contained in this prospectus. Neither Definity, Economical Insurance nor any of the Underwriters has authorized anyone to provide investors with additional or different information. The information contained on our websites, including at www.definityfinancial.com and www.economical.com, is neither included in nor incorporated by reference into this prospectus and prospective investors should not rely on such information when deciding whether or not to invest in the Common Shares.

All references in this prospectus to “management” or “senior management” or “executive leadership team” are to the persons who are identified in this prospectus as the executive officers of the Company. See “Directors and Executive Officers”. All statements in this prospectus made by or on behalf of management are made in such persons’ capacities as executive officers of the Company and not in their personal capacities.

This prospectus includes a summary description of certain material agreements of the Company. See “Material Contracts”. The summary description discloses attributes material to an investor in the Common Shares but is not complete and is qualified by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and available on SEDAR. Investors are encouraged to read the full text of such material agreements.

Unless otherwise indicated, the information in this prospectus assumes that the Demutualization, the Offering and the Cornerstone Private Placements have been completed, but the Over-Allotment Option is not exercised and there is no HOOPP Over-Allotment Private Placement. Unless otherwise indicated, the information in this prospectus reflects that (a) the rate of exchange for one United States dollar expressed in Canadian dollars published by the Bank of Canada on the date of execution of the Underwriting Agreement is US\$1.00 = C\$1.2595 (as the number of Common Shares to be issued to Swiss Re pursuant to the Swiss Re Subscription Agreement is calculated using that exchange rate) and (b) the expenses of the Offering and the Cornerstone Private Placements are \$10,325,000 (which expenses, for greater certainty, do not include the Underwriters’ Fee or the Placement Fee (as defined herein) payable in connection with the Offering and the Cornerstone Private Placements, respectively).

Based on an Offering size of \$1,400,000,140 (as set forth on the cover page of this prospectus) and the assumptions set out above, immediately following the closing of the Offering and the Cornerstone Private Placements, an aggregate of 103,975,778 Common Shares will be issued and outstanding. See “Demutualization – Allocation of Demutualization Benefits and Election Process”.

Neither the Company nor any of the Underwriters is offering to sell the Common Shares in any jurisdiction where the offer or sale of such securities is not permitted. Investors are required to inform themselves about, and to observe any restrictions relating to, the Offering and the possession or distribution of this prospectus.

The Company presents its consolidated financial statements in Canadian dollars. In this prospectus, references to “\$” or “dollars” are to Canadian dollars. Amounts are stated in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING INFORMATION

This prospectus contains “forward-looking information” within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future business, financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “targets”, “expects” or “does not expect”, “is expected”, “an opportunity exists”, “budget”, “scheduled”, “estimates”, “forecasts”, “projection”, “prospects”, “strategy”, “intends”, “anticipates”, “does not anticipate”, “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might”, “will”, “will be taken”, “occur” or “be achieved”. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management’s expectations, estimates and projections regarding possible future events or circumstances. Discussions containing forward-looking information may be found, among other places in this prospectus, under “Prospectus Summary”, “Our Business”, “Use of Proceeds”, “Selected Consolidated Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Targets”, “Dividend Policy”, “Directors and Executive Officers”, “Executive Compensation”, “Director Compensation” and “Risk Factors”. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding our financial performance, including, among others, GWP (as defined herein), Combined Ratio (as defined herein) and Operating ROE (as defined herein);
- our expectations regarding industry trends, growth of our addressable market, overall market growth rates and our growth rates and growth strategies;
- our business plans and strategies;
- our ability to appropriately assess the risk relating to, and price, the insurance policies that we write;
- our intention to declare dividends and the anticipated quantum of any dividends;
- expectations regarding future director and executive compensation levels and plans;
- our competitive position in our industry;
- our ability to continue to invest in the technology and processes necessary to attract and retain customers;
- our ability to continue to attract and retain talent;
- our relationship with our brokers and direct customers;
- the long-term impact of the COVID-19 pandemic on our business, financial position, results of operations and/or cash flows;
- the completion and timing of the Continuance (as defined herein);
- the completion and timing of the Cornerstone Private Placements;
- the completion, expenses and timing of the Demutualization;
- the Offering Price and the completion, size, expenses and timing of the Offering;
- the gross proceeds of the Offering and the anticipated use of proceeds;
- intentions with respect to the implementation of new accounting standards; and
- the market price for the Common Shares.

Our assessment of, and targets for, GWP, Combined Ratio and Operating ROE constitute forward-looking information. See “Risk Factors – Risks Relating to our Business – The assumptions underlying our financial targets are inherently uncertain and are subject to risks, challenges and uncertainties that could cause actual future results to differ materially from those targets” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Industry Outlook and Our Financial Targets – Financial Targets” for additional information concerning our strategies, assumptions and outlook in relation to those assessments.

Forward-looking information in this prospectus are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Material factors and assumptions used to develop the forward-looking information in this prospectus include our expectations regarding our financial performance; our ability to execute on our growth strategies; the impact of competition; our expectations regarding competition and changes and trends in our industry and the global economy; our ability to obtain adequate reinsurance coverage to transfer risk; future claims frequency and severity follows a similar pattern to past claims development experience, including as it relates to the frequency and severity of weather-related events and the impact of climate change; the occurrence of catastrophe events; our expectations regarding capital market conditions, interest rate movements and other factors which may affect our investment portfolio and our claim liabilities; the number of independent brokers who sell our products; our maintenance of Economical Insurance's financial strength ratings; our ability to retain key personnel; the impact of the COVID-19 pandemic; the impact of litigation and regulatory actions, including COVID-19-related class action lawsuits and the associated legal costs; our ability to manage credit risk from our counterparties; our maintenance of Economical Insurance's credit rating; our expectations regarding our ability to rely on information technology systems and the potential disruption or failure of those systems; changes in laws, rules and regulations applicable to us; changes in supervisory expectations or requirements, including risk-based capital guidelines; and other key assumptions and factors upon which we based our financial targets described under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Targets".

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as at the date such statements are made, and are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, the following risk factors described in greater detail under the heading entitled "Risk Factors": our ability to effectively compete with current or future competitors in the Canadian P&C insurance industry; our ability to implement our strategy or operate our business as we currently expect; risks relating to our underwriting of insurance products, including product design, pricing, risk acceptance and claims settlement; our ability to accurately assess the risks associated with the insurance policies that we write; the occurrence of catastrophe events; pandemics and other public health events, including the ongoing COVID-19 pandemic, an abrupt interruption of activities caused by unforeseeable and/or catastrophe events; risks relating to climate change; our ability to successfully alleviate risk through reinsurance arrangements; our liability for the credit risk of our reinsurers, certain policyholders, brokers, agents and insurers; the cyclical patterns of the Canadian P&C insurance industry leading to period with excess underwriting capacity and unfavourable pricing; fluctuations in the market negatively affecting our portfolio holdings; our ability to maintain our financial strength ratings and our credit rating; general business and economic environment; changes in government laws, regulations and administrative policies; regulatory proceedings and significant litigation; the impact of negative publicity regarding the Canadian P&C insurance industry or our business practices and insurance products and services; internal or external fraud; our ability to successfully identify, complete, integrate and realize the benefits of acquisitions or manage the associated risks; risks relating to doing business with a large network of independent brokers on a non-exclusive basis; disruption or failure of our information technology systems; failure to adopt new technologies or adapt our existing systems to changing consumer preferences or emerging industry standards; our ability to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology; infringement claims from third parties; our ability to retain the continued services of our senior management team and key personnel; restrictions on ownership and regulatory protection from takeovers may defer or prevent transactions involving a change of control of the Company; risks relating to our judgments or estimates regarding our critical accounting policies; changes in accounting standards or interpretations; failure to comply with requirements to design, implement and maintain effective control over financial reporting; fluctuations in the market price of the Common Shares; failure of an active, liquid and orderly trading market for the Common Shares to develop; sales of Common Shares in the public market, or the perception that these sales may occur, causing the market price of the Common Shares to decline; payment of future cash dividends will be subject to the discretion of the Board and may vary or be suspended entirely; as a holding company, our dependence on our subsidiaries to meet our obligations, including future dividend payments; failure of the Cornerstone Private Placements to close; significant ownership by the Cornerstone Investors; dilution; failure of analysts to publish research reports about our business or a downgrade in their recommendation with regard to the Common Shares; the transition to being a public company; and the other risks, challenges and uncertainties to

which the assumptions underlying the financial targets in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Targets” are subject.

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

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

All of the forward-looking information contained in this prospectus is expressly qualified by the foregoing cautionary statements. Investors should read this entire prospectus and consult their own professional advisors to ascertain and assess the income tax, legal, risk factors and other aspects of their investment in the Common Shares.

MARKET, INDUSTRY AND ECONOMIC DATA

Market, industry and economic data presented throughout this prospectus was obtained from third-party sources, government sources, industry reports and publications, websites and other publicly available information, including MSA Research, an independent Canadian-owned analytical research firm that is focused on the Canadian insurance industry; and Willis Towers Watson, a global advisory company, as well as industry and other data prepared by us or on our behalf on the basis of our knowledge of the markets in which we operate, including information provided by customers and other industry participants.

We believe that the market, industry and economic data presented throughout this prospectus is accurate and, with respect to data prepared by us or on our behalf, that our estimates and assumptions are currently appropriate and reasonable, but there can be no assurance as to the accuracy or completeness thereof. The accuracy and completeness of the market, industry and economic data presented throughout this prospectus is not guaranteed and neither we nor any of the Underwriters make any representation as to the accuracy of such data. Actual outcomes may vary materially from those forecast in such reports or publications, due to a variety of factors, including those described under the heading entitled “Risk Factors”, and the prospect for material variation can be expected to increase as the length of the forecast period increases. Although we believe it to be reliable, neither we nor any of the Underwriters has independently verified any of the data from third-party sources referred to in this prospectus, analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying market, economic and other assumptions relied upon by such sources. Market, industry and economic data is subject to variations and cannot be verified due to limits on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. For the avoidance of doubt, nothing stated in this paragraph operates to relieve either the Company or an Underwriter, as applicable, from liability for any misrepresentation contained in this prospectus (to the extent that it would be liable therefor) under applicable Canadian securities laws.

Unless otherwise indicated or the context otherwise requires, all references in this prospectus to (i) “Canadian P&C insurers” refer to P&C insurers that are authorized to carry on business in Canada (whether Canadian- or foreign-owned) and exclude government-owned insurers and mortgage insurers and (ii) the “Canadian P&C insurance industry” refer to our definition of such industry, which includes Canadian P&C insurers but excludes insurance underwritten through the Lloyd’s market.

Unless otherwise indicated, direct written premiums (“DWP”) data for the Canadian P&C insurance industry included in this prospectus was obtained from MSA Research and excludes accident and sickness insurance and policies for insurance written outside of Canada. In addition, unless otherwise indicated, ranking and market share information included in this prospectus was obtained from MSA Research and is based on DWP data for the 12 months ended December 31, 2020, after giving effect to the acquisition of RSA Insurance Group on June 1, 2021.

MARKETING MATERIALS

Any “template version” of the following “marketing materials” (as such terms are defined in National Instrument 41-101 – *General Prospectus Requirements*) filed with the securities commission or similar regulatory authority in each of the provinces and territories of Canada are specifically incorporated by reference into this prospectus:

- the term sheet for the Offering dated November 8, 2021; and
- the roadshow materials for the Offering dated November 8, 2021.

The term sheet and roadshow materials referred to above are available under our profile on SEDAR at www.sedar.com.

In addition, any template version of any other “marketing materials” filed with the securities commission or similar regulatory authority in each of the provinces and territories of Canada in connection with the Offering, after the date hereof, but prior to the termination of the distribution of the Common Shares under this prospectus (including any amendments to, or an amended version of, any template version of any marketing materials), is deemed to be incorporated by reference herein.

Any “template version” of any “marketing materials” that are utilized in connection with the Offering are not part of this prospectus to the extent that the contents of the “template version” of the “marketing materials” have been modified or superseded by a statement contained in this prospectus.

TRADEMARKS AND TRADE NAMES

This prospectus includes certain trademarks and trade names, such as Definity, Economical, Economical Insurance, Petline Insurance, Petsecure, Peppermint, Sonnet and Vyne, which are protected under applicable intellectual property laws and are our property. An application has been made, but a trademark has not yet been registered, in respect of Definity. Solely for convenience, our trademarks and trade names referred to in this prospectus may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names. All other trademarks used in this prospectus are the property of their respective owners.

SUPPLEMENTARY FINANCIAL MEASURES AND NON-GAAP FINANCIAL MEASURES AND RATIOS

The financial statements included in this prospectus have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the “IASB”) (referred to herein as “GAAP” or “IFRS”).

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

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

Supplementary Financial Measures:	Claims ratio, core accident year claims and adjustment expenses, catastrophe losses and certain other ratios
Non-GAAP Financial Measures:	Operating net income (loss), operating income (loss) and non-operating gains (losses) and underwriting expenses (net of other underwriting revenues) / operating expenses (net of other underwriting revenues)
Non-GAAP Ratios:	Expense ratio, combined ratio, return on equity (“ROE”) and operating return on equity (“Operating ROE”)

For more information about these supplementary financial measures, non-GAAP financial measures and non-GAAP ratios, including (where applicable) an explanation of how that measure provides useful information and a quantitative reconciliation of each non-GAAP financial measure to its most directly comparable GAAP measure disclosed in our consolidated financial statements, see “Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Company, and Davies Ward Phillips & Vineberg LLP, counsel to the Underwriters, based on the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder (collectively, the “**Tax Act**”), provided that the Common Shares are listed on a designated stock exchange (which currently includes the TSX), the Common Shares, if issued on the date hereof, would be “qualified investments” under the Tax Act for trusts governed by tax free savings accounts (“**TFSA**s”), registered disability savings plans (“**RDSP**s”), registered retirement savings plans (“**RRSP**s”), registered retirement income funds (“**RRIF**s”), registered education savings plans (“**RESP**s”), and deferred profit sharing plans (“**DPSP**s”) (each as defined in the Tax Act).

Notwithstanding that Common Shares may be “qualified investments” as discussed above, if Common Shares are held in a trust governed by a TFSA, RDSP, RRSP, RRIF or RESP, a holder of the TFSA or RDSP, an annuitant of the RRSP or RRIF or a subscriber of the RESP, as applicable, will be subject to a penalty tax under the Tax Act if the Common Shares are “prohibited investments” for the TFSA, RDSP, RRSP, RRIF or RESP. A Common Share will not be a “prohibited investment” for trusts governed by a TFSA, RDSP, RRSP, RRIF or RESP provided that the holder of the TFSA or RDSP, the annuitant under the RRSP or RRIF or the subscriber of the RESP, as the case may be, deals at arm’s length with the Company for purposes of the Tax Act and does not have a “significant interest” (as defined in the Tax Act) in the Company for purposes of the Tax Act. In addition, a Common Share will not be a “prohibited investment” if the Common Share is “excluded property” (as defined in the Tax Act) for a trust governed by a TFSA, RDSP, RRSP, RRIF or RESP, as applicable. Holders who intend to hold Common Shares in a TFSA, RDSP, RRSP, RRIF, RESP or DPSP should consult their own tax advisors.

PROSPECTUS SUMMARY

This summary highlights principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in the Common Shares. You should read this entire prospectus carefully, especially the “Risk Factors” section of this prospectus and our consolidated financial statements and related notes appearing elsewhere in this prospectus, before making an investment decision.

Our Business

We are one of the leading P&C insurers in Canada¹, with more than one million policies in force across the country. We are the seventh largest provider of P&C insurance in Canada, with a market share of 4.6%.² We had approximately \$3.1 billion in gross written premiums³ (“GWP”) for the 12 months ended September 30, 2021.

We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 74% of our GWP in 2020, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance offering, which represented 26% of our GWP in 2020, includes fleet, individually-rated commercial auto, property, liability, and specialty insurance products, which are provided to businesses of all sizes in Canada.

As a multi-channel insurer, we distribute our products on a primarily intermediated basis, through brokers, as well as directly to customers. We have active relationships with a network of approximately 700 independent brokerage firms and a broker base of more than 27,000 individual brokers. Our direct distribution channel includes Sonnet Insurance, through which we launched our digital direct insurance platform in 2016; our pet insurer, Petline Insurance, which we acquired in 2017, and portions of our group insurance offering. In 2020, broker and direct distribution represented 89% and 11%, respectively, of our total GWP. Going forward, we expect individual customers to increasingly purchase insurance online through digital direct platforms like Sonnet.

We have a national presence and conduct our business in all provinces and territories of Canada. Ontario is our largest market, representing 59% of GWP in 2020. We had approximately 2,900 employees in 12 regional locations across Canada as at September 30, 2021.

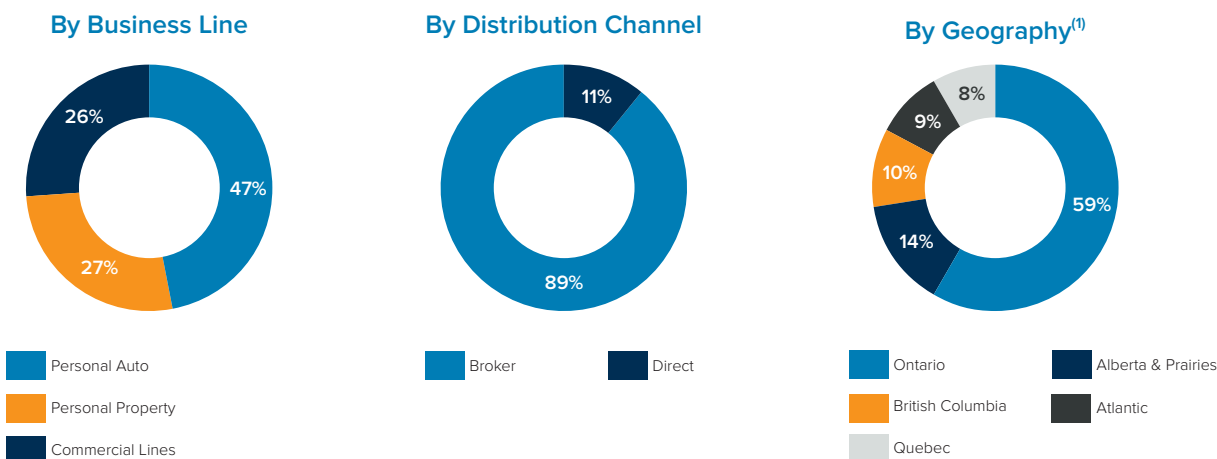
Our P&C insurance business is supported by our investment management activities. We had approximately \$5.0 billion in investments as at September 30, 2021. A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high quality assets. Our investment portfolio is comprised primarily of short-duration, investment grade fixed income investments, which generally reduces the impact of volatility related to macroeconomic conditions.

¹ Based on market share by DWP. See “Market, Industry and Economic Data”.

² Market share of Canadian P&C insurance industry DWP of \$65.6 billion for the twelve months ended June 30, 2021.

³ We define gross written premiums as the total premiums from the sale of insurance during a specified period.

The following charts illustrate the breakdown of our 2020 GWP by business line, distribution channel and geography, respectively.



Notes:

(1) Alberta & Prairies includes Alberta, Saskatchewan, Manitoba and the territories. Atlantic includes Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

Digital Platforms

The digital direct platform through which we offer our Sonnet-branded insurance products enables individuals to get quotes, purchase (which we refer to as “binding”) their policies, and manage their personal insurance policies in real-time directly online. Vyne, our broker service platform (and together with our Sonnet platform, our “**Digital Platforms**”), similarly allows brokers, on behalf of their customers, to directly obtain quotes, bind policies, source policy information and submit policy and billing changes for their customers in minutes entirely online. We believe that these functionalities are a significant market differentiator, as our brokers, customers and employees highly value the speed, simplicity and 24-hour, seven-days a-week access that our platforms offer.

Sonnet

Sonnet is Canada’s leading fully digital direct insurance platform⁴, allowing consumers to quote and bind personal insurance policies within minutes, without the need for any additional human interaction:

- Fully online end-to-end, mobile-enabled solution, providing a customer-centric purchase, policy administration and billing experience
- Agile, data-driven operating model integrating machine learning, artificial intelligence, data analytics and data management capabilities, as well as real-time fraud detection and deflection
- Highly scalable, custom-designed technology infrastructure built to support significant growth
- Fully automated digital chatbot as well as call centre and e-mail support for customers who require additional help

Vyne

Vyne supports our broker partners using the technology and learnings of Sonnet, through:

- Fully automated policy underwriting, administration and billing system for personal lines and a selection of commercial auto and small business coverage
- A broad range of insurance products with simplified wording, a refined pricing model and an improved service and workflow experience

⁴ Based on market share by DWP. See “Market, Industry and Economic Data”. Includes only insurance carriers that require all customers to bind online.

- Daily application of fraud detection tools on new and renewal business
- Award-winning broker experience,⁵ with seamless integration between the Vyne platform and broker management systems

For more information, see “Our Business”.

Industry Overview

We operate in the large and relatively mature Canadian P&C insurance industry, which provides insurance to both individuals (personal insurance) and businesses (commercial insurance) covering automobiles, commercial transportation, property, general liability and specialty insurance. The Canadian P&C insurance industry had, in the aggregate, DWP of \$63 billion in 2020. Ontario is by far the largest P&C insurance market in Canada, accounting for 45% of industry DWP in 2020. Alberta and Québec accounted for an additional 17% and 19% of industry DWP in 2020, respectively. Automobile insurance is the largest business line of the Canadian P&C insurance industry by DWP (45% of total industry DWP in 2020); property insurance is the second largest business line (40% of total industry DWP in 2020).

Distribution Channels

The three primary distribution channels for the Canadian P&C insurance industry are brokers (including wholesale brokers that operate on behalf of primary insurers, known as managing general agents), direct distribution and captive agents. Brokers act as intermediaries for multiple P&C insurers on behalf of customers who wish to purchase P&C insurance. Direct distribution is the sale of P&C insurance by insurance companies directly to consumers without the use of a broker, captive agent, or other intermediary. Direct distribution in Canada occurs primarily over the Internet via digital platforms and by phone through call centres. Captive agents are a proprietary sales force that sells P&C insurance products exclusively for an insurer.

Personal lines distribution has seen higher levels of growth in direct and captive agency models, compared to the broker channel, with direct and agency representing 53% of personal lines DWP in 2020 compared to 50% in 2011. We expect this trend to continue, driven by continued adoption of digital-direct solutions.

Commercial insurance products are primarily broker distributed. In 2020, approximately 86% of DWP was distributed by brokers, which is stable compared to 86% in 2011. We expect this dynamic to persist, driven largely by the inherent complexity of commercial lines risks and products; however, we anticipate that there may be an opportunity for captive agents to offer simplified coverage for certain small business needs.

Complex Regulatory Environment

The Canadian P&C insurance regulatory regime is complex, with most major insurers subject to federal regulation regarding capitalization and corporate governance, and provincial regulation regarding licensing, market conduct and certain product lines. Rates, product design, underwriting and client selection in personal automobile and individually-rated commercial auto insurance is regulated in provinces where the product is provided by private sector insurers (excluding optional auto coverage in British Columbia). Regulations and related processes can vary materially by province. We believe that managing this regulatory complexity requires skill and creates barriers to entry.

Industry Performance

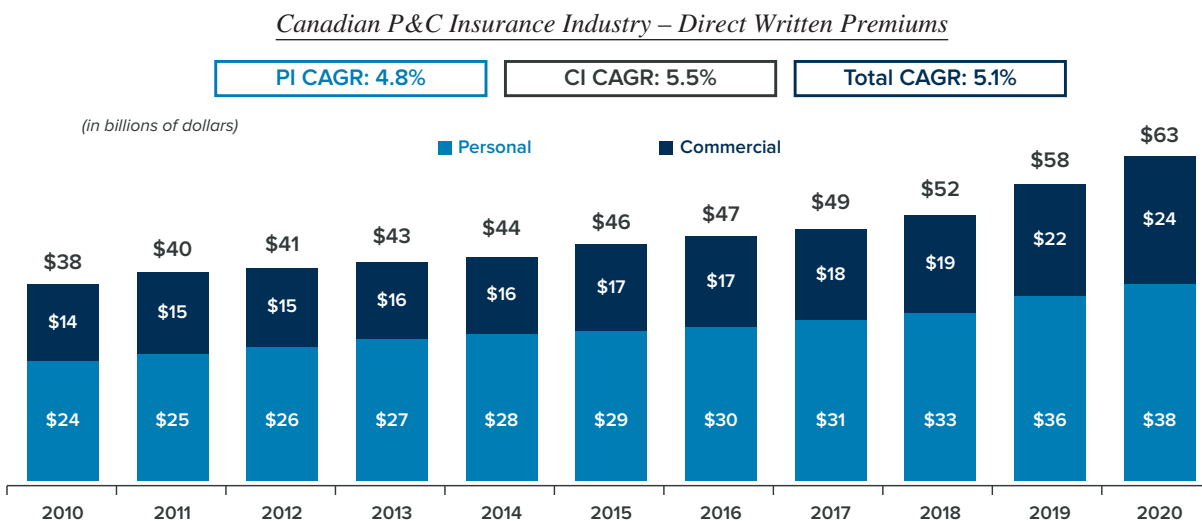
The financial performance of the Canadian P&C insurance industry is determined by two principal factors: (i) the level of premiums collected in relation to claims and operating costs paid; and (ii) the returns generated by investment portfolios held by insurers.

Key performance measures for the industry include premium growth, the combined ratio and ROE. The combined ratio measures the profitability of a P&C insurer’s underwriting operations (i.e., operating profitability before income earned on its investment portfolio), and is calculated by adding the claims ratio and the expense ratio together.

⁵ Vyne has been recognized for improving the broker experience through the global Guidewire Innovation Award (2018) and Insurance Nexus’ Canadian Insurance Carrier of the Year 2018 Award.

The financial performance of the Canadian P&C insurance industry has historically tended to fluctuate in cyclical patterns of “soft” markets, characterized generally by increased competition resulting in lower premium rates and underwriting standards, followed by “hard” markets, characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. “Hard” markets imply improving market conditions for insurers, and insurers tend to have decreasing combined ratios and increasing ROEs in hard markets relative to soft markets.

Between 2010 and 2020, the Canadian P&C insurance industry grew at a compound annual growth rate (“CAGR”) of 5.1% (based on DWP). Between 2013 and 2018, softer market conditions and lower investment yields challenged industry profitability. Weaker industry ROEs during that 5-year period drove pricing and underwriting discipline across the industry, and generally led to hardening in most P&C markets in 2019 and 2020. This market hardening drove year-over-year DWP growth of 10.9% in 2019 and 9.0% in 2020.



For more information, see “Our Business – Industry Overview”.

Our Strengths

Leading Canadian P&C Insurer

We are one of Canada’s leading P&C insurance companies. Our national, multi-line and multi-channel business model has been built through a combination of strong pricing, risk selection and claims management capabilities and a relentless focus on delivering superior service to our customers and brokers. Our business benefits from both scale and diversification, offering a broad range of P&C insurance solutions for everything from pets to complex commercial operations. We are the seventh largest P&C insurance carrier in Canada and the fourth largest in the broker channel. Our subsidiary, Sonnet Insurance, has the largest fully digital direct-to-consumer insurance business in Canada.⁶ With 150 years of independent operation, we have evolved and adapted through many different market environments. We have invested substantially in data management, technology and analytics. We believe that with our robust, diversified business model, we are well positioned to capitalize on trends in the global P&C insurance industry being driven by the primacy of customer experience, increasing digitization, value creation via data and analytics, and the increasing importance of sustainability.

Superior Customer and Broker Experience

Delivering superior experiences to our customers and brokers is core to our strategy. It drove us to build our award-winning Digital Platforms, Sonnet and Vyne, which have been recognized within the industry for their innovation⁷ and have been rapidly adopted by customers and brokers. Sonnet was the first fully digital P&C insurance

⁶ Based on market share by DWP. See “Market, Industry and Economic Data”. Includes only insurance carriers that require all customers to bind online.

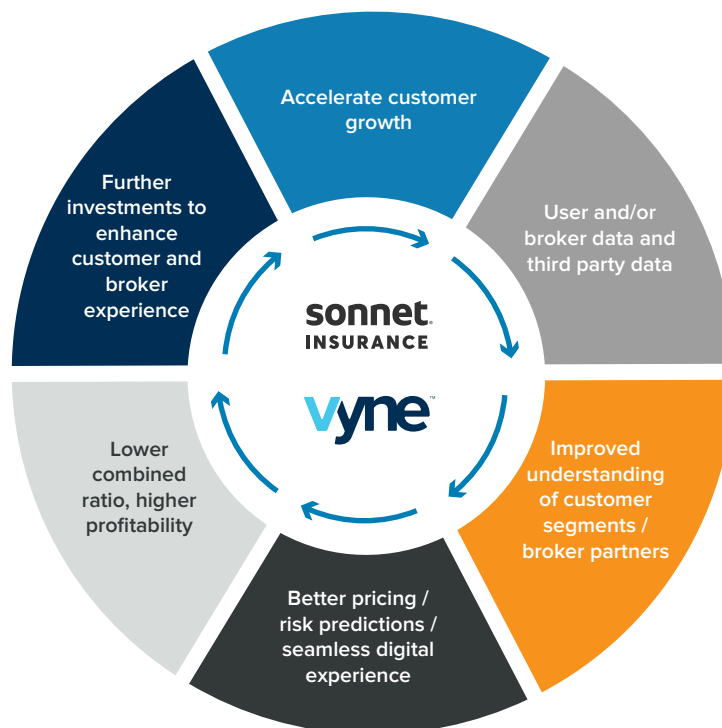
⁷ Economical Insurance a recipient of the 2016 and 2018 Guidewire Innovation Awards for its development of Sonnet and Vyne, respectively.

platform widely available in Canada and continues to be an industry leader. It appeals to customers with its easy-to-understand language and real-time processing, which enables our customers to purchase property and auto insurance in as little as five minutes. We have a long-standing presence and key relationships within the broker channel, which we have built upon with significant investments in our underwriting capabilities and expansion of our product lines. Our claims operation provides our customers and brokers with peace of mind that we will be there when they need us most. We provide our customers with a robust satisfaction guarantee and our specialized team of over 750 claims professionals has significant in-house capabilities designed to ensure that our customers receive fast, friendly service 24 hours a day, seven days a week.

Highly Scalable Digital Platforms Driving Growth and Profitability

Our innovative Digital Platforms are driving strong growth and profitability in our personal insurance and individually-rated commercial auto lines. The automation of our underwriting processes has transformed our business model away from intensive manual processing. What used to require days now occurs in real-time, which helps us meet the expectations of our digitally connected customers and brokers and significantly expands our reach and processing capacity. Our Digital Platforms are highly scalable and automated, which drives significant operational efficiencies, including lower underwriting and operational costs, as well as a greater ability to uniformly apply underwriting standards to new and recurring business.

Our digital infrastructure and integrated analytics platform enable a cycle of customer growth, improvements in financial performance and investments in the customer and broker experience, as illustrated in the diagram below.



Growing and Profitable Commercial Insurance Capabilities

We attracted new leadership to our commercial insurance business in 2017 to drive a transformation plan and have continued to add top talent from across the industry. We have built a growing and profitable commercial insurance business tailored for the Canadian market. As part of a broader corporate transformation and digitization strategy, we have focused on equipping our commercial lines business with strong underwriting, pricing and risk selection capabilities, while further strengthening our broker relationships and operational capabilities. We believe that our data management and analytics expertise provides us with a meaningful competitive advantage in segmentation and underwriting. We utilized these capabilities to implement new pricing models for commercial P&C, individually-rated commercial auto, fleet transportation and small business, which have led to growth in higher-profitability and lower-

volatility lines and a reduction in exposure to higher-volatility and less profitable lines. The sophistication of our commercial insurance capabilities is also reflected in our partnership with Uber, one of the leading technology companies in the world. We currently insure every peer-to-peer Uber ride in Ontario, Québec, Alberta and Nova Scotia and every Uber Eats delivery trip in Ontario, Québec, Alberta, Nova Scotia, New Brunswick and Newfoundland and Labrador.

Sophisticated Pricing Methodologies and Disciplined Underwriting Underpin Sustainable Profitability

We have improved our profitability through underwriting discipline, claims management and improved risk selection, which has been supported by our use of sophisticated pricing methodologies and deployment of advanced analytics. We are focused on growing our most profitable segments and reducing our exposure to more volatile lines of business. Our Digital Platforms, which largely underwrite our personal and individually-rated commercial auto products, utilize sophisticated marketing, pricing and predictive analytic capabilities. Our underwriting process utilizes in-depth customer information, a range of third-party data and advanced pricing, segmentation and fraud detection methodologies to integrate personalized offers with a seamless digital customer experience.

Significant Financial Flexibility to Support Value Creation

We have an unlevered balance sheet with capital well in excess of regulatory minimums, which provides us with significant financial flexibility to drive value creation and execute our strategy. We are currently subject to leverage restrictions under the ICA, which provide that our total debt cannot exceed 2% of our total assets. Subject to certain regulatory amendments and approvals, we intend to continue Definity under the *Canada Business Corporations Act* (the “CBCA”) after the Demutualization (the “**Continuance**”). See “Demutualization – Continuance under the CBCA”, “– Major Shareholder Restriction Period” and “Risk Factors – Risks Affecting our Business – We may not proceed with the Continuance during the major shareholder restriction period or at all, which could negatively impact our financial flexibility and our ability to drive value creation and execute our strategy”.

A CBCA holding company structure would not be subject to these leverage restrictions under the ICA. Assuming we proceed with the Continuance, we would be positioned to establish financial leverage levels closer to our public company peers at approximately 20% debt / total capitalization and 5% preferred or hybrids / total capitalization, which would enable us to add up to approximately \$650 million of incremental financial leverage to our balance sheet measured as of September 30, 2021. As a mutual company, we have been required to manage our capitalization in a conservative manner. As a public company, we expect that over time we will be able to manage our insurance operations at a MCT ratio around 200%, a level comparable to other large publicly-traded Canadian peers. At September 30, 2021, we had an excess of available capital of approximately \$450 million (at a MCT ratio of 200%).⁸ See “Canadian P&C Insurance Regulatory Environment”.

Seasoned Management Team and Dynamic Corporate Culture

We are led by a team of highly experienced and innovative executives. Rowan Saunders, our President and Chief Executive Officer (“CEO”), has over 30 years of experience in the P&C insurance industry, and has led us through a period of significant transformation. Our senior leadership team has an average of more than 15 years of P&C insurance industry experience and fosters a dynamic, customer-focused culture with strong employee engagement. The execution of our strategic plan under the leadership of our management team led to an improvement of approximately \$400 million in underwriting income and an improvement of over \$225 million in net income between 2018 and 2020, and has strongly positioned us for the future.

For more information, see “Our Business – Our Strengths”.

Corporate Strategy

Our goal is to be the P&C insurance partner Canadians choose to protect what they value most. This has driven us to build a national, high-performing multi-line and multi-channel insurer that is well positioned to capitalize on

⁸ Under the ICA, P&C Companies must maintain adequate capital and adequate and appropriate forms of liquidity. OSFI has published the MCT guideline which provides the framework within which OSFI assesses whether a P&C Company maintains adequate capital for purposes of the ICA. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Capital Requirements”.

multiple growth opportunities. Our strategic objectives are to become one of the five largest P&C insurers in Canada, maintain our digital leadership, sustain our underwriting profitability, and consistently demonstrate disciplined financial management. We intend to execute our strategy through the following key focus areas:

Capitalize on the Expanding Digital Direct Insurance Market with Sonnet

Sonnet offers a fully online quote-to-bind, mobile-enabled solution that has experienced rapid customer adoption since inception. With over 50%⁹ of Canadians open to purchasing insurance fully online and Sonnet offering an award-winning solution in the growing personal insurance market¹⁰, we believe that there is a significant opportunity to continue to scale the business. Sonnet's differentiated operating model, which utilizes advanced data analytics, also enables us to more profitably access the large group and affinity segment of the P&C insurance market, which has historically had significant barriers to entry.

Leverage Vyne to Increase Our Share of the Broker Channel

In 2018, we launched our automated end-to-end system, Vyne. Vyne is our broker digital platform, which combines outstanding technology with a focus on superior service. Since the Vyne platform was fully implemented, we have been able to drive significant growth in segments that we have targeted for expansion. The speed at which brokers can obtain policies for customers is one of the most important factors driving new business. The speed of our system enables us to be one of the first guaranteed quotes available to the broker and our advanced analytics allows us to offer competitive rates so that we can target higher-quality risks.

Grow and Diversify Our Commercial Insurance Business

Commercial insurance is a core component of our growth and profitability strategy. Our objective is to be among the top five commercial insurance carriers in Canada and we are focused on expanding our share within the small business, mid-market, and specialty segments of this market while remaining disciplined in our underwriting. We have successfully repositioned our portfolio over the last two years. We believe that we are well positioned to continue growing this business profitably as a result of our focus on providing a superior value proposition and service offering, our highly experienced underwriting and claims teams, the sophistication of our pricing capabilities, and the targeted use of automation and digitization.

Maintain Our Pace of Innovation

We have developed two leading Digital Platforms, Sonnet and Vyne, for primarily personal insurance distribution in Canada, and are committed to maintaining our pace of innovation to create exceptional experiences for our customers, brokers and our employees. The way we have integrated automation, machine learning, and scalable infrastructure into our personal lines and individually-rated commercial auto insurance origination and underwriting operation has enabled us to re-align our staffing model and dedicate more resources to enhancing our products and platforms. We believe that active innovation is critical to maintaining our focus on delivering a superior customer and broker experience, and will in turn drive strong, sustainable growth and profitability.

Diversify and Strengthen Our Growth through Acquisitions and Partnerships

Our industry is large, fragmented and highly competitive and growth has favoured the largest companies in the market. The ongoing investment required to achieve excellence in customer experience, data, technology, and analytics continues to put pressure on smaller companies as well as international companies that have less scale in the market. We believe that we are well positioned to actively participate in industry consolidation. We intend to focus on opportunities in Canada that are strategically aligned with our business model, accelerate our standalone organic growth plans and deliver returns in excess of those we could generate on our own. To broaden our reach, we will also continue to enhance our existing strategic partnerships and explore new relationships to enable growth in target business segments, promote innovation, access new markets, and facilitate development of new capabilities.

⁹ IMI International – Sonnet Category, Brand, and Product Insights Research, November 2020.

¹⁰ MSA Research as at December 31, 2019.

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

Our people are the backbone of our company. We are focused on developing top talent to execute our strategic objectives. “Let’s Rethink Insurance, Together” sets the tone for our employee experience, creating an inspiring and engaging environment that helps our people maximize their individual and collective contribution to building value over the long term. We are committed to diversity and inclusion and actively promote it across the organization through various forums including executive-sponsored employee groups and committees. We believe that an open and inclusive organization is not only the right thing to do but also leads to better performance.

For more information, see “Our Business – Corporate Strategy”.

Demutualization

The Offering is being made in connection with a process known as “demutualization”, which involves the conversion of Economical Insurance from a mutual insurance company with mutual policyholders as its voting members and no shareholders, to a share company with voting shareholders and no voting policyholders and by which, as prescribed in the Demutualization Regulations, the value of the converting company is distributed to eligible recipients as demutualization benefits. The Minister of Finance has approved the Conversion Plan, and the Letters Patent of Conversion are expected to take effect immediately prior to the completion of the Offering. If the Conversion Plan does not become effective for any reason, Economical Insurance will remain a mutual insurance company and the Offering will not be completed. Following the completion of the Demutualization, Eligible Policyholders (as defined herein) and the Foundation (as defined herein) will receive financial benefits in the form of Common Shares, cash or a combination of both. The net proceeds of the Offering will be used to fund the distribution of cash benefits of the Demutualization. See “Corporate Structure”, “Demutualization” and “Use of Proceeds”.

Prior to the completion of the Demutualization, Definity will be a wholly-owned subsidiary of Economical Insurance. On the completion of the Demutualization, Definity will directly own all of the outstanding shares of Economical Insurance. Immediately following the closing of the Offering and the Cornerstone Private Placements, an aggregate of 103,975,778 Common Shares will be issued and outstanding, of which 32,141,179 Common Shares (representing 30.9% of the issued and outstanding Common Shares) will be owned by the Cornerstone Investors, 8,198,229 Common Shares (representing 7.9% of the issued and outstanding Common Shares) will be owned by Eligible Policyholders and 63,636,370 Common Shares (representing 61.2% of the issued and outstanding Common Shares) will be owned by shareholders that purchased Common Shares in the distribution qualified by this prospectus. See “General Matters”, “Demutualization – Allocation of Demutualization Benefits and Election Process”, “Principal Securityholders” and “Risk Factors – Risks Relating to the Offering and Ownership of the Common Shares – Sale of Common Shares in the public market, or the perception that these sales may occur, could cause the market price of the Common Shares to decline”.

THE OFFERING

Issuer:	Definity Financial Corporation
Offering:	63,636,370 Common Shares (73,181,825 Common Shares if the Over-Allotment Option is exercised in full).
Offering Price:	\$22.00 per Common Share.
Offering Size:	\$1,400,000,140 (\$1,610,000,150 if the Over-Allotment Option is exercised in full).
Common Shares Outstanding:	Immediately following the completion of the Offering and the Cornerstone Private Placements, an aggregate of 103,975,778 Common Shares will be issued and outstanding and, if the Over-Allotment Option is exercised in full and the HOOPP Over-Allotment Private Placement is completed, an aggregate of 115,892,700 Common Shares will be issued and outstanding. See “General Matters”, “Demutualization – Allocation of Demutualization Benefits and Election Process” and “Consolidated Capitalization”.
Over-Allotment Option:	We have agreed to grant to the Underwriters an option, exercisable in whole or in part at any time and from time to time for a period of 30 days following the Closing Date, to purchase up to an additional 9,545,455 Common Shares, representing 15% of the Common Shares offered in the Offering, on the same terms as set forth above solely to cover over-allotments, if any.
Cornerstone Private Placements:	Pursuant to the HOOPP Subscription Agreement, HOOPP has agreed to purchase (i) concurrently with the closing of the Offering, an aggregate number of Common Shares that will be equal to 14.99% of the issued and outstanding Common Shares (on a non-diluted basis) immediately following the closing of the Offering (after taking into account the issuance of Common Shares to Swiss Re pursuant to the Swiss Re Subscription Agreement and excluding the issuance of Common Shares, if any, concurrently with the closing of the Offering on exercise by the Underwriters of the Over-Allotment Option) and (ii) following the closing of the Offering on the Closing Date, an aggregate number of Common Shares that, together with the Common Shares purchased concurrently with the closing of the Offering, will result in HOOPP owning 19.9% of the issued and outstanding Common Shares (on a non-diluted basis and excluding the issuance of Common Shares, if any, concurrently with the closing of the Offering on exercise by the Underwriters of the Over-Allotment Option) immediately following such issuance, in each case on a private placement basis at the Offering Price. Pursuant to the Swiss Re Subscription Agreement, Swiss Re has agreed to purchase, concurrent with the closing of the Offering, an aggregate number of Common Shares equal to the quotient determined by dividing (x) the Canadian dollar equivalent of US\$200 million by (y) the Offering Price. See “The Cornerstone Private Placements”. See “The Cornerstone Private Placements – Subscription Agreements”. Completion of each of the Cornerstone Private Placements is subject to a number of conditions, including the completion of the Demutualization and the concurrent closing of the Offering. See “Risk Factors – Risks Relating to the Offering and the Ownership of the Common Shares – The Cornerstone Private Placements may fail to close”. Immediately following the closing of the Offering and the Cornerstone Private Placements, 32,141,179 Common Shares (representing 30.9% of the issued and outstanding Common Shares) will be owned by the Cornerstone Investors.

Pursuant to the Governance Agreements (as defined herein), each of HOOPP and Swiss Re will have certain rights, including board nomination rights, pre-emptive rights and demand and piggy-back registration rights. HOOPP and Swiss Re will also be subject to a five year lock-up period and a three year lock-up period, respectively, subject in each case to certain exceptions and to the early termination of such lock-up period in certain circumstances, as well as other restrictions on transfer. See “The Cornerstone Private Placements – Governance Agreements”.

Use of Proceeds:

We expect to receive (i) approximately \$1,327,500,134 (\$1,528,050,143 if the Over-Allotment Option is exercised in full) in net proceeds from the Offering, after deducting the Underwriters’ Fee and the expenses of the Offering and (ii) approximately \$2,019,638,953 (\$2,271,317,791 if the Over-Allotment Option is exercised in full) in net proceeds from the Offering and the Cornerstone Private Placements, after deducting the Underwriters’ Fee, the fees payable to BMO and RBC in connection with the Cornerstone Private Placements (the “**Placement Fee**”) and the expenses of the Offering and the Cornerstone Private Placements (together, the “**Offering and Cornerstone Private Placement Expenses**”).

We will use all of the net proceeds of the Offering and the Cornerstone Private Placements to fund the distribution of cash benefits of the Demutualization to Eligible Policyholders and the Foundation pursuant to the Conversion Plan. See “Demutualization” and “Our Business – Community Investment and the Definity Insurance Foundation”. If the Over-Allotment Option is exercised in full or in part, we will use the net proceeds thereof, together with the net proceeds from the related HOOPP Over-Allotment Private Placement, for general corporate purposes. There will not be any proceeds from the issuance of Common Shares to Eligible Policyholders under the Conversion Plan. See “Plan of Distribution” and “Use of Proceeds”.

Dividend Policy:

Initially, we anticipate paying quarterly cash dividends estimated to be \$0.125 per Common Share. The Company’s first cash dividend, which will be for the period from and including the Closing Date to December 31, 2021 and for the full first quarter ending March 31, 2022, is expected to be paid on or about March 31, 2022 to Shareholders of record on March 15, 2022 and is estimated to be \$0.175 per Common Share (\$0.05 in respect of the period from and including the Closing Date to December 31, 2021 and \$0.125 in respect of the full first quarter ending March 31, 2022).

The amount and timing of the payment of any dividends are not guaranteed and any determination to pay dividends in the future will be at the discretion of our Board and will depend on many factors and conditions existing from time to time that the Board may deem relevant, including the financial condition of the Company, general business conditions, restrictions regarding the payment of dividends to the Company by its subsidiaries and regulatory requirements. See “Dividend Policy”, “Canadian P&C Insurance Regulatory Environment”, “Risk Factors – Risks Relating to the Offering and Ownership of the Common Shares – Our payment of future cash dividends will be subject to the discretion of the Board and may vary from time to time or be suspended entirely” and “– As a holding company, we depend on our subsidiaries to meet our obligations, including future dividend payments”.

**Lock-Up Agreements and
Other Transfer
Restrictions:**

In connection with the completion of the Offering, each of us, the Cornerstone Investors, as well as our directors and executive officers have agreed that he, she or it will not, directly or indirectly, without the prior written consent of BMO and RBC, on behalf of the Underwriters, such consent not to be unreasonably withheld, issue, offer or sell or grant any option, warrant or other right to purchase or agree to issue or sell or otherwise lend, transfer, assign, pledge or dispose of any of our equity securities, or other securities convertible or exchangeable into or otherwise exercisable into our

equity securities (including without limitation by making any short sale, engaging in any hedging, monetization or derivative transaction or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our securities or securities convertible into, exchangeable for, or otherwise exercisable into our securities) or agree to do any of the foregoing or publicly announce any intention to do any of the foregoing in a public offering, by way of private placement or otherwise for a period commencing on the Closing Date and ending 180 days after the Closing Date, subject to certain limited exceptions (the “**Lock-Up Agreements**”).

To prevent the sale of substantial amounts of Common Shares in an uncontrolled manner in the period following the Offering, which could negatively impact outside investor confidence and the price that the Common Shares might otherwise trade at after the Offering, the Conversion Plan provides that Eligible Policyholders who receive Common Shares as Demutualization benefits shall not, directly or indirectly, (i) sell, offer to sell, grant any option, warrant or other right to purchase or otherwise lend, secure, pledge, transfer, assign, dispose of or monetize such Common Shares (including, without limitation, by way of a short sale, put option or call option), (ii) enter into any swap or any form of agreement or arrangement the consequence of which is to transfer to another, in whole or in part, any of the economic consequences of ownership of such Common Shares, whether any such swap, agreement or arrangement is to be settled by delivery of Common Shares, in cash or otherwise, (iii) agree to or publicly announce any intention to do any of the foregoing, or (iv) act jointly or in concert with any third party with respect to any of the foregoing matters, for 180 days following the later of the effective date of the Demutualization and the closing of the Offering, in each case unless permitted by the Company (the “**Market Stabilization Restrictions**”). See “Shares Eligible for Future Sale – Market Stabilization Restrictions” and “Plan of Distribution – Lock-Up Agreements and Other Transfer Restrictions”.

Pursuant to the Governance Agreements, HOOPP and Swiss Re will be subject to a five year lock-up period and a three year lock-up period, respectively, subject in each case to certain exceptions and to the early termination of such lock-up period in certain circumstances, as well as other restrictions on transfer. See “The Cornerstone Private Placements – Governance Agreements”.

Market for the Common Shares:

There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation. See “Risk Factors”.

The Common Shares have been conditionally approved for listing on the TSX under the symbol “DFY”. Listing is subject to the Company fulfilling all of the requirements of the TSX on or before February 8, 2022, including distribution of these securities to a minimum number of public shareholders. See “Plan of Distribution”.

Risk Factors:

An investment in the Common Shares is subject to a number of risks that should be considered by a prospective purchaser. See “Risk Factors” and the other information included in this prospectus for a discussion of the risks that an investor should carefully consider before deciding to invest in the Common Shares.

SELECTED SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain selected consolidated financial information of Economical Insurance. We have derived this consolidated financial information from Economical Insurance's audited consolidated financial statements and unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. The following data shows the historical results of Economical Insurance and does not give effect to the Demutualization, the Offering or the Cornerstone Private Placements. For a description of the *pro forma* effect of the Demutualization, the Offering and the Cornerstone Private Placements, see the *pro forma* financial statements of Definity included elsewhere in this prospectus. Economical Insurance's consolidated financial statements have been prepared in accordance with GAAP and are included elsewhere in this prospectus. The unaudited interim condensed consolidated financial information presented has been prepared on a basis consistent with Economical Insurance's audited consolidated financial statements. In the opinion of our management, such unaudited financial information reflects all adjustments necessary for the fair presentation of results for those periods. Economical Insurance's historical results are not necessarily indicative of the results that should be expected in any future period. All amounts are in millions of Canadian dollars, except as otherwise indicated.

Prospective investors should review this information in conjunction with Economical Insurance's consolidated financial statements, including the notes thereto, included elsewhere in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Consolidated Statement of Comprehensive Income (Loss) Data

(in millions of dollars)	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Gross written premiums	\$851.5	\$753.9	\$2,384.8	\$2,058.8	\$2,814.7	\$2,511.0	\$2,456.3
Total underwriting revenues	\$727.2	\$646.8	\$2,094.8	\$1,848.7	\$2,516.2	\$2,353.3	\$2,260.0
Net claims and underwriting expenses	\$672.1	\$607.7	\$1,940.6	\$1,785.0	\$2,379.8	\$2,471.6	\$2,525.6
Underwriting income (loss)	\$ 55.1	\$ 39.1	\$ 154.2	\$ 63.7	\$ 136.4	\$ (118.3)	\$ (265.6)
Net income (loss)	\$ 53.3	\$ 45.6	\$ 179.6	\$ 87.2	\$ 153.9	\$ 17.4	\$ (73.0)

Consolidated Balance Sheet Data

(in millions of dollars)	As at September 30,	As at December 31,	
	2021	2020	2019
Cash and cash equivalents	\$ 339.9	\$ 510.3	\$ 94.7
Investments	4,969.8	4,366.3	4,191.0
Premiums receivable	1,052.0	958.7	850.7
Total assets	<u>7,251.6</u>	<u>6,620.3</u>	<u>5,956.5</u>
Unearned premiums	1,564.0	1,433.1	1,294.5
Claim liabilities	3,246.5	3,026.3	2,808.2
Accounts payable and other liabilities	363.8	324.2	240.6
Total liabilities	<u>5,221.8</u>	<u>4,802.3</u>	<u>4,345.5</u>
Total equity	<u>\$2,029.8</u>	<u>\$1,818.0</u>	<u>\$1,611.0</u>

Selected Financial Ratios

	For the three months ended September 30, ⁽¹⁾		For the nine months ended September 30, ⁽¹⁾		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Claims ratio ⁽²⁾	60.5%	61.8%	59.9%	64.1%	62.3%	73.1%	75.5%
Expense ratio ⁽²⁾	31.9%	32.1%	32.7%	32.4%	32.3%	31.9%	36.3%
Combined ratio ⁽²⁾	92.4%	93.9%	92.6%	96.5%	94.6%	105.0%	111.8%
Return on equity ⁽²⁾	13.1%	5.7%	13.1%	5.7%	9.0%	1.1%	(4.4%)
Operating return on equity ⁽²⁾	13.6%	7.0%	13.6%	7.0%	11.0%	(0.3%)	(6.2%)

Notes:

- (1) Claims ratio, expense ratio and combined ratio are calculated for the three and nine months ended September 30, 2021 and 2020. Return on equity and operating return on equity are calculated for the 12 months ended September 30, 2021.
- (2) Claims ratio is a supplementary financial measure. Expense ratio, combined ratio, return on equity and operating return on equity are non-GAAP ratios. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

CORPORATE STRUCTURE

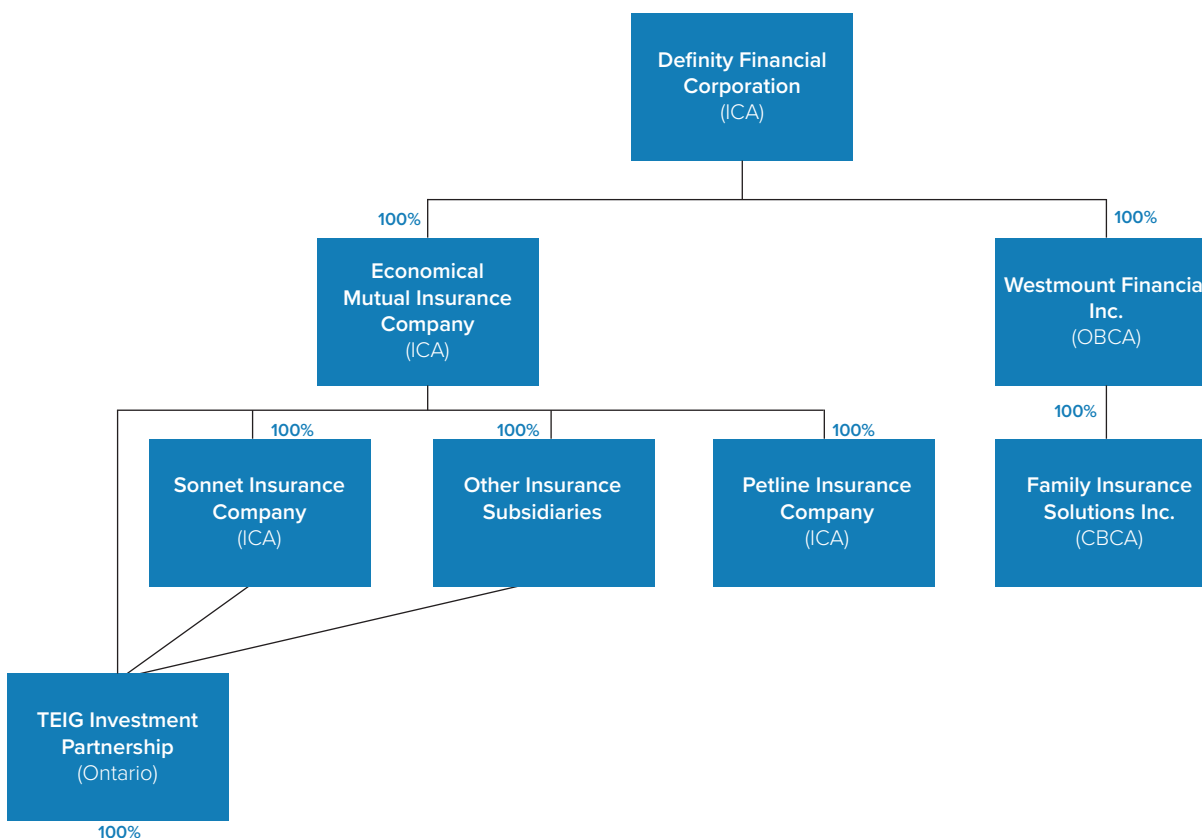
Definity was incorporated under the ICA pursuant to letters patent of incorporation. On the completion of the Demutualization, Definity will directly own all of the outstanding shares of Economical Insurance and will have no insurance operations. Subject to certain restrictions applicable to insurance companies governed by the ICA, Definity may carry on such other activities as the Board may approve. Definity does not have any present intention to issue any insurance policies or otherwise insure risks. Subject to certain regulatory amendments and approvals, we intend to proceed with the Continuance after the Demutualization. See “Demutualization – Continuance under the CBCA”, “– Major Shareholder Restriction Period” and “Risk Factors – Risks Affecting our Business – We may not proceed with the Continuance during the major shareholder restriction period or at all, which could negatively impact our financial flexibility and our ability to drive value creation and execute our strategy”. Our head and registered office is located at 111 Westmount Road South, Waterloo, Ontario.

Economical Insurance is a mutual P&C insurance company. As a mutual P&C insurance company, Economical Insurance currently has mutual policyholders as its voting members and no shareholders. Mutual policyholders hold mutual insurance policies and have certain governance rights, including the right to elect the board of directors of Economical Insurance (the “**Economical Board**”) and to appoint its auditors, and to approve certain special matters, including certain steps associated with the Demutualization. The remainder of Economical Insurance’s policyholders are non-mutual policyholders who hold non-mutual insurance policies and do not have any governance rights, except those they have exercised in relation to the Demutualization. Pursuant to the Demutualization, Economical Insurance will convert from a mutual insurance company to a company with share capital and mutual policyholders will no longer have governance rights. See “Demutualization”.

The following diagram shows our principal subsidiaries assuming the completion of the Demutualization and the Post-Closing Reorganization (as defined below). Each of our principal subsidiaries will be 100% owned, directly or indirectly, by Definity. Each of Economical Insurance, Sonnet Insurance Company (“**Sonnet Insurance**” or “**Sonnet**”) and Petline Insurance Company (“**Petline Insurance**” or “**Petline**”) is governed by the ICA and subject to federal insurance regulation and oversight. See “Canadian P&C Insurance Regulatory Environment”. TEIG Investment Partnership holds the investment portfolio for Economical Insurance and the other Insurance Subsidiaries (as defined below), other than Petline. Westmount Financial Inc. (“**Westmount**”) is a holding company that owns Family Insurance Solutions Inc. (“**Family Insurance**”), a distributor of Economical Insurance products, and certain interests in brokers and other investments.

Following the Closing, we intend to complete a corporate reorganization for capital efficiency purposes (the “**Post-Closing Reorganization**”) pursuant to which the shares of Westmount will be effectively transferred from Economical Insurance to Definity.

As part of optimizing our operating structure and streamlining our underwriting operations in 2018, the underwriting activities of three of our subsidiaries, The Missisquoi Insurance Company (“**Missisquoi Insurance**”), Waterloo Insurance Company (“**Waterloo Insurance**”) and Perth Insurance Company (“**Perth Insurance**”), were transferred to Economical Insurance. Economical Insurance, Sonnet Insurance, Petline Insurance, Missisquoi Insurance and Waterloo Insurance, are collectively, the “**Insurance Subsidiaries**”. For simplicity, certain of our other subsidiaries have been excluded from the following diagram.



OUR BUSINESS

Overview

We are one of the leading P&C insurers in Canada, with more than one million policies in force across the country. We are the seventh largest provider of P&C insurance in Canada, with a market share of 4.6%.¹¹ We had approximately \$3.1 billion in GWP for the 12 months ended September 30, 2021.

We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 74% of our GWP in 2020, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance offering, which represented 26% of our GWP in 2020, includes fleet, individually-rated commercial auto (“**IRCA**”), property, liability, and specialty insurance products, which are provided to businesses of all sizes in Canada.

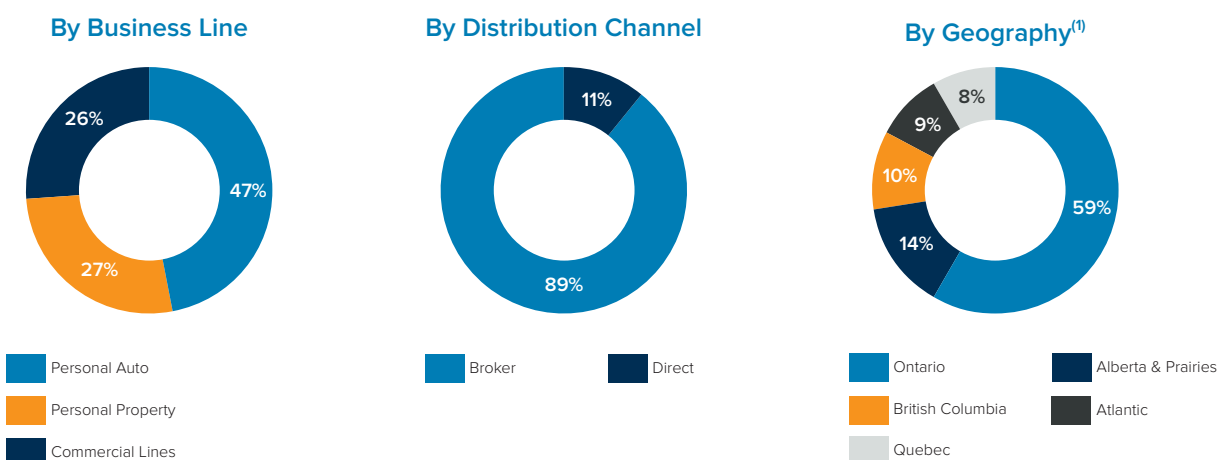
As a multi-channel insurer, we distribute our products on a primarily intermediated basis, through brokers, as well as directly to customers. We have active relationships with a network of approximately 700 independent brokerage firms and a broker base of more than 27,000 individual brokers. Our direct distribution channel includes Sonnet Insurance, through which we launched our digital direct insurance platform in 2016; our pet insurer, Petline Insurance, which we acquired in 2017, and portions of our group insurance offering. In 2020, broker and direct distribution represented 89% and 11%, respectively, of our total GWP. Going forward, we expect individual customers to increasingly purchase insurance online through digital direct platforms like Sonnet.

¹¹ Market share of Canadian P&C insurance industry DWP of \$65.6 billion for the twelve months ended June 30, 2021.

We have a national presence and conduct our business in all provinces and territories of Canada. Ontario is our largest market, representing 59% of GWP in 2020. Our P&C insurance business is supported by our investment management activities. We had approximately \$5.0 billion in investments as at September 30, 2021. A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high quality assets. Our investment portfolio is comprised primarily of short-duration, investment grade fixed income investments, which generally reduces the impact of volatility related to macroeconomic conditions.

We had approximately 2,900 employees in 12 regional locations across Canada as at September 30, 2021.

The following charts illustrate the breakdown of our 2020 GWP by business line, distribution channel and geography, respectively.



Notes:

(1) Alberta & Prairies includes Alberta, Saskatchewan, Manitoba and the territories. Atlantic includes Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

Companies

We offer our insurance products primarily through four companies: Economical Insurance, Sonnet Insurance, Family Insurance and Petline Insurance, allowing for a diversified and differentiated go-to-market strategy tailored to the specific needs of our various customer groups and brokers.

Company	Description
	Economical Insurance is our largest insurance company and provides insurance solutions through the broker channel. Economical Insurance represented approximately 81% of our total GWP in 2020. Economical Insurance offers: • Auto, property, liability, and specialty insurance products to individuals and businesses • Group insurance, providing Canadians with access to exclusive, discounted group auto and home insurance through their employer or professional association • Small businesses and mid-market insurance, as well as specialty offerings for larger enterprises

Company	Description
	Through Sonnet Insurance, our digital direct insurance offering, we target individuals, corporate groups and affinity members who prefer to purchase insurance online. Sonnet Insurance represented approximately 9% of our total GWP in 2020. Sonnet's multi-product offering includes auto, home, condo, tenant, landlord, and pet insurance, and an online customer rewards platform of partner offerings. Sonnet Insurance offers insurance products in Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Québec.
	Family Insurance is a distributor of home and optional auto personal insurance, which distributes Economical Insurance products on an exclusive basis through brokers in British Columbia. In 2020, Family Insurance represented approximately 8% of our total GWP. Optional auto insurance provides individuals in British Columbia with additional coverage over the basic compulsory insurance, which is only offered by The Insurance Corporation of British Columbia ("ICBC"), a provincial Crown corporation.
	Petline is one of Canada's oldest and largest pet health insurance companies and represented approximately 2% of our total GWP in 2020. Through its brands, Petsecure and Peppermint, Petline is a leader ¹² in the market with coverage options to meet the pet insurance needs of individuals in all provinces and territories of Canada. Petsecure and Peppermint are sold on a direct basis online and through our branding partners.

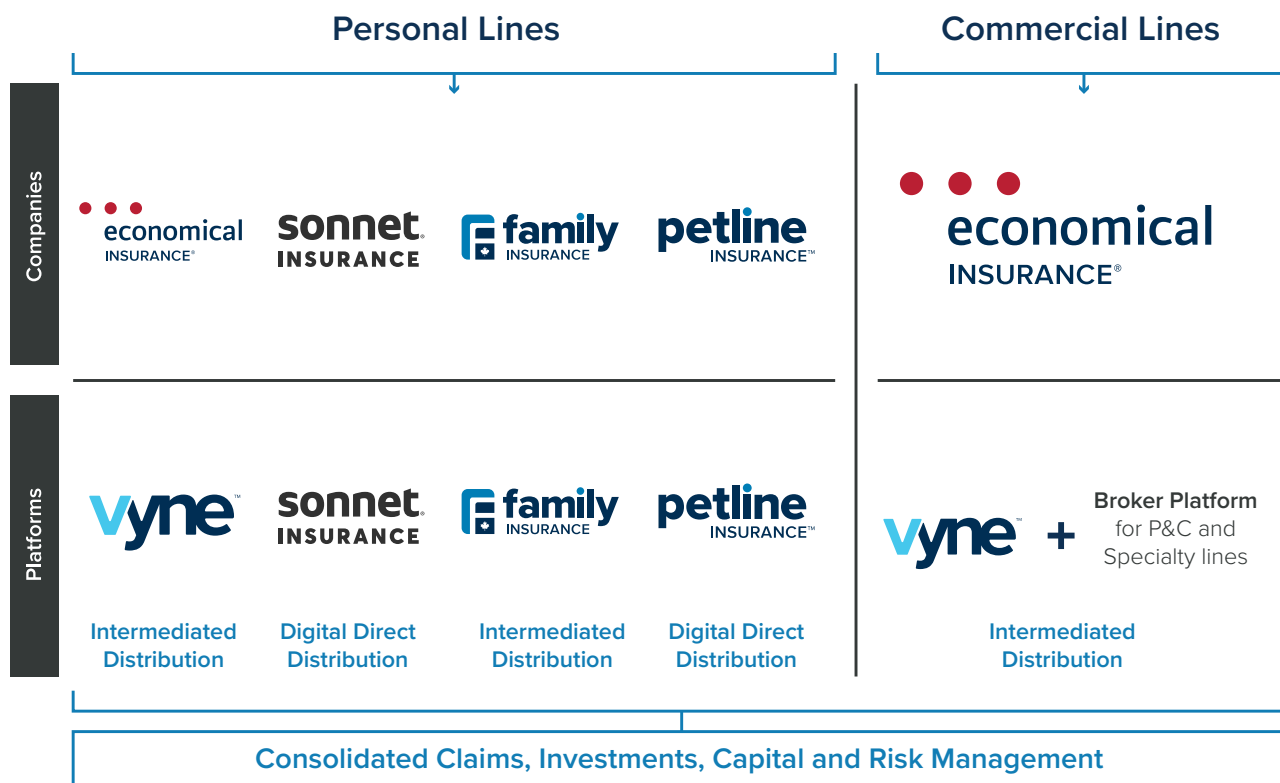
Operating Model

Over the past few years, we have made significant investments in our operating and technology platforms, to better serve the needs of our customers and brokers. In 2016, we launched the Sonnet platform, which supports our fully digital direct Sonnet-branded insurance products. The Sonnet platform provides customers with award-winning customer service and customer-centric products and pricing, and significantly expands our addressable market beyond the broker channel. In 2018, we deployed Vyne, a new primarily personal lines platform for brokers that includes a policy administration and billing system. In 2021, we introduced Vyne Commercial, a new digital platform designed to simplify the process of insuring small businesses. The supporting technology is capable of processing large and varied information, integrating evolving third-party data, and accelerating the number and accuracy of enhancements. See “– Digital Platforms” and “Innovation, Analytics and Intellectual Property – Innovation and Analytics”.

Our underwriting capabilities and pricing sophistication have been enhanced by our move to risk-based pricing across our personal lines business through our Digital Platforms. Together with our analytics capabilities, our Digital Platforms have resulted in improved underwriting performance and increased speed to market, as well as targeted marketing activities for Sonnet. With respect to Vyne, our Digital Platforms have also resulted in operational efficiencies for our broker distribution network. See “Pricing and Underwriting Operations”.

We are dedicated to providing claims management that sustains customer satisfaction with their claims experience. In 2018, we initiated our claims transformation initiative in an effort to improve customer experience, reduce claims leakage, and optimize workforce capabilities resulting in significantly enhanced and improved claims management processes. In a survey conducted by Economical Insurance, based on over 11,390 claimant survey responses from January 2019 to December 2019, 87% of policyholders indicated that they were satisfied or very satisfied with the quality of their claims service experience. See “Claims Management”.

¹² Based on publicly available information on GWP volume in Canada by pet insurance carriers as reported by members of a leading North American pet health industry association, Petline had an approximate 24% market share as of December 31, 2020.



Digital Platforms

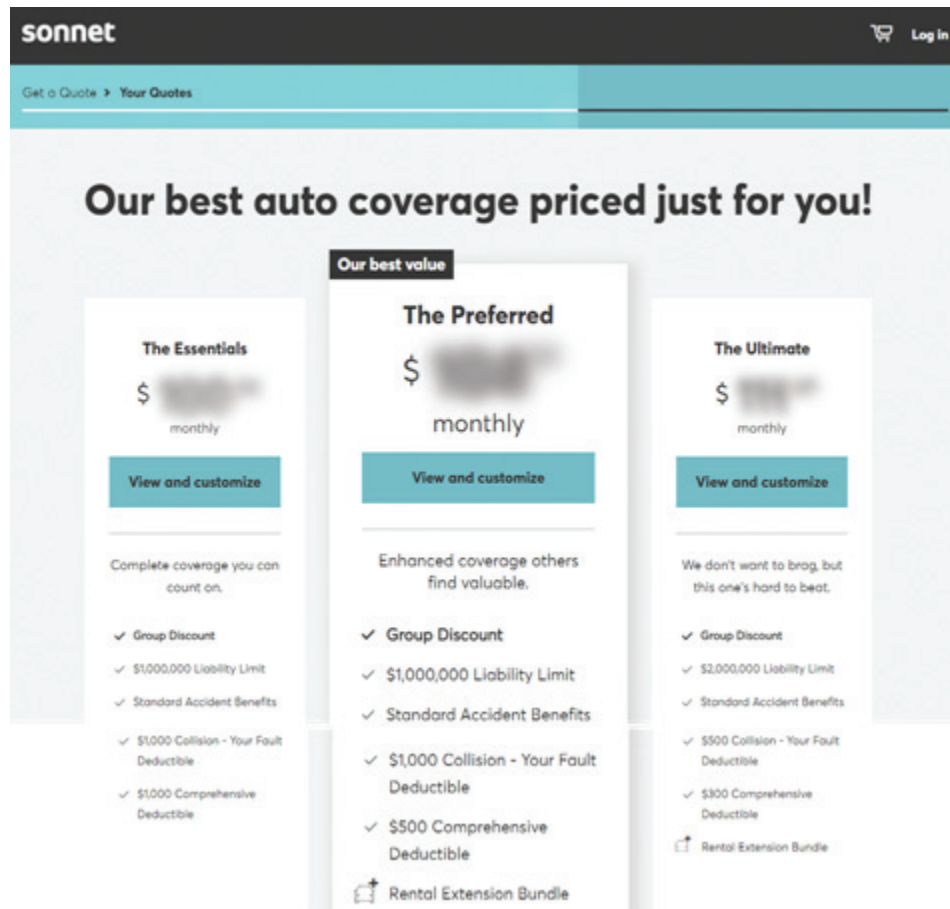
The digital direct platform through which we offer our Sonnet-branded insurance products enables individuals to get quotes, purchase (which we refer to as “binding”) their policies, and manage their personal insurance policies in real-time directly online. Vyne, our broker service platform, similarly allows brokers, on behalf of their customers, to directly obtain quotes, bind policies, source policy information and submit policy and billing changes for their customers in minutes entirely online. We believe that these functionalities are a significant market differentiator, as our brokers, customers and employees highly value the speed, simplicity and 24-hour, seven-days a-week access that our platforms offer.

Sonnet

Sonnet is Canada’s leading fully digital direct insurance platform, allowing consumers to quote and bind personal insurance policies within minutes, without the need for any additional human interaction:

- Fully online end-to-end, mobile-enabled solution, providing a customer-centric purchase, policy administration and billing experience
- Agile, data-driven operating model integrating machine learning, artificial intelligence, data analytics and data management capabilities, as well as real-time fraud detection and deflection
- Highly scalable, custom-designed technology infrastructure built to support significant growth
- Fully automated digital chatbot as well as call centre and e-mail support for customers who require additional help

Sonnet – Example customer interface

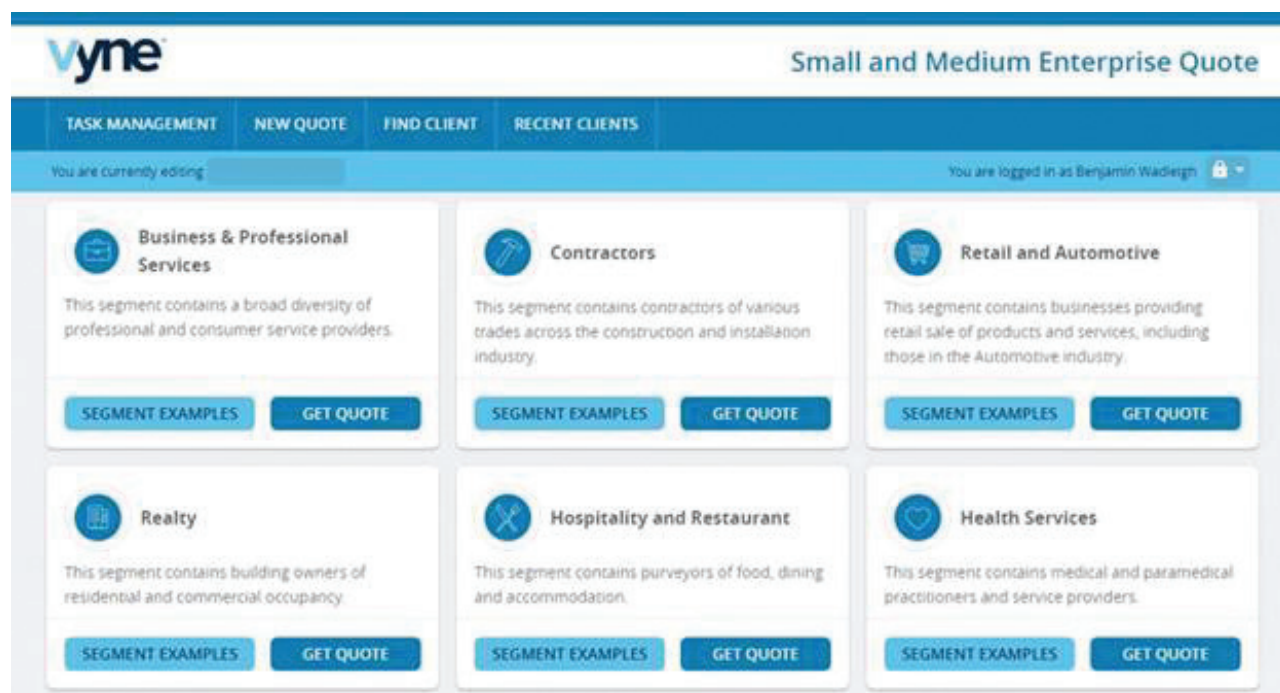


Vyne

Vyne supports our broker partners using the technology and learnings of Sonnet, through:

- Fully automated policy underwriting, administration and billing system for personal lines and a selection of commercial auto and small business coverage
- A broad range of insurance products with simplified wording, a refined pricing model and an improved service and workflow experience
- Daily application of fraud detection tools on new and renewal business
- Award-winning broker experience,¹³ with seamless integration between the Vyne platform and broker management systems

¹³ Vyne has been recognized for improving the broker experience through the global Guidewire Innovation Award (2018) and Insurance Nexus' Canadian Insurance Carrier of the Year 2018 Award.

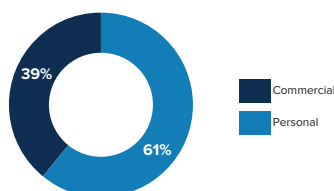


Industry Overview

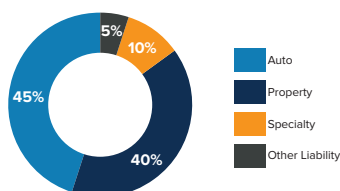
We operate in the large and relatively mature Canadian P&C insurance industry, which provides insurance to both individuals (personal insurance) and businesses (commercial insurance) covering automobiles, commercial transportation, property, general liability and specialty insurance. The majority of Canadian P&C insurance is provided by the private sector, though in some provinces government-owned insurers provide some coverage (currently British Columbia, Manitoba, Québec and Saskatchewan), which impacts the market available for our products. The Canadian P&C insurance industry had, in the aggregate, DWP of \$63 billion in 2020. Ontario is by far the largest P&C insurance market in Canada, accounting for 45% of industry DWP in 2020. Alberta and Québec accounted for an additional 17% and 19% of industry DWP in 2020, respectively.

Canadian P&C Insurance Industry – 2020 Direct Written Premiums

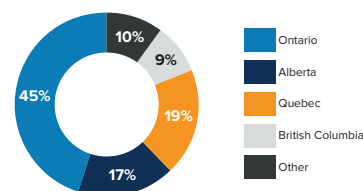
Personal/Commercial



By Line of Business⁽¹⁾



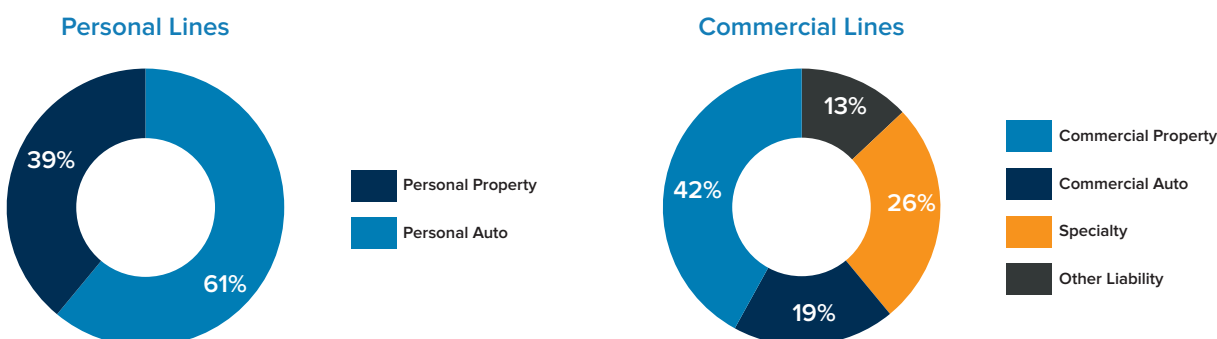
By Geography⁽²⁾



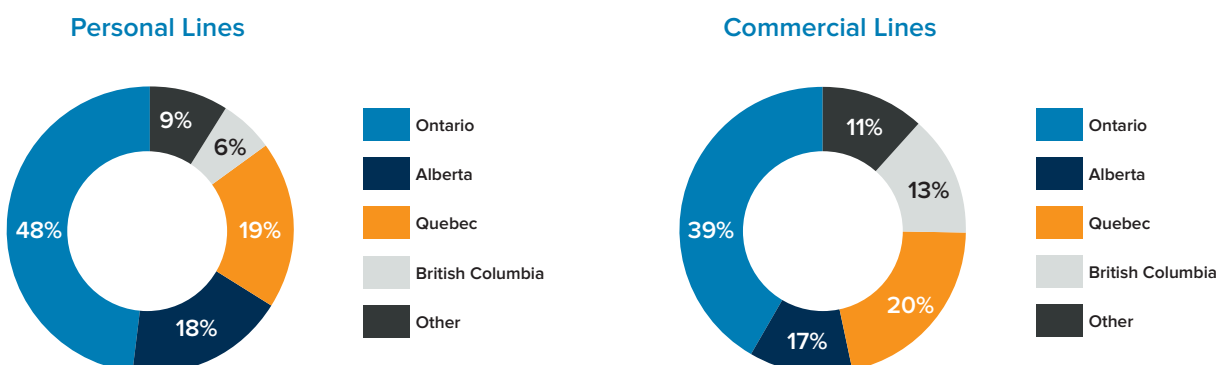
Notes:

- (1) Other liability includes comprehensive general liability.
- (2) Other includes Atlantic provinces, Manitoba, Saskatchewan, Yukon, Northwest Territories and Nunavut.

By Line of Business



By Geography



Automobile insurance is the largest business line of the Canadian P&C insurance industry by DWP and provides personal and commercial coverage against losses incurred from personal bodily injury, bodily injury to third parties, property damage to an insured's vehicle and property damage to other vehicles and other property resulting from the ownership, maintenance or use of automobiles and trucks.

Property insurance is the second largest business line of the Canadian P&C insurance industry by DWP and provides coverage for loss or damage to buildings, contents, inventory and equipment. Our personal property business also includes pet insurance, which provides pet owners with comprehensive health coverage for dogs and cats.

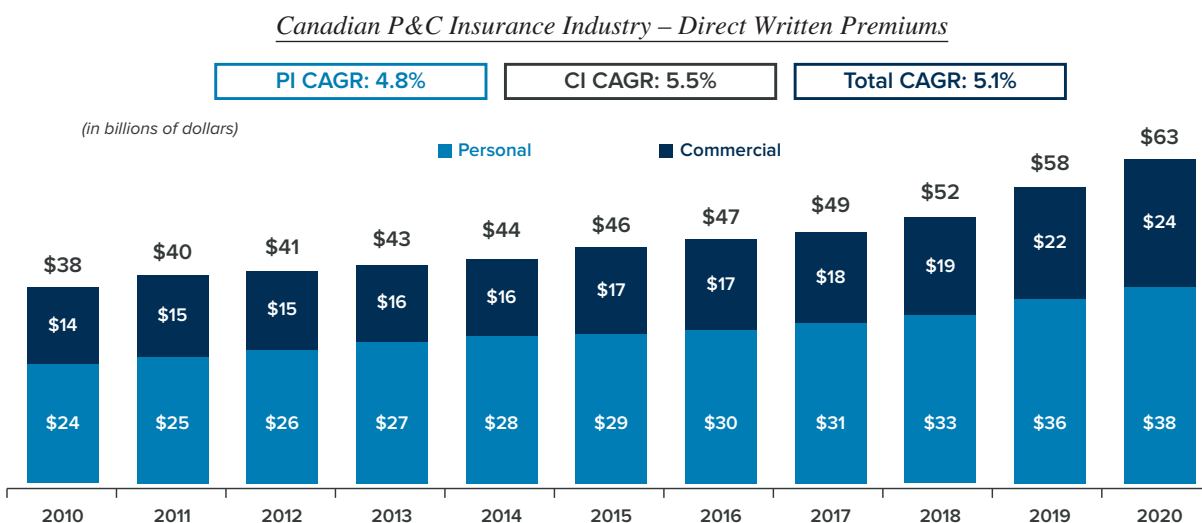
General liability insurance provides coverage for liability exposures including bodily injury and property damage arising from products sold and general business operations.

Specialty insurance provides coverage for unique risks that require specialized underwriting expertise. Specialty lines include professional liability, surety, directors' and officers' liability, errors and omissions insurance, umbrella liability, marine insurance, aircraft insurance and boiler & machinery insurance.

Despite relatively high insurance penetration, the Canadian P&C insurance industry has outpaced economic growth in Canada over the past 10 years, with DWP growing at a 5.1% CAGR and GDP growing at a 2.8% CAGR.¹⁴ Industry growth drivers generally include population growth, premium rate increases and increased underlying demand for insurance, such as formation of new businesses and purchases of capital items that require insurance. While long-term growth rates in the industry have generally been similar for personal (4.8% 10-year DWP CAGR) and commercial lines (5.5% 10-year DWP CAGR), factors unique to their respective markets can impact growth rates in the shorter term. These factors include, but are not limited to, recent industry performance, insurer risk appetites, availability of

¹⁴ Canadian gross domestic product figures per IMF (International Monetary Fund). Based on nominal GDP.

capital to insurers and reinsurers, changes in insurance laws and regulations (including pricing of regulated products), and general economic conditions. See “– Industry Performance”.



Distribution Channels

The three primary distribution channels for the Canadian P&C insurance industry are brokers (including wholesale brokers that operate on behalf of primary insurers, known as managing general agents), direct distribution and captive agents. Brokers act as intermediaries for multiple P&C insurers on behalf of customers who wish to purchase P&C insurance. Direct distribution is the sale of P&C insurance by insurance companies directly to consumers without the use of a broker, captive agent, or other intermediary. Direct distribution in Canada occurs primarily over the Internet via digital platforms and by phone through call centres. Captive agents are a proprietary sales force that sells P&C insurance products exclusively for an insurer.

Historically, the broker channel has been the prevalent method of distribution for both personal and commercial lines, and we expect the broker channel to remain highly relevant for the foreseeable future. Many brokers have recently been simplifying their operations and reducing the number of primary relationships with insurers. As this trend continues, we believe that scale, breadth of product offering and the quality of broker experience will be key differentiators for brokers in identifying insurer relationships to prioritize for both personal and commercial products.

Personal Lines

Personal lines distribution has seen higher levels of growth in direct and captive agency models, compared to the broker channel, with direct and agency representing 53% of personal lines DWP in 2020 compared to 50% in 2011. We expect this trend to continue, driven by continued adoption of digital-direct solutions.

Canadian consumers are increasingly embracing digital solutions in financial services, and digital-direct insurance platforms are gaining momentum in the P&C insurance industry. A November 2020 study by IMI International indicated that 52% of Canadians are open to buying insurance online, and that online auto insurance searches grew by over 70% year-over-year in 2020. The COVID-19 pandemic accelerated this shift in consumer preferences towards digital channels for insurance. This trend is driving the industry to increase investment in digital distribution capabilities. We believe that there is a significant opportunity for digitally-enabled direct distribution offerings to gain material market share in the Canadian personal lines insurance market, and that an increasing number of consumers will deal directly with Canadian P&C insurers on digitally enabled platforms.

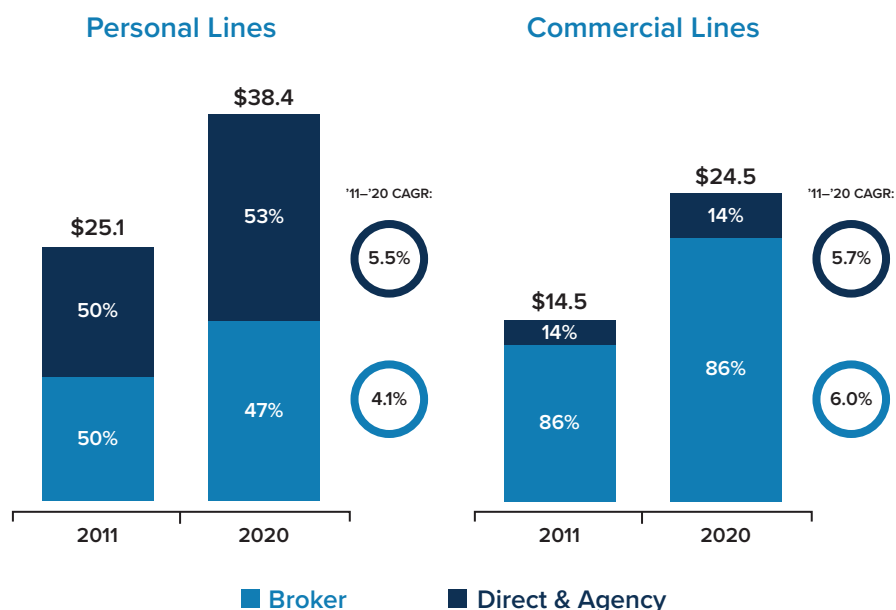
A meaningful sub-segment within the personal lines segment of the Canadian P&C insurance industry is affinity group insurance. Affinity groups are professional and alumni associations and employer-sponsored groups, and P&C insurance products are marketed to their members and employees. Affinity group insurance is primarily sold through direct distribution and captive agent channels. For insurers capable of effectively pricing and servicing large groups, providing P&C insurance through affinity groups can yield more favourable results than providing that same insurance to retail customers at large even after accounting for the discounts and other terms typically offered to those groups.

Commercial Lines

Commercial insurance products are primarily broker distributed. In 2020, approximately 86% of DWP was distributed by brokers, which is stable compared to 86% in 2011. We expect this dynamic to persist, driven largely by the inherent complexity of commercial lines risks and products; however, we anticipate that there may be an opportunity for captive agents to offer simplified coverage for certain small business needs.

Canadian P&C Insurance Industry – Distribution Channels¹⁵

(DWP in billions of dollars)



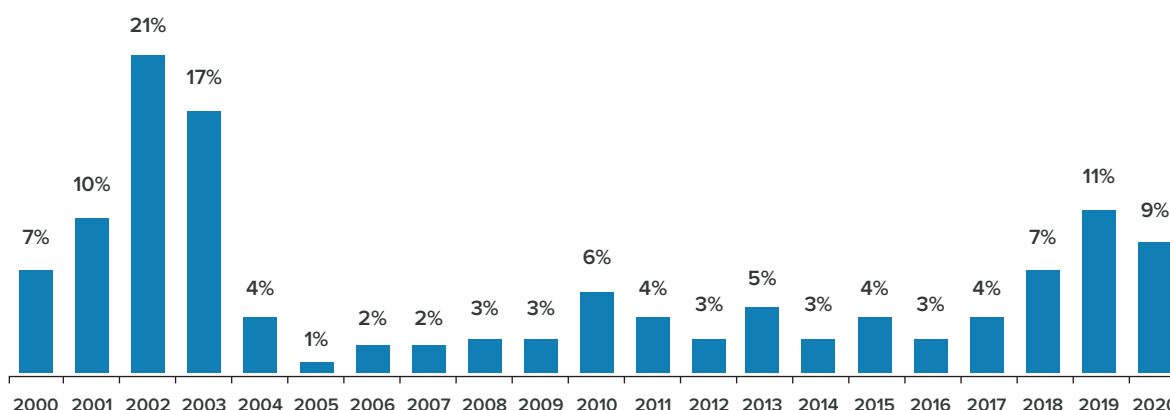
Key Characteristics of the Canadian P&C Insurance Industry

Recurring Revenue Profile. P&C insurance premiums are generally paid on an annual or more frequent basis. Coupled with the tendency of Canadian P&C insurance policyholders to maintain their insurance coverage once purchased (see “– Recession Resilience” below), this creates a recurring revenue stream.

Recession Resilience. Generally, P&C insurance is a prudent (and in certain cases, mandatory) risk management strategy for individuals and businesses. As a result, Canadian P&C insurance policyholders typically have not allowed their insurance coverage to lapse in challenging economic conditions, except where they have disposed of the property or ceased the business that is the subject of that coverage. Industry net premiums written grew and underwriting profitability increased throughout both the last two Canadian recessions (2008-2009 and 2015) and the COVID-19 pandemic (2020-2021).

¹⁵ Excludes DWP via reinsurance channel as defined by MSA Research.

Canadian P&C Insurance Industry Direct Written Premiums (Y-o-Y Growth)



Broad Distribution Channels. Canadians have multiple options to purchase P&C insurance from Canadian P&C insurers, through brokers, captive agents and direct distribution channels. Customer acquisition in personal lines is becoming increasingly digital, through websites and apps of carriers, third-party marketplaces and aggregators.¹⁶ While direct distribution is increasing in relevance, the majority of major Canadian P&C insurers rely on either an established network of captive agents or broker relationships as their primary distribution option. See “– Distribution Channels”.

Complex Regulatory Environment. The Canadian P&C insurance regulatory regime is complex, with most major insurers subject to federal regulation regarding capitalization and corporate governance, and provincial regulation regarding licensing, market conduct and certain product lines. Rates, product design, underwriting and client selection in personal automobile and IRCA insurance is regulated in provinces where the product is provided by private sector insurers (excluding optional auto coverage in British Columbia). Regulations and related processes can vary materially by province. We believe that managing this regulatory complexity requires skill and creates barriers to entry. See “Canadian P&C Insurance Regulatory Environment”.

Innovation in Distribution and Product Design. Industry innovation in distribution and product design continues to transform the Canadian insurance landscape, particularly in personal lines. Canadians continue to embrace digitally enabled distribution for personal lines insurance coverage. See “– Distribution Channels”. Simplified insurance products and customer experience are resonating with consumers, and some insurers are offering innovative products that set rates based on driver behavior or distance driven.

Scale is a Competitive Advantage. Historically, scale has provided material competitive advantages to Canadian P&C insurers, including allowing larger players to spread their fixed costs over a larger customer base, improve their bargaining position with distributors and suppliers, achieve benefits from diversification, and gather higher quality datasets to support their pricing and underwriting operations. In today’s rapidly digitizing environment, we believe that scale is becoming even more critical, given the significant up-front costs of digital investments and higher operating leverage associated with these digital platforms. Scale is also a meaningful advantage in developing and maintaining data and analytics capabilities, such as artificial intelligence and machine learning, as larger companies have greater resources to fund ongoing investment in talent, technology and innovation, while also gathering and deploying larger and more diverse datasets.

Fragmented Industry with Many Sub-Scale Participants. In recent years, the Canadian P&C insurance industry has experienced significant consolidation. Despite this consolidation, the Canadian P&C insurance industry remains relatively fragmented, with over 100 active Canadian P&C insurers. The top five Canadian P&C insurers accounted for approximately 52% of Canadian P&C insurance industry DWP in 2020, which was materially lower than the market share of the top five Canadian banks (83% by deposits¹⁷) or the top five Canadian life insurers (80% by DWP¹⁸) in their respective industries. Only 3 of the top 20 Canadian P&C insurers are owned by Canadian public companies. The remainder of the top 20 Canadian P&C insurers are not publicly traded (by virtue of being a mutual company, like we

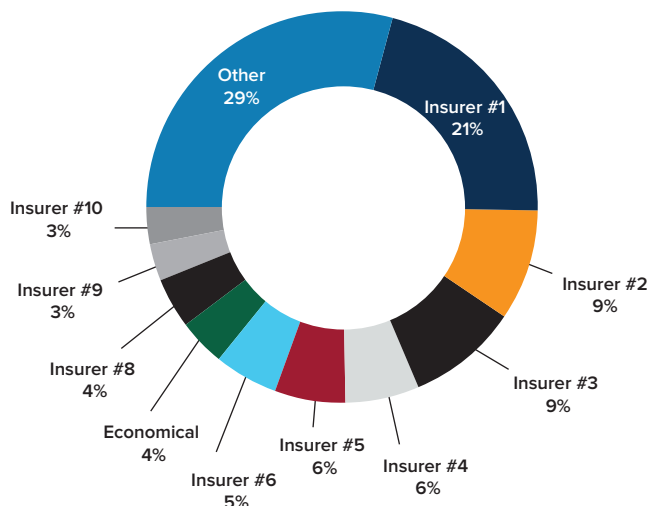
¹⁶ Insurance aggregators are websites that compile insurance quotes from multiple brokers and insurance companies and display the rates to users.

¹⁷ OSFI, as of March 31, 2021.

¹⁸ MSA Research, as of December 31, 2020.

are today, or a co-operative or not-for-profit organization), or are subsidiaries of large foreign insurers. The industry is well-capitalized and many participants enjoy strong access to external capital. As a result of these conditions, and the importance of scale, we expect that industry consolidation is likely to continue. We believe companies with strong access to capital and scalable platforms with flexibility to integrate acquisitions are best positioned to act as consolidators in the Canadian P&C insurance industry.

2020 Canadian P&C Insurance Industry Market Share – Top 10 Players by DWP



Industry Performance

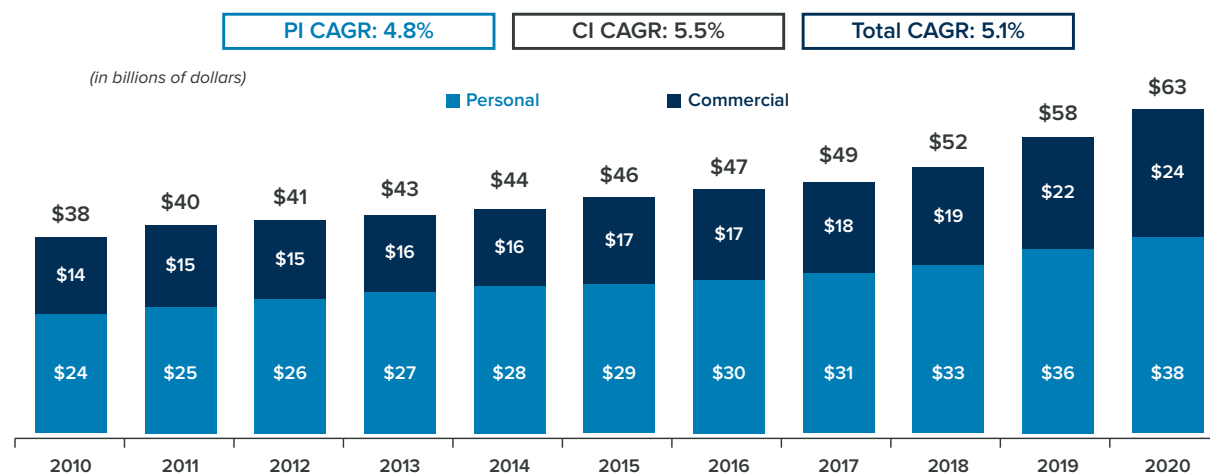
The financial performance of the Canadian P&C insurance industry is determined by two principal factors: (i) the level of premiums collected in relation to claims and operating costs paid; and (ii) the returns generated by investment portfolios held by insurers. Premiums collected by P&C insurers are ultimately used to pay claims and operating costs. However, there is generally a time lag between the collection of premiums and the payment of claims and operating costs. This allows insurers to invest premiums collected and earn an investment return until such time as claims and operating costs are paid.

Key performance measures for the industry include premium growth, the combined ratio and ROE. The combined ratio measures the profitability of a P&C insurer's underwriting operations (i.e., operating profitability before income earned on its investment portfolio), and is calculated by adding the claims ratio and the expense ratio together. A combined ratio of 100% implies break-even underwriting profitability; combined ratios above 100% imply underwriting operations generated losses; and combined ratios below 100% imply that underwriting operations were profitable, with lower combined ratios implying higher profitability.

The financial performance of the Canadian P&C insurance industry has historically tended to fluctuate in cyclical patterns of “soft” markets, characterized generally by increased competition resulting in lower premium rates and underwriting standards, followed by “hard” markets, characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. “Hard” markets imply improving market conditions for insurers, and insurers tend to have decreasing combined ratios and increasing ROEs in hard markets relative to soft markets. Hard markets and related price increases are generally required to restore industry profitability following a period of softer market conditions. Accelerating DWP growth is generally evidence of a hard market.

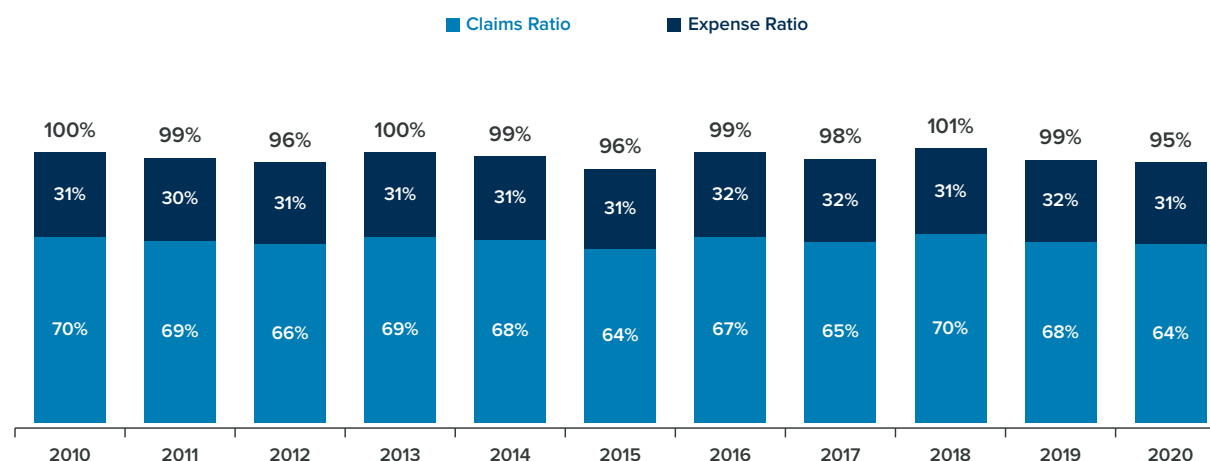
Between 2010 and 2020, the Canadian P&C insurance industry grew at a CAGR of 5.1% (based on DWP). Between 2013 and 2018, softer market conditions and lower investment yields challenged industry profitability. Weaker industry ROEs during that 5-year period drove pricing and underwriting discipline across the industry, and generally led to hardening in most P&C markets in 2019 and 2020. This market hardening drove year-over-year DWP growth of 10.9% in 2019 and 9.0% in 2020. Our industry outlook is discussed in further detail in “Management's Discussion and Analysis of Financial Condition and Results of Operations – Industry Outlook and Our Financial Targets”.

Canadian P&C Insurance Industry – Direct Written Premiums



Since 2011, the Canadian P&C insurance industry has generally operated at a combined ratio slightly below 100%, earning underwriting profit every year except in 2013 and 2018. Combined ratios in the Canadian P&C insurance industry peaked in 2018 due to soft market conditions, higher than average catastrophe losses, conservative reserving practices, mandated price decreases in Ontario personal auto and rapid cost inflation in personal auto claims. Hardening markets began to drive improvements in underwriting profitability in 2019. Combined ratios in 2020 are significantly lower than recent history, driven by hard market conditions in personal property and most commercial lines, and favourable claims experience in auto insurance. This favourable auto claims experience can be attributed in part to the impact of COVID-19 and related restrictions, which has reduced automobile usage and reduced claims experience. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Impact of COVID-19” for further details.

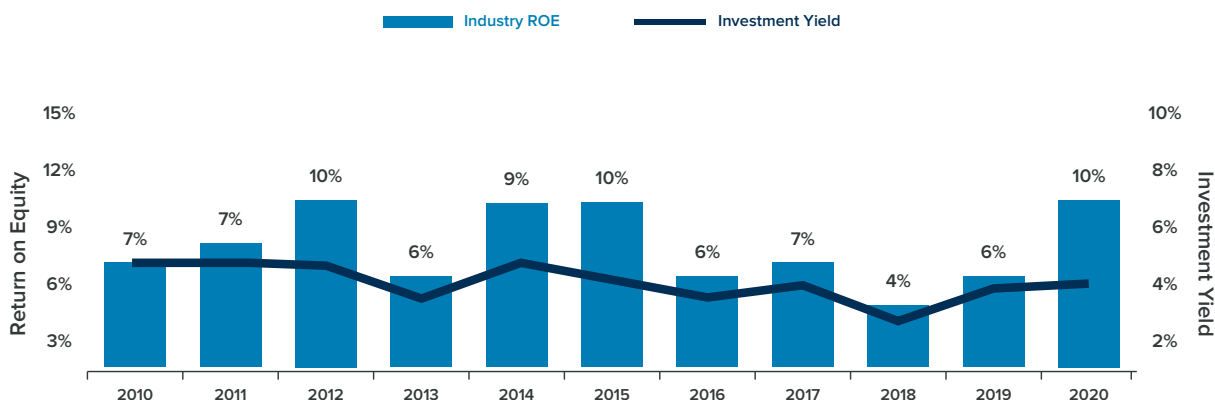
Canadian P&C Insurance Industry – Combined Ratio¹⁹



Canadian P&C insurance industry ROEs were pressured between 2016 and 2018, driven primarily by elevated combined ratios and the impact of a low interest rate environment on investment yields. Favourable underwriting results, and stronger investment yield performance in 2019 and 2020, drove improvement in the industry’s ROEs to 6.1% and 10.4%, respectively.

¹⁹ On a discounted basis and net of reinsurance.

Canadian P&C Insurance Industry – Return on Equity & Investment Yield²⁰



Canadian P&C Regulatory Environment

The Canadian P&C regulatory environment is complex, with most major insurers being subject to federal and provincial regulation.

Federally incorporated insurance companies are regulated by the Office of the Superintendent of Financial Institutions (“**OSFI**”) and governed by the ICA. As a prudential regulator, OSFI develops rules, interprets legislation, and provides regulatory approvals for certain types of transactions. It assesses insurers’ financial condition and material risks, as well as the quality of their governance, risk management and compliance. OSFI is responsible for setting and monitoring regulatory capital requirements for P&C insurers, in the form of its Minimum Capital Test (“**MCT**”). The ICA sets out requirements for insurers’ investments and lending activities and OSFI sets expectations for insurers’ investment and lending policies.

Insurance companies are required to be licensed under insurance legislation in each province and territory in which they conduct business, with market conduct and certain product lines regulated at the provincial level. Personal auto (rates and product design) is regulated in provinces where the product is provided by private sector insurance companies (excluding optional auto coverage in certain provinces where there is a government automobile insurance plan). While the rate approval process varies by province, insurers are generally required to file and receive approval for rate adjustments before they can be effected. Personal Property and most commercial insurance product design and rates are largely unregulated.

We believe that the regulatory complexity of the Canadian P&C insurance market increases the cost and difficulty for new participants to enter the market, particularly in regulated market segments. When market conditions are shifting in regulated market segments, we believe there is a competitive advantage in having the infrastructure and capabilities to efficiently file for modifications to products and rates (to the extent regulated) and to implement these modifications quickly.

See “Canadian P&C Insurance Regulatory Environment” and “Risk Factors – Risks Relating to Our Business – We are subject to substantial government regulation.” The laws and policies to which we are subject will change over time and those changes could impose material limits on our ability to do business. In addition, our failure to comply with these regulations could subject us to substantial fines and other significant sanctions” for further details.

²⁰ For purposes of this chart, (i) equity used to calculate return on equity includes accumulated other comprehensive income (loss) and (ii) the investment income used to calculate investment yield includes interest income, dividend income, realized gains / (losses), and any associated expenses. ROE and investment yield are not standardized financial measures under IFRS and individual P&C insurers (including Economical Insurance) may calculate these measures differently. For information about how we calculate our ROE, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

Our Strengths

Leading Canadian P&C Insurer

We are one of Canada's leading P&C insurance companies. Our national, multi-line and multi-channel business model has been built through a combination of strong pricing, risk selection and claims management capabilities and a relentless focus on delivering superior service to our customers and brokers. Our significant investments in our technology infrastructure and the introduction of our award-winning Digital Platforms, Sonnet and Vyne, are a reflection of our commitment to customer service. This commitment is further underpinned by our talented employees and a corporate culture that fosters innovation.

Our business benefits from both scale and diversification, offering a broad range of P&C insurance solutions for everything from pets to complex commercial operations. We are the seventh largest P&C insurance carrier in Canada and the fourth largest in the broker channel. Our subsidiary, Sonnet Insurance, has the largest fully digital direct-to-consumer insurance business in Canada.²¹

With 150 years of independent operation, we have evolved and adapted through many different market environments. We have invested substantially in data management, technology and analytics. We believe that with our robust, diversified business model, we are well positioned to capitalize on trends in the global P&C insurance industry being driven by the primacy of customer experience, increasing digitization, value creation via data and analytics, and the increasing importance of sustainability.

Superior Customer and Broker Experience

Delivering superior experiences to our customers and brokers is core to our strategy. It drove us to build our award-winning Digital Platforms, Sonnet and Vyne, which have been recognized within the industry for their innovation²² and have been rapidly adopted by customers and brokers.

Sonnet was the first fully digital P&C insurance platform widely available in Canada and continues to be an industry leader. It appeals to customers with its easy-to-understand language and real-time processing, which enables our customers to purchase property and auto insurance in as little as five minutes. Unlike traditional direct to consumer P&C insurance businesses, Sonnet is a fully digital platform, allowing customers to obtain a quote and purchase personal line insurance directly online, without an additional call or other follow up. In the case of customers requiring assistance, Sonnet provides customers with a fully automated digital chatbot that is able to handle the majority of inquiries. Call centre and e-mail support are also available for customers who require additional help.

We have a long-standing presence and key relationships within the broker channel, which we have built upon with significant investments in our underwriting capabilities and expansion of our product lines. With our Vyne platform, we have equipped our brokers with enhanced digital capabilities to serve their customers in real-time and provide them with better value, support and transparency than traditional underwriting platforms. Brokers are able to quickly obtain and process bindable quotes in Vyne and directly input policy changes and access policy documentation, which helps them to be more productive and efficient and enables them to focus on providing customers with value added advice and generating new business.

Our claims operation provides our customers and brokers with peace of mind that we will be there when they need us most. We provide our customers with a robust satisfaction guarantee and our specialized team of over 750 claims employees has significant in-house capabilities designed to ensure that our customers receive fast, friendly service 24 hours a day, seven days a week. We believe that our ongoing investments in claims management processes will continue to improve our customer experience.

Highly Scalable Digital Platforms Driving Growth and Profitability

Our innovative Digital Platforms are driving strong growth and profitability in our personal insurance and IRCA lines. The automation of our underwriting processes has transformed our business model away from intensive manual

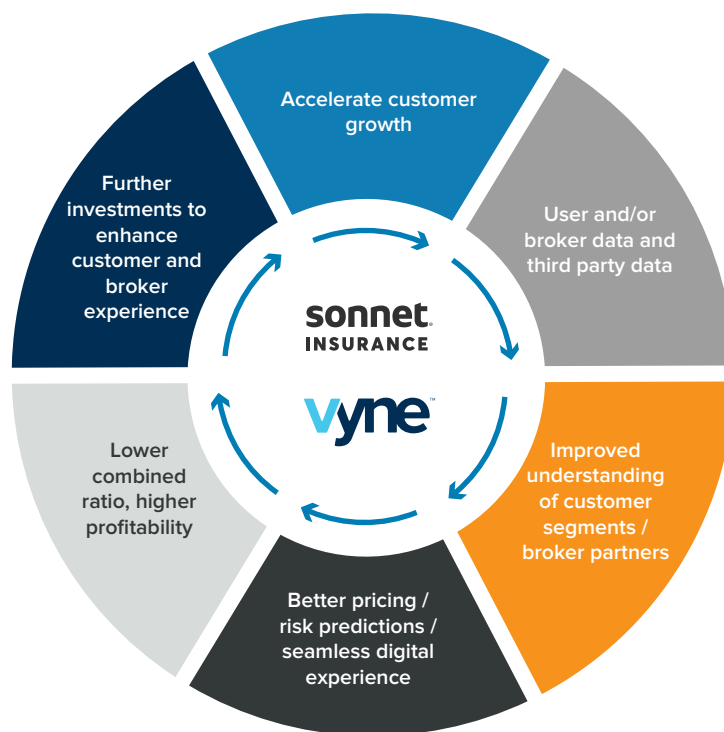
²¹ Includes only insurance carriers that require all customers to bind online.

²² Economical Insurance was a recipient of the 2016 and 2018 Guidewire Innovation Awards for its development of Sonnet and Vyne, respectively.

processing. What used to require days now occurs in real-time, which helps us meet the expectations of our digitally connected customers and brokers and significantly expands our reach and processing capacity. Our Digital Platforms enable us to directly drive new business from thousands of individual brokers, as well as thousands of customers who engage with us directly, and therefore we have been able to greatly reduce the high variable costs associated with employing hundreds of underwriters.

Our Digital Platforms are highly scalable and automated, which drives significant operational efficiencies, including lower underwriting and operational costs, as well as a greater ability to uniformly apply underwriting standards to new and recurring business.

Our digital infrastructure and integrated analytics platform enable a cycle of customer growth, improvements in financial performance and investments in the customer and broker experience, as illustrated in the diagram below.



We believe that our Digital Platforms are a significant competitive advantage for our business. They have an impact on every aspect of our integrated value chain, which has helped us drive a \$287 million improvement in our personal lines underwriting income from 2018 to 2020 and a 17-point reduction in our personal lines combined ratio over the same period. By allowing us to scale our business rapidly, we expect these platforms will also enable us to drive synergies in connection with potential future acquisitions.

Growing and Profitable Commercial Insurance Capabilities

Our commercial insurance team is highly experienced. We attracted new leadership to the business in 2017 to drive a transformation plan and have continued to add top talent from across the industry. We are the eighth largest commercial insurer in Canada and are focused on increasing our market share to be among the top five.

We have built a growing and profitable commercial insurance business tailored for the Canadian market. As part of a broader corporate transformation and digitization strategy, we have focused on equipping our commercial lines business with strong underwriting, pricing and risk selection capabilities, while further strengthening our broker relationships and operational capabilities. This strategy has helped us build a sustainable book of commercial business and attract new, high-quality customers to help drive premium growth and sustain continued improvements in underwriting profitability.

We believe that our data management and analytics expertise provides us with a meaningful competitive advantage in segmentation and underwriting. We have 20 actuaries dedicated to pricing, segmentation and data

modelling and 15 operational data analysts within commercial insurance, as well as a sophisticated analytics team staffed with actuaries and data scientists who support the commercial insurance business with advanced modelling. With access to one of the largest commercial insurance datasets in Canada, we continue to incorporate new external data into our analysis and continue to invest in technology to add sophistication to our models. We utilized these capabilities to implement new pricing models for commercial P&C, IRCA, fleet transportation and small business, which have led to growth in higher-profitability and lower-volatility lines and a reduction in exposure to higher-volatility and less profitable lines. Our approach has resulted in an 18-point improvement in combined ratio from 114.2% in 2018 to 96.4% in 2020 and our new talent and systems helped us drive an 18% increase in GWP to \$729 million in 2020 from \$617 million in 2019.

The sophistication of our commercial insurance capabilities is also reflected in our partnership with Uber, one of the leading technology companies in the world. We currently insure every peer-to-peer Uber ride in Ontario, Québec, Alberta and Nova Scotia and every Uber Eats delivery trip in Ontario, Québec, Alberta, Nova Scotia, New Brunswick and Newfoundland and Labrador. Our ability to offer a digitized claims process and support a customized pricing approach, combined with our agility to support rapid expansion, were significant differentiators in winning the account. We will leverage the insights gained from our Uber partnership to further enhance our digital underwriting capabilities.

Sophisticated Pricing Methodologies and Disciplined Underwriting Underpin Sustainable Profitability

We have improved our profitability through underwriting discipline, claims management and improved risk selection, which has been supported by our use of sophisticated pricing methodologies and deployment of advanced analytics. We are focused on growing our most profitable segments and reducing our exposure to more volatile lines of business. This approach has translated to an approximately 18-point improvement in our consolidated claims ratio during the three-year period ended September 30, 2021.

We believe that our extensive use of advanced analytics gives us a competitive advantage in customer acquisition and risk selection. Our Digital Platforms, which largely underwrite our personal and IRCA products, utilize sophisticated marketing, pricing and predictive analytic capabilities. Our underwriting process utilizes in-depth customer information, a range of third-party data and advanced pricing, segmentation and fraud detection methodologies to integrate personalized offers with a seamless digital customer experience. The ability to efficiently analyze customer and broker data at a granular level also allows us to evaluate customer profitability and retention and, in the case of Vyne, assess broker performance. Our Digital Platforms have significantly increased our operational agility and the speed at which we can adjust pricing and volume appetites to consider hardening or softening market conditions.

We have also incorporated advanced analytics into various aspects of our claims management process. We utilize approximately 30 models to triage and evaluate claims in real-time upon first notification of loss and subsequently apply multiple layers of analytics, machine learning, and network analysis tools to mitigate fraud. Based on North American P&C insurance industry data on the use of advanced analytics for selected claims management activities such as claims triage and evaluation of claims for fraud potential, we estimate that our application of advanced analytics is over twice that of our peers.²³

Significant Financial Flexibility to Support Value Creation

We have an unlevered balance sheet with capital well in excess of regulatory minimums, which provides us with significant financial flexibility to drive value creation and execute our strategy. We are currently subject to leverage restrictions under the ICA, which provide that our total debt cannot exceed 2% of our total assets. Subject to certain regulatory amendments and approvals, we intend to proceed with the Continuance after the Demutualization. See “Demutualization – Continuance under the CBCA”, “– Major Shareholder Restriction Period” and “Risk Factors – Risks Affecting our Business – We may not proceed with the Continuance during the major shareholder restriction period or at all, which could negatively impact our financial flexibility and our ability to drive value creation and execute our strategy”.

²³ Willis Towers Watson, “Advanced analytics: Are insurers living the dream? 2019/2020 P&C Insurance Advanced Analytics Survey Report (North America)”. We used advanced analytics to support 43% of the identified claims use cases as of 2019 and 86% of the identified claims use cases as of 2020, vs. 19% for the broader industry as of 2019 (no data available for 2020).

A CBCA holding company structure would not be subject to these leverage restrictions under the ICA. Assuming we proceed with the Continuance, we would be positioned to establish financial leverage levels closer to our public company peers at approximately 20% debt / total capitalization and 5% preferred or hybrids / total capitalization, which would enable us to add up to approximately \$650 million of incremental financial leverage to our balance sheet measured as of September 30, 2021. We currently have access to an undrawn, unsecured Revolving Credit Facility (as defined herein) in an aggregate principal amount of \$150 million. If we proceed with the Continuance, this facility will be increased automatically to \$400 million. DBRS Limited has issued an inaugural credit rating of A (low) to Economical Insurance, further supporting our ability to establish leverage levels in line with our public company peers if we proceed with the Continuance. See “Description of Material Indebtedness”.

As a mutual company, we have been required to manage our capitalization in a conservative manner due to our lack of meaningful access to equity capital markets, as mutual companies cannot issue common shares. As a public company, we expect that over time we will be able to manage our insurance operations at a MCT ratio around 200%, a level comparable to other large publicly-traded Canadian peers. Our MCT ratio as of September 30, 2021 was 272%. This is significantly in excess of the supervisory minimum MCT ratio of 150% required by OSFI and the higher and more stringent internal target established in our capital management policy.²⁴ At September 30, 2021, we had excess of available capital of approximately \$450 million (at a MCT ratio of 200%).²⁵ See “Canadian P&C Insurance Regulatory Environment”.

Seasoned Management Team and Dynamic Corporate Culture

We are led by a team of highly experienced and innovative executives. Rowan Saunders, our CEO, has over 30 years of experience in the P&C insurance industry, and has led us through a period of significant transformation. Since joining Economical Insurance in late 2016, Mr. Saunders has strengthened our leadership team, with approximately 50% of our top-100 executives having joined since 2017, and has implemented a new executive structure with clear portfolios of accountability. He has also led a refresh of our strategy, driving changes to our business to enable sustainable profitability and the build-out of our digital capabilities.

Our senior leadership team has an average of more than 15 years of P&C insurance industry experience and fosters a dynamic, customer-focused culture with strong employee engagement. We believe that the success of our Sonnet and Vyne platforms, and the transformation of our commercial insurance business in a relatively short period of time, reflect the strength of our senior leadership team and corporate culture.

The execution of our strategic plan under the leadership of our management team led to an improvement of approximately \$400 million in underwriting income and an improvement of over \$225 million in net income between 2018 and 2020, and has strongly positioned us for the future. The success of our strategy also demonstrates the depth and breadth of our expertise and our ability to execute and integrate large-scale initiatives across a range of profiles with speed and discipline, while delivering attractive financial returns.

Our management team is supported by a seasoned board of directors comprised of individuals with a diverse range of expertise, experience and perspective who are driven by the complexity of our operations, the competitive dynamics of the P&C insurance industry, the broad range of operational and corporate initiatives that Economical Insurance has undertaken and Economical Insurance’s preparations to become a public company.

²⁴ See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Management”.

²⁵ Under the ICA, P&C Companies must maintain adequate capital and adequate and appropriate forms of liquidity. OSFI has published the MCT guideline which provides the framework within which OSFI assesses whether a P&C Company maintains adequate capital for purposes of the ICA. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Capital Requirements”.

Corporate Strategy

Our goal is to be the P&C insurance partner Canadians choose to protect what they value most. This has driven us to build a national, high-performing multi-line and multi-channel insurer that is well positioned to capitalize on multiple growth opportunities. Our strategic objectives are to become one of the five largest P&C insurers in Canada, maintain our digital leadership, sustain our underwriting profitability, and consistently demonstrate disciplined financial management. We intend to execute our strategy through the following key focus areas:

Capitalize on the Expanding Digital Direct Insurance Market with Sonnet

Sonnet offers a fully online quote-to-bind, mobile-enabled solution that has experienced rapid customer adoption since inception, with GWP growing at a CAGR of 49% from \$72 million in 2017 to \$240 million in 2020. With over 50%²⁶ of Canadians open to purchasing insurance fully online and Sonnet offering an award-winning solution in the growing personal insurance market²⁷, we believe there is a significant opportunity to continue to scale the business.

Sonnet's differentiated operating model, which utilizes advanced data analytics, also enables us to more profitably access the large group and affinity segment of the P&C insurance market, which has historically had significant barriers to entry. Our sophisticated origination capabilities enable us to reach those same customers directly or through partnerships that deliver target customer profiles at a lower acquisition cost.

Leverage Vyne to Increase Our Share of the Broker Channel

In 2018, we launched our automated end-to-end system, Vyne. Vyne is our broker digital platform that combines outstanding technology with a focus on superior service, providing brokers with 24-hour, seven-days a-week access to our personal lines and IRCA products. During 2018, we were able to process a significant increase in policies with minimal incremental cost to the company, highlighting the speed and scalability profile of the platform.

Since the Vyne platform was fully implemented, we have been able to drive significant growth in segments we have targeted for expansion. This is demonstrated by our personal property growth in the broker channel with GWP increasing from \$474 million in 2018 to \$637 million in 2020, a CAGR of 16%. The speed at which brokers can obtain policies for customers is one of the most important factors driving new business. Our system enables us to be one of the first guaranteed quotes available to the broker and our advanced analytics allow us to offer competitive rates so that we can target higher-quality risks. This platform also processes renewals seamlessly and makes switching existing policies from other carriers onto our platform much faster and easier than traditional processes.

We expect the broker channel to continue to drive an attractive mix of growth, diversification and profitability. We believe that Vyne will help us grow our business with our existing brokers as well as with new brokers with whom we previously have not had a relationship.

Grow and Diversify Our Commercial Insurance Business

Commercial insurance is a core component of our growth and profitability strategy. Our objective is to be among the top five commercial insurance carriers in Canada. We are focused on expanding our share within the small business, mid-market, and specialty segments of this market while remaining disciplined in our underwriting. We have successfully repositioned our portfolio over the last two years. We believe that we are well placed to continue growing this business profitably as a result of our focus on providing a superior value proposition and service offering, our highly experienced underwriting and claims teams, the sophistication of our pricing capabilities, and the targeted use of automation and digitization.

In the small business segment, where we estimate our target market size to be approximately \$8 billion, we recently introduced Vyne Commercial to simplify the process for insuring businesses. Vyne Commercial enables brokers to instantly quote and bind new policies for small and medium enterprises across a range of products. We believe it will have a meaningful impact on our business in this segment as Vyne has had on our personal and IRCA lines.

²⁶ IMI International – Sonnet Category, Brand, and product Insights Research, November 2020.

²⁷ MSA Research as at December 31, 2019.

Within mid-market, where we estimate our target market size to be approximately \$7 billion, we are focused on deepening our broker relationships to drive new business. We have a comprehensive product suite and have recently introduced cross-border capabilities that should enable us to further penetrate this segment.

The specialty segment, where we estimate our target market size to be approximately \$5 billion, provides another attractive opportunity for us to profitably grow our business. Industry dynamics in the Canadian specialty market are attractive, with higher underwriting discipline driven by a smaller universe of participants historically resulting in significant loss ratio outperformance compared to standard commercial insurance over a cycle. Success in the segment relies upon technical underwriting and claims expertise for which we are well positioned, and continue to build upon, which has allowed us to add new products and helped drive strong growth in our business.

Maintain Our Pace of Innovation

We have developed two leading digital platforms, Sonnet and Vyne, for primarily personal insurance distribution in Canada, and are committed to maintaining our pace of innovation to create exceptional experiences for our customers, brokers and our employees.

The way we have integrated automation, machine learning, and scalable infrastructure into our personal lines and IRCA insurance origination and underwriting operation has enabled us to re-align our staffing model and dedicate more resources to enhancing our products and platforms. Additionally, the data our systems generate provide us with greater visibility into our business and enable us to uncover new ways to improve our operations and customer and broker experience. Our digital initiatives have also enhanced our ability to respond to market trends and cut down time-to-market for product modifications, pricing adjustments and rollouts of new features.

We believe that active innovation is critical to maintaining our focus on delivering a superior customer and broker experience, and will in turn drive strong, sustainable growth and profitability. Technology is a critical part of our innovation strategy. Our creative expertise has been recognized globally as we were the recipient of the 2016 and 2018 Innovation Awards from Guidewire for the development of Sonnet and Vyne, respectively. Our winning the Uber commercial insurance account is another example of our technological capabilities: in less than three months, we delivered a customized and digital insurance solution to support the program. Combining innovative technology and new business models with disciplined financial management, sound insurance fundamentals and market agility is key to delivering sustainable returns. We are confident that our creative mindset and pace of innovation will enable us to be successful.

Diversify and Strengthen Our Growth through Acquisitions and Partnerships

Our industry is large, fragmented and highly competitive and growth has favoured the largest companies in the market. The ongoing investment required to achieve excellence in customer experience, data, technology, and analytics continues to put pressure on smaller companies as well as international companies that have less scale in the market. As a result, the Canadian P&C insurance industry has undergone considerable consolidation over the past two decades and we expect that consolidation is likely to continue.

We believe that we are well positioned to actively participate in industry consolidation. We have an unlevered balance sheet and significant excess capital to deploy in support of acquisitions. See “Our Strengths – Significant Financial Flexibility to Support Value Creation”. We are committed to being financially disciplined in evaluating any potential transaction and ensuring the right conditions are in place for value creation. We intend to focus on opportunities in Canada that are strategically aligned with our business model, accelerate our standalone organic growth plans and deliver returns in excess of those we could generate on our own.

To broaden our reach, we will also continue to enhance our existing strategic partnerships and explore new relationships to enable growth in target business segments, promote innovation, access new markets, and facilitate development of new capabilities. Sonnet Connect is an example of relationships powering our core business and providing our customers with an even greater value proposition. Utilizing Sonnet as a platform, Sonnet Connect has partnered with 16 businesses across industries that have a similar mindset to ours when it comes to protecting, improving, and simplifying our customers’ lives. These relationships provide our customers with the opportunity to access discounts on a variety of products and services. Our investment in an internationally recognized global insurtech venture capital fund is an example of a strategic investment that provides us with additional insights into the insurance, data, and analytics industries to help us drive further innovation. See “Innovation, Analytics and Intellectual Property”.

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

Our people are the backbone of our company. We are focused on developing top talent to execute our strategic objectives. “Let’s Rethink Insurance, Together” sets the tone for our employee experience, creating an inspiring and engaging environment that helps our people maximize their individual and collective contribution to building value over the long term.

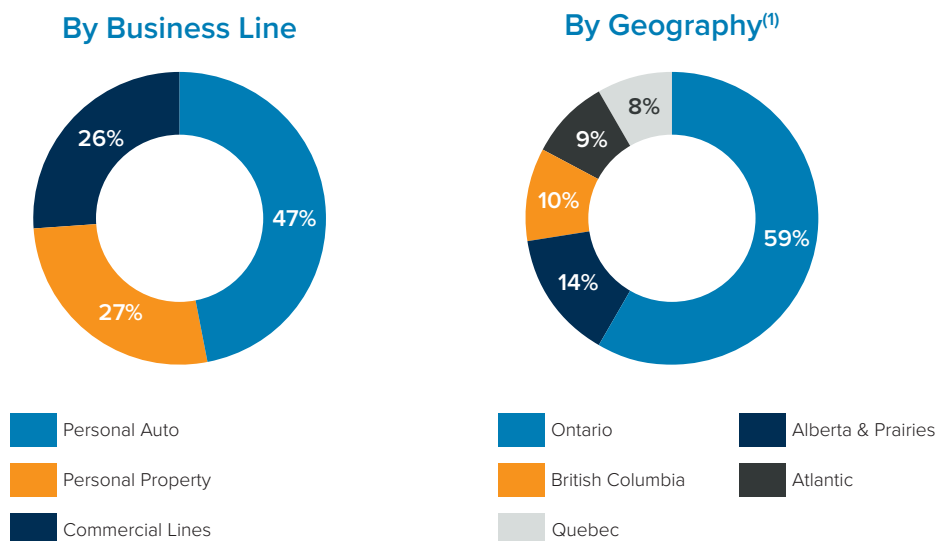
We are committed to diversity and inclusion and actively promote it across the organization through various forums including executive-sponsored employee groups and committees. Our leadership team plays an important role in sponsoring these forums, including our CEO who serves as the executive sponsor of our Inclusion, Diversity, Equity and Accessibility Advisory Committee which is comprised of employees across the organization and plays a prominent role in establishing and monitoring efforts to make us more inclusive. We believe that an open and inclusive organization is not only the right thing to do but also leads to better performance.

Culture underpins high performance. Building an engaging, values-based culture where customer focus, an ownership mindset, innovation, and teamwork are championed ensures we deliver on the essence of our brand.

Products and Services

We offer a wide range of commercial and personal insurance products to customers across Canada. We sell these insurance products under two business lines: personal lines and commercial lines. Personal lines and commercial lines accounted for 74% and 26%, respectively, of our total GWP in 2020. Since 2018, we have experienced strong growth in both business lines, which has kept our business mix relatively stable.

The following chart show the breakdown of our GWP in 2020 by line of business and geography.



Notes:

(1) Alberta and Prairies includes Alberta, Saskatchewan, Manitoba and the territories. Atlantic includes Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

Personal Lines

We are the eighth largest provider of personal lines P&C insurance in Canada and the fourth largest within the broker channel. Our personal lines product offering consists of auto, property, general and umbrella liability, and pet insurance sold to individuals or groups of individuals under the Economical, Sonnet, Family, Petsecure and Peppermint brands. We distribute our personal insurance products through our broker and direct-to-customer channels. See “Distribution Channels”.

Our personal auto insurance business, which accounted for 64% of our personal lines GWP in 2020, provides insurance coverage to our customers for accident benefits (or personal injury), physical damage to their own vehicles, and liability. Insurance coverage also includes third-party liability coverage in the event our customers are found legally responsible for an injury or damage to someone else’s belongings. Auto liability covers the payments of

damages by insured persons who have caused bodily injury or property damage to third parties as a result of an accident. The accident benefits portion of the insured's auto liability coverage is designed to cover items including rehabilitation treatment, income replacement, and other services needed to help them recover. Accident benefits coverage is mandatory for drivers in every province and territory except Newfoundland and Labrador.

Our personal property insurance business, which accounted for the balance (36%) of our personal lines GWP in 2020, provides insurance coverage to our customers for damage to their residential or other properties and related assets, caused by a wide range of perils, including flood, earthquake, fire, theft, vandalism, wind, water, hail and lightning. This can include insurance coverage for personal liability in respect of insured properties that protects an individual from legal risk due to injury or negligence. Our personal property business also includes pet insurance, which provides pet owners with comprehensive health coverage for dogs and cats.

Personal lines products are sold on an individual or group basis. Our group programs include auto and property products representing approximately \$295 million in GWP or 14% of our personal lines business in 2020. Group products are currently marketed to more than 1,100 groups, representing approximately 3.5 million members, in all provinces in Canada except Newfoundland and Labrador. Discounts on personal auto and property coverage are provided to members of employer and affinity groups, with pricing based on the unique risk characteristics of the group. Group participants include employers, labour unions, professional and alumni associations, and other non-profit organizations.

Commercial Lines

We are the eighth largest provider of commercial insurance in Canada. Our core commercial lines product offerings include auto, property, liability, and specialty insurance which are sold under the Economical brand. We distribute our commercial products through our network of brokers and managing general agents in all provinces of Canada except Newfoundland and Labrador. See "Distribution Channels".

Our commercial auto insurance business provides insurance coverage for IRCA, as well as fleets of commercial vehicles, public vehicles, and garage risks. Our commercial property and liability insurance business provides coverage to businesses for building and contents, stock and equipment, fidelity, crime, business interruption arising from physical harm to property, cyber risk, inland marine, boiler machinery, mechanical breakdown, and general liability. Our specialties offerings include surety, agriculture, directors and officers, errors and omissions, and large account solutions.

We market our commercial insurance products to small businesses and mid-market companies, as well as specialty offerings for a number of targeted segments. Target customers in the small business segment generally have less complex insurance needs with typical annual premiums of less than \$10,000. Our mid-market operations are focused on customers in select industries with more complex insurance requirements and annual premiums typically in the range of \$10,000 to \$100,000. Our specialty commercial operations provide coverage for more complex risks requiring specialized underwriting, risk management, and claims handling expertise, with annual premiums for certain larger accounts exceeding \$1 million.

Distribution

We operate a multi-channel distribution model in order to serve as large a group of customers as possible and address different, and evolving, preferences in how customers choose to interact with their insurer. We distribute the majority of our personal and commercial products through a national network of independent brokers where we have a longstanding presence. We distributed 89% of our GWP in 2020 through our broker channel. We also distribute our personal products directly to customers through our digital insurer, Sonnet, and our pet insurer, Petline. Sonnet has experienced rapid customer adoption since its introduction beginning in 2016. We distributed 11% of our GWP in 2020 through our direct channels. We also have distinct group distribution capabilities within our broker and direct channels.

Broker Distribution

We are the fourth largest P&C insurance carrier operating in the broker channel. We have active relationships with a network of approximately 700 independent brokerage firms and a broker base of more than 27,000 individual brokers who act as intermediaries on behalf of customers who wish to purchase P&C insurance. Our broker network includes a diversified mix of multi-national, national, regional, and local brokerage firms.

No brokerage firm accounted for more than 10% of our GWP in 2020 and our top five brokerage firms accounted for approximately 19% of GWP in 2020. The breadth and depth of our expertise and product offering enables us to serve multiple broker segments well and we have distinct strategies to maintain and grow our market share within each segment.

Our scale and the strength of our relationships with our brokers provide a continued source of opportunities to grow our business and extend our product offerings. We believe that our success in the broker channel is attributed to our focus on providing our brokers with a strong value proposition, delivering quality service to both brokers and customers, offering competitive products and prices for the coverage that customers need, and being a partner with whom it is easy to do business.

Our dedicated business development teams across Canada support brokers and assist them with sales planning, new business generation, marketing support, skills training, product knowledge and underwriting support services. Our three national broker support centres, two located in Ontario and one located in Québec, provide quality service to brokers through dedicated teams for personal insurance and non-complex commercial business insurance. We have 14 branch offices and service centres across Canada. Regional teams have underwriting expertise for more complex commercial insurance business specific to regional conditions and coverage needs. In British Columbia, we distribute our personal insurance products through Family Insurance and our commercial insurance products through independent brokers. Family Insurance operates as a managing general agent in British Columbia and operates a broker support centre in Vancouver. Managing general agents are wholesale brokers that operate on behalf of us and that are authorized to deliver and service our products to both retail brokers and customers.

The compensation we offer brokers includes base and overriding commissions, bonuses and the opportunity to participate in profit sharing. We believe that our compensation practices are generally in line with the industry.

We also provide financing and other financial transaction support to a segment of our brokers who have strong potential for future growth and underwriting profitability. By investing in our broker network, we enable our brokers to achieve their financial and strategic objectives, including growth and succession planning. Our financial support includes a range of equity investment and debt financing options aimed at strengthening our strategic alignment and relationships with key brokers.

Our Vyne platform represented a significant investment to support the needs of our brokers and customers for efficient service. The foundation for Vyne is a highly flexible policy administration and billing system based on a leading back-end software and analytics solution from Guidewire Software. Leveraging customer-supplied information and strategic third-party data, we have layered advanced analytics and real-time integration on to our quoting and broker management systems. This gives us the ability to readily scale to customer demand and market conditions.

Vyne enables rapid adaptation of underwriting rules and ratings to respond to changes in market conditions with greater agility, and further supports our customized risk selection and pricing. The platform also enhances our brokers' experience, by integrating with all major broker management systems and leading quoting vendors, respectively, to allow for guaranteed quote accuracy at the point-of-sale and improved efficiencies in customer policy management for brokers. Integration of Vyne with third-party data providers minimizes broker input and processing and shortens the time it takes for brokers to quote and bind policies, including policy changes and document issuance. Brokers are able to make account changes in real-time through our enhanced billing menu, which allows brokers to provide customers with greater flexibility, reliability and efficiency. Through automation of administrative processes and the removal of process inefficiencies, we have made it easier for our brokers to do business with us.

Direct Distribution

Sonnet

Sonnet offers a fully digital P&C insurance platform that allows customers to obtain a quote and purchase personal line insurance directly online. Sonnet offers customizable auto and property insurance solutions directly to customers in Alberta, Ontario, Québec, New Brunswick, Nova Scotia, and Prince Edward Island. In British Columbia, Sonnet offers property insurance only. In June 2021, Sonnet began offering pet insurance solutions across Canada, which are underwritten by Petline.

Sonnet is an award-winning platform that focuses on delivering a superior customer experience through its easy-to-understand language, quick processing time, and personalized pricing and solutions. For the nine-month period ended September 30, 2021, Sonnet had an average Net Promoter Score (NPS) of approximately 58.6 (greater than 50 is viewed as excellent), which highlights its customer appeal.

Sonnet's platform typically enables customers to generate a quote and purchase their insurance coverage online in five minutes or less. This is achieved through a combination of rating sophistication, third-party data enrichment, personalized pricing, simplified underwriting, intuitive customer interface, and automation of workflow from quote-to-issuance. Sonnet leverages our modern technology platform with real-time analytics and quoting technology to deliver custom recommendations, while enabling data enrichment and fraud control in a secure, reliable, and scalable infrastructure.

Sonnet's agile model allows it to efficiently acquire customers, with expected growth based on size of marketing investment. Sonnet leverages a combination of targeted digital marketing, mass media brand advertising and high-profile sponsorships to drive quality customers to Sonnet. Acquisition costs are expected to decrease as scale and retention increase.

Sonnet has been recognized through the global Guidewire Innovation Award (2016), Insurance-Canada's People's Choice Tech Award (2017), and The Stevie Awards' Innovation in Customer Service (2017) for innovative use of advanced third-party analytics and sophisticated IT infrastructure to create an experience that puts customers first.

Petline

Established in 1989, Petline is the second largest pet insurer in Canada and is a leader in providing coverage for dogs and cats of all breeds and ages. Petline, which was acquired by us in 2017, sells its products directly to customers online, by phone, and by working with veterinary clinics, breeders and pet shelters on a referral basis. Petline offers comprehensive and cost-effective plans through our brands, Petsecure and Peppermint, and also underwrites on a white-label basis for a number of partners to leverage the brand equity and distribution channels of a number of Canadian companies.

Through Petline we operate a national customer care centre based in Winnipeg that is staffed with an experienced team of licensed insurance advisors and pet owners with the ability to meet our customers' needs in English and French. The call centre features call support technology and software which allows us to stream and manage customer inquiries and product purchases quickly and efficiently.

To drive distribution of our products in veterinary clinics, breeders, and pet shelters, we have an experienced national sales team comprised of individuals with previous experience working in veterinary practices. Our teams work closely with veterinary professionals and pet owners to educate them on the benefits of pet health insurance. Our national sales team also helps drive our strategic partnerships. We have nine white-label underwriting partnership agreements, which are compensated based on a percentage of GWP, and 16 active referral group partners, who are compensated based on referrals, to support distribution of our products and also help build awareness about pet health care and responsible pet ownership amongst Canadians.

Group Distribution

We work closely with organizations and brokers across Canada to provide exclusive discounted home and car insurance rates to target group members. We have distinct group distribution strategies within our broker and direct channels.

To support the broker channel, we operate a sales and service centre that offers brokers multiple different distribution options to help them increase their penetration of targeted segments. Within the direct channel, we target groups through Sonnet and Petline. Sonnet in particular provides us with an opportunity to meaningfully grow our group business using its sophisticated marketing and customer origination capabilities, which gives us the ability to reach customers directly or through partnerships that deliver target customer profiles at a lower acquisition cost.

Facility Association

We participate in Facility Association, an unincorporated non-profit association of insurers, that operates in various provinces and territories in Canada. Every insurer licensed to write automobile liability insurance in these jurisdictions is a member of Facility Association. Facility Association guarantees the availability of automobile issuance through the residual market mechanism and through risk-sharing pools. The residual market mechanism is an arrangement between Facility Association and select member automobile insurance companies who act as “servicing carriers” that issue and endorse policies, receive premiums and adjust claims on behalf of the member companies of Facility Association. All policies written through the residual market mechanism are subject to the rules, rates and classification of Facility Association. Risk-sharing pools operate in Ontario, Alberta, New Brunswick, Nova Scotia and Newfoundland and Labrador and only apply to private passenger vehicles. The risk-sharing pools are administered by Facility Association and accept risks underwritten by members at their own approved premium levels or at a regulated maximum level where applicable. Insurers issue policies on their own book, and then have the option of keeping such business or transferring it to the risk-sharing pool where eligible. Each risk sharing pool has its own eligibility guidelines for risk submission. Industry participants share in the surpluses and deficits of Facility Association in accordance with their market share by jurisdiction and accident year. In addition, in Québec, we participate in the Plan de Répartition des Risques administered by the Groupement des assureurs automobiles. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Summary of Significant Accounting Policies – Insurance Contracts – Industry Pools.”

Marketing

We deploy a master brand strategy built on the promise of making insurance better. We commit to deliver a better experience to our clients, brokers, and employees. We improve our products and services using market insights and competitively set out to fill industry gaps through focused innovation, combining market-leading technologies and expertise with a caring, human touch. We are purpose-driven, seeking to build a better world by helping our clients and communities adapt and thrive. Each brand in our business is built with our clients in mind, but also leverages the influence of our innovative leaders who seek to create value with every decision.

For Economical Insurance, our marketing focus is building broker preference and supporting authentic relationships that work. Recognizing that a modern marketing organization benefits from combined marketing and communication capabilities, we manage fully integrated marketing and communication capabilities that leverage brand, partnerships, corporate and broker events, public and media relations, advertising, digital and social media marketing, and corporate communication. As an intermediated business, the primary focus is providing brokers with a strong offering that differentiates our brand and delivers on our promise to customers.

Through Sonnet Insurance, we have developed a sophisticated in-house marketing operation that is focused on digital direct marketing to drive targeted lead generation and traditional brand marketing that is focused on image and reputation. Our marketing efforts utilize data from our own operations and third parties together with advanced analytics to optimize the targeting and segmentation of potential clients. Our marketing strategies have evolved significantly since the launch of Sonnet as we leverage the insights generated from its automated, data-driven model which helped us with client acquisition and retention. Between 2017 and 2020, we were able reduce our Sonnet client acquisition costs by nearly 50%.

At Petline, our marketing strategy is multifaceted and focuses not only on customer growth and retention but also on building partnerships with brokers, animal shelters, dog and cat breeders and veterinary clinics across Canada. Our efforts have grown Petline’s single insurance enterprise to an underwriter composed of 11 brands that each appeal to a unique audience.

At Family Insurance, our marketing strategy is to provide direct and focused support to more than 5,000 individual brokers who sell our personal property and optional private auto insurance products in British Columbia. Utilizing a broker distribution model, our products are represented in 100 broker agencies operating in over 600 locations across British Columbia.

Each brand benefits from corporate-level and industry-leading support when it comes to reputation management. Our corporate public relations and social media teams monitor for reputation risks 24 hours a day, seven days a week

with robust tools and alerts. We also work proactively on potential issues to document response strategies, approved messaging, and cross-functional escalation protocols to ensure any risks to reputation are identified and dealt with in a timely manner, thereby reducing risk to our operational performance and protecting profitability.

Pricing and Underwriting Operations

Product pricing is in general based on expected claims frequency and severity in the period when the rates will be in effect, and takes into account the expenses associated with writing business as well as the costs of acquiring the business, claims administration and settlement expenses. Our pricing strategy also considers the cost of capital required to support the business being written. The sophistication of pricing segmentation has a direct influence on the quality of risks that we will assume. Similarly, the sophistication of the risk selection process has a direct impact on the experience that is reflected in our pricing database and hence on our ability to segment and be competitive.

Personal Insurance

Our Digital Platforms were responsible for underwriting a substantial majority of our personal lines GWP in 2020. Through these platforms, we have automated the underwriting process, removing the need to employ front-line underwriting staff. Sonnet and Vyne have materially enhanced our data collection capabilities, and use a mix of proprietary and third-party data, and advanced pricing, segmentation and fraud detection methodologies to drive underwriting decisions. We maintain a detailed proprietary database of our personal insurance business, and believe that a robust dataset is critical to high-quality underwriting. We expect to continue to augment our pricing and underwriting capabilities via advanced analytics.

We enhance our competitive pricing position through disciplined claims and expense management. Our pricing is derived from frequency of claims, severity of claims, expenses associated with writing business, claims administration and settlement costs and costs of distribution channels through which the business is written, as well as, for regulated products, limits on allowable rate increases or mandated rate reductions based on regulatory requirements governing anticipated rates of return. The selection or underwriting process attempts to quantify the potential risks associated with a customer to determine the eligibility of that customer and the appropriate price that should be charged. Sonnet and Vyne enhance our risk-selection and pricing process by enabling rapid adaptation of underwriting rules and ratings, allowing us to respond to changes in market conditions with greater speed and agility.

Commercial Insurance

We have a disciplined approach to underwriting and risk management in commercial insurance with an emphasis on profitability. Since 2017, we have been investing heavily in pricing and underwriting capabilities in commercial lines, including the addition of a number of seasoned specialty-lines corporate underwriting executives with deep underwriting expertise. In 2018, we undertook an overhaul of our underwriting practices. This project introduced new, disciplined ways of underwriting and entailed retraining our entire commercial staff. We have also been gradually implementing new pricing models in our commercial property and auto lines, leveraging our data management and advanced analytics capabilities.

We have leveraged our personal lines underwriting capabilities to automate the underwriting of IRCA insurance. The remainder of our commercial lines risks are manually underwritten due to a high level of complexity.

Reinsurance

In addition to comprehensive underwriting guidelines for our insurance policies, we proactively use reinsurance to further manage and mitigate risk and protect profitability from volatile events. Reinsurance is primarily used to protect against large losses from individual insurance policies or multiple claims across many insurance policies that occur during a catastrophe event such as flooding, fire, or earthquake. Each year, senior management assesses the level of potential exposure to large losses and catastrophe events and determines the appropriate level of exposure to transfer to reinsurers based on risk appetite, pricing and availability of reinsurance. Our main excess-of-loss treaties provide protection against individual large losses above a certain threshold on property and liability as well as property when it comes to catastrophe events above a certain threshold. To address more frequent, smaller catastrophe events, we also purchase catastrophe aggregate reinsurance that provides protection against property losses once a series of smaller

events reaches a defined threshold. We also utilize other forms of reinsurance to help support the growth of a new product or class of business, and to expand customer offerings for risks outside of our risk appetite. This is achieved primarily through proportional reinsurance, as well as other types of reinsurance to support our business strategy.

Our reinsurance programs are supported by a diversified panel of reinsurance companies, predominately located within Canada, with further support from Bermudian and Lloyd's of London markets. Counterparty credit risk is managed by ensuring adequate credit rating and capital surplus, with no single participant exposure generally being greater than 25% across our excess-of-loss treaties, subject to certain exceptions. We have established policy guidelines related to both reinsurance and capital, including a reinsurance risk management policy that generally precludes the use of reinsurers with credit rating less than "A-", and adherence to such policies is attested to on an annual basis by senior management. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management – Management of Key Risks – Financial Risks – Credit Risk – Reinsurance Receivable and Recoverable".

Claims Management

We are dedicated to providing customer-centric claims management that leaves customers satisfied with their claims experience. Within our claims strategy, we have specifically focused on enhancing our first notice of loss ("FNOL") process through streamlined intake workflows, the use of advanced analytics and automation to minimize hand-offs and optimize file management, as well as the digital integration of services and products from strategic suppliers.

We typically handle more than 100,000 claims annually through a 24-hour, seven-days a-week national claims handling team with more than 750 claims personnel and nine claims contact centres across Canada.

In addition to our claims professionals, we have established an in-house claims litigation legal team. This team is dedicated to handling civil litigation relating to claims made under insurance policies and, in our view, provides an efficient and cost-effective alternative to relying on external resources. We continue to build the capacity and capabilities of this team, which is located in Ontario and Alberta.

Our claims handling process begins with the receipt of notice of loss, and includes verification of coverage, claim investigation (including special investigations if appropriate), damage assessment, vendor assignment or settlement discussions and payment, salvage operations and recuperating under subrogation or reinsurance, where appropriate. In 2018, we initiated a claims transformation initiative in an effort to improve the customer experience, reduce claims leakage, and optimize workforce capabilities. We reconfigured our organizational structure in 2019, adding experienced claims personnel, overhauling our procurement and vendor management processes and introducing the first generation of predictive advanced analytical models into our workflow and decision making. In 2020, we enhanced our FNOL triage and claims segmentation processes and streamlined our operating model. This phased approach to implementing our claims transformation over a number of years has allowed for the ability to implement insights from prior changes. Through a new dedicated intake team, real-time analytics to detect fraud and subrogation, as well as digital integration of third-party services, each claim submission is assessed for validity and customers are presented with third-party supplier recommendations. Our redesigned FNOL process and downstream improvements have resulted in sustainable cost reductions, more scalable workflows, reduced claims cycle times and improved customer service.

Claims costs in our business are impacted by claims frequency, severity, underwriting actions, and business mix. Claims frequency is influenced by weather and catastrophes, including the COVID-19 pandemic. Severity of claims is in turn impacted by a number of factors including access to medical treatment, costs of materials, and timely resolution of claims.

Our claims management process is supported by technical training programs, file reviews and a quarterly audit process. Our systems and processes are designed to ensure that there is ongoing monitoring, measurement and control of all aspects of the claims resolution process. We also continue to invest in our analytics capabilities to align pricing and claims, which supports our predictive models to inform business decisions. We utilize training in combination with analytics to guide employees to identify risk areas and have channels to escalate their concerns. Examples include internal fraud analytics processes that automatically refer suspicious claims to our special investigations unit, and subrogation models that identify opportunities to recover potentially substantial amounts from responsible third parties.

In 2020, we handled more than 95% of our claims through internal claims personnel. In addition to our internal claims professionals, we have developed partnerships with local, regional, and national vendors and both domestic and international independent adjusters to administer claims outside of regular business hours and during high-volume events. As part of our national catastrophe response strategy, we combine external partnerships with our regional call centres and staff from our service locations to manage the intake, triage, and assignment of claims. Catastrophe response teams are deployed to impacted areas while tactical support teams are located in the regional claims call centres to manage the loss process and customer experience. Our collaborative approach to catastrophe response and claims handling is designed to ensure that external stakeholders at all levels receive the support required.

Investment Management

We have a significant investment portfolio with approximately \$5.0 billion in investments as at September 30, 2021.

A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high-quality assets. Managing market liquidity, capital optimization, and taxation effects are important considerations in maximizing the risk/reward profile of our investment portfolio. The portfolio consists of two mandates: an active total return portfolio and a liability-driven portfolio. The liability-driven portfolio, classified as Fair Value Through Profit or Loss (“**FVTPL**”), consists entirely of high-quality fixed income instruments, while the total return portfolio, classified as Available for Sale (“**AFS**”), is allocated between fixed income securities, domestic and foreign equities, domestic preferred shares, and cash, with the objective of maximizing risk-adjusted returns within the Company’s risk parameters.

Our fixed income securities are managed by an experienced internal team and are split between two portfolio mandates:

1. **FVTPL Bond Portfolio** – the primary objective of the FVTPL bond portfolio is to offset interest rate risk on the discounting of claim liabilities. The FVTPL bond portfolio employs a quantum and duration management strategy to increase flexibility in asset allocation decisions and support an optimized portfolio, while delivering investment income.
2. **AFS Bond Portfolio** – the primary objective of the AFS bond portfolio is to outperform a blended custom benchmark portfolio constructed with a high-quality bias and lower duration to help minimize total portfolio volatility, while delivering investment income.

Domestic equities are managed by an experienced internal team, while the foreign equity portfolio is managed externally. Both portfolios are part of the AFS portfolio and are managed against relevant benchmarks. Within the broad equity asset class, we employ a fundamentals-based approach with an emphasis on investment quality to meet our primary objective of preserving the Company’s capital, while delivering appropriate returns.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further details.

Innovation, Analytics and Intellectual Property

Innovation and Analytics

We are a data-driven organization, where sophisticated data analysis helps inform key business and strategic decisions, as well as the pursuit of operational efficiencies across our business. Close partnerships between our advanced analytics team and key areas of our organization have led to the implementation of integrated analytics-based solutions across the Company. Areas of focus include enhancing underwriting and pricing sophistication, claims handling, fraud detection, targeted marketing, weather trends, distribution strategy, and talent management.

Our advanced analytics team is a multi-disciplinary professional group with experience in mathematics, statistics, machine learning, geospatial analytics, operations research, and business analysis. We have strong internal expertise in applying predictive modelling and data analytics to improve underwriting profitability, internal efficiency, and identification of profitable growth opportunities. Our team is supported by a modern, scalable data analytics

technology platform which allows for complex analytic execution on historical personal and commercial insurance data. This internal data platform is supplemented with third-party datasets, which provide access to additional information that enhances analysis for pricing, risk selection, and other operational initiatives.

We make use of market-leading technology providers to visualize, analyze, and model data. This has enabled us to increase our customer segmentation capabilities, make rapid product and rating adjustments, optimize real-time claim-handling decisions, and enhance fraud detection and monitoring. In addition, through our investment in an internationally recognized global insurtech venture capital fund, we are able to gain additional insight into the insurance, data and analytics industries internationally to help us drive further innovation, as well as make connections with insurtech companies where we can share learnings on innovation in our industry.

Intellectual Property

Our intellectual property rights are important to our business. In particular, protecting our intellectual property rights is integral to maintaining our branding, which enables us to distinguish ourselves from competitors, build a strong reputation, and develop positive customer perception. Strong branding can help attract brokers and customers and deepen their loyalty. We protect our intellectual property rights and our competitive advantage through a combination of trademarks, copyright, trade secrets and contractual provisions, and rigorously act to defend our rights from infringement. We use confidentiality agreements with third parties where disclosure of proprietary information may be necessary that limit access to and use of our proprietary intellectual property. We stipulate in our Code of Conduct that all property arising from, or created during, an employee's performance of their duties as our employee belongs exclusively to us. We also use agreements with our contractors, that assign to us intellectual property developed in the course of their contractual engagements. We are subject to risks related to our intellectual property. See "Risk Factors – Risks Relating to Our Business – We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology" and "– If our products are found to infringe on the proprietary rights of others, we may be required to change our business practices and may also become subject to significant costs". See "Trademarks and Trade Names".

Our Employees and Facilities

We had approximately 2,900 employees in 12 regional locations across Canada as at September 30, 2021. See "– Our Strengths – Leading Canadian P&C Insurer" and "– Corporate Strategy – Attract and Retain Top Talent to Empower a High Performance Culture that Delivers on Our Brand".

We own the premises where our corporate headquarters is located in Waterloo, Ontario. In addition, we own the premises where our regional branch in Kitchener, Ontario is located. All of our other premises are leased. We currently lease general office space in Vancouver, British Columbia; Calgary and Edmonton, Alberta; Winnipeg, Manitoba; London, Woodstock, Mississauga, Toronto and Ottawa, Ontario; Montreal, Québec; and Halifax, Nova Scotia.

We believe that our facilities are suitable and adequate for our business as presently conducted. However, we periodically review our facility requirements and may acquire new space to meet the needs of our business or consolidate and dispose of facilities that are no longer required. If we require additional space, we expect that we will be able to obtain additional facilities on commercially reasonable terms.

Environment, Social and Governance

We recognize that taking a comprehensive, action-oriented approach to environmental, social and governance ("ESG") factors benefits everyone and ultimately, influences our business performance. As a result, we have taken steps to identify the ESG factors that are material to our business, and these are key inputs to our corporate strategy that we expect to contribute to short- and long-term value creation for our stakeholders. Our Board is responsible for overseeing our ESG strategy. An Executive Sustainability Committee, consisting of members of our senior executive team, ensures that the appropriate ESG factors are accounted for in our long-term corporate strategy and that key risks are managed properly. We intend to regularly report on our ESG priorities and progress.

ESG at Definity is sound governance and a commitment to our people, communities and environment. In preparation for the Demutualization and our transition to a public company we implemented corporate governance

structures designed to ensure appropriate accountability and transparency. See “Corporate Governance”. We are also continuously working to protect and strengthen our reputation by acting with integrity in everything we do. Our Code of Conduct outlines the high standards to which we hold ourselves when working with each other and our brokers and customers. See “Corporate Governance – Ethical Business Conduct – Code of Conduct”.

Community Investment and the Definity Insurance Foundation

Our customers and their experience doing business with us are at the core of our reputation as a trusted insurance partner to Canadians, and a significant part of our relationship with our customers involves our support for the communities we serve. Our commitment to “neighbours helping neighbours” has been at our foundation since writing our first insurance policy 150 years ago, and we have a long history of giving back to the communities we serve, including over \$1 million in contributions in 2020. As part of the Demutualization, \$100 million of Demutualization benefits will be allocated to a new charitable foundation that will augment our community support, to be known as the Definity Insurance Foundation (the “**Foundation**”). See “Use of Proceeds”.

The Foundation was incorporated under the *Canada Not-for-profit Corporations Act* as 10551635 Canada Foundation, and is registered as a charity under the Tax Act. The Foundation board currently consists of six directors, comprised of two nominees from each of the two Policyholder Committees established in connection with our Demutualization and two nominees of Economical Insurance. Nominees from Economical Insurance will be active or former directors, or active officers of Economical Insurance. Currently, all of the Foundation board members who are not Economical Insurance nominees are Eligible Policyholders but are otherwise not affiliated with Economical Insurance.

Following completion of the Offering, the Foundation will seek to expand its board of directors to include members of the public who have a demonstrated skill for, and commitment to, improving their communities.

In addition to \$100 million of Demutualization benefits allocated to the Foundation pursuant to the Conversion Plan, Economical Insurance has also committed to donating to the Foundation one percent (1%) of Economical Insurance’s net profit before tax each year, subject to a minimum of \$250,000 (the “**Minimum Annual Donation**”) pursuant to the foundation agreement dated February 25, 2020 between Economical Insurance and 10551635 Canada Foundation (now Definity Insurance Foundation). This agreement has an initial term of five years following the effective date of Demutualization and automatically renews for successive five-year terms unless either party gives written notice of non-renewal at least 180 days prior to the expiration of the initial term or any renewal term.

The Foundation is independent of us, and neither Definity nor Economical Insurance will direct the Foundation’s donations (including the \$100 million allocated to the Foundation pursuant to the Conversion Plan), other than with respect to any portion of Economical Insurance’s annual donation to the Foundation that is greater than the Minimum Annual Donation.

Competitive Landscape

The Canadian P&C insurance industry is highly competitive, and we believe that it will remain highly competitive for the foreseeable future. Competition in our business lines is based on many factors, including price, service, products and services provided, financial strength and scale, commission structure, financial strength ratings assigned, ability to pay claims, reputation, and brand recognition. We compete in our target markets with large national insurers, government automobile insurers, smaller regional insurers, niche and specialized commercial insurers and mutual and co-operative insurers. Other financial institutions, such as banks, offer insurance products similar to those offered by us. Despite consolidation in recent years, the Canadian P&C insurance industry remains relatively fragmented with over 100 active Canadian P&C insurers. The top five Canadian P&C insurers accounted for approximately 52% of Canadian P&C insurance industry DWP in 2020. See “Industry Overview” and “Risk Factors – Risks Relating to Our Business – The P&C insurance industry is highly competitive, and we may not be able maintain or increase our premium volume or underwriting profitability”.

We compete not only for business and individual customers, employers and other group customers but also for brokers and other distributors of insurance products. We distribute our products primarily through a network of brokers and a great part of our success depends on the capacity of this network to be competitive against other distributors, as

well as our ability to maintain our business relationships with them. Strong competition exists among insurers for brokers with demonstrated ability to sell insurance products. See “Risk Factors – Risks Relating to Our Business – We do business with a large network of independent brokers on a non-exclusive basis”.

DEMUTUALIZATION

Overview of the Demutualization Process

Demutualization is a regulated legal process by which a mutual insurance company converts from a company with mutual policyholders as its voting members and no shareholders, to a share company with voting shareholders and no voting policyholders and by which, as prescribed in the Demutualization Regulations, the value of the converting company is distributed to eligible recipients as demutualization benefits. Our demutualization process was formally initiated on November 3, 2015 when the Economical Insurance Board passed a resolution recommending that Economical Insurance demutualize. This was also the date for determining, among other things, which mutual policyholders of Economical Insurance (the “**Eligible Mutual Policyholders**”) and non-mutual policyholders of Economical Insurance (the “**Eligible Non-Mutual Policyholders**”), respectively, would be entitled to receive Demutualization benefits in the form of cash or Common Shares or a combination of both. All references in this prospectus to “**Eligible Policyholders**” means, collectively, the Eligible Mutual Policyholders and the Eligible Non-Mutual Policyholders, together with other recipients who are entitled to receive a distribution in the form of cash or Common Shares or a combination of both, as applicable (collectively, the “**Demutualization benefits**”), as prescribed under the Demutualization Regulations and as specified in the Conversion Plan.

Our Demutualization process has included the participation of both Eligible Mutual Policyholders and Eligible Non-Mutual Policyholders in the approval process. At the first special meeting on Demutualization held on December 14, 2015, Eligible Mutual Policyholders passed a special resolution to negotiate the allocation of Demutualization benefits with Eligible Non-Mutual Policyholders. The method of allocating the Demutualization benefits was negotiated by two policyholder committees (the “**Policyholder Committees**”) representing the Eligible Mutual Policyholders and Eligible Non-Mutual Policyholders, respectively. The Policyholder Committees and their counsel were appointed by the Ontario Superior Court of Justice and negotiations commenced in 2017.

On June 11, 2018, each Policyholder Committee unanimously approved the method of allocating Demutualization benefits, including the allocation of \$100 million of Demutualization benefits to the Foundation. See “Our Business – Community Investment and the Definity Insurance Foundation”. The negotiated allocation of Demutualization benefits forms part of the Conversion Plan, which is the document setting out the terms of the Demutualization. See “– Allocation of Demutualization Benefits and Election Process”. The Conversion Plan was submitted to OSFI on June 26, 2018, along with the required actuarial opinions and other supporting documentation in respect of the allocation of Demutualization benefits.

The second special meeting on Demutualization was held on March 20, 2019, at which Eligible Mutual Policyholders passed a special resolution to amend the by-laws of Economical Insurance to extend the right to vote on certain Demutualization matters (described in the following paragraph) to Eligible Non-Mutual Policyholders.

The third special meeting on Demutualization was held on May 20, 2021, at which Eligible Policyholders passed a special resolution approving the Conversion Plan, confirming the form of the amended and restated by-laws of Economical Insurance that will become effective at the time of Demutualization, and authorizing Economical Insurance to apply to the Minister of Finance for approval of the Conversion Plan and the issuance of Letters Patent of Conversion.

The Minister of Finance has approved the Conversion Plan, and the Letters Patent of Conversion are expected to take effect immediately prior to the completion of the Offering. This is the final step required to complete the Demutualization. If the Conversion Plan does not become effective for any reason, Economical Insurance will remain a mutual insurance company and the Offering will not be completed.

Allocation of Demutualization Benefits and Election Process

The Conversion Plan provides for the allocation of an aggregate of 100 million notional allocation units (the “**Notional Units**”) to Eligible Policyholders and the Foundation for the purposes of allocating the amount of

Demutualization benefits each Eligible Policyholder and the Foundation is entitled to receive. The Notional Units have been allocated only for this purpose and do not represent a legal issuance of Common Shares. For purposes of the distribution of Demutualization benefits, each Notional Unit represents the right to receive a Common Share or a cash payment equal to the Offering Price. Demutualization benefits paid in cash are to be paid out of the net proceeds (the “**Net Offering Proceeds**”) remaining from the proceeds to Definity from the Offering and the Cornerstone Private Placements (excluding proceeds from the sale of Common Shares pursuant to the Over-Allotment Option and the HOOPP Over-Allotment Private Placement) after the payment of the Offering and Cornerstone Private Placement Expenses. As a result, additional Common Shares must be sold in the Offering to fund the payment of the Offering and Cornerstone Private Placement Expenses, which results in an increase in the number of issued and outstanding Common Shares and a corresponding increase in the number of HOOPP Offering Shares to be sold pursuant to the HOOPP Subscription Agreement. Since the Underwriters’ Fee and the Placement Fee are expressed as a percentage of the aggregate gross proceeds from the Offering and the Cornerstone Private Placements, respectively, such fees increase as the size of the Offering and the Cornerstone Private Placements increase, as applicable, and result in a further incremental increase in the number of Common Shares sold pursuant to the Offering and in the number of issued and outstanding Common Shares immediately following the closing of the Offering and the Cornerstone Private Placements.

Eligible Policyholders were able to indicate their preference to receive their Demutualization benefits in the form of cash, Common Shares, or a combination of both, or were deemed to have elected to receive Demutualization benefits in a particular form (i.e., cash or Common Shares) due to administrative, tax or other regulatory considerations. However, the actual value of Demutualization benefits that each Eligible Policyholder will receive in connection with the completion of the Demutualization, as well as the form of those Demutualization benefits (i.e., cash or Common Shares or a combination of both), depends on the Offering Price and number of Common Shares sold in the Offering (excluding Common Shares sold pursuant to the Over-Allotment Option), and is subject to the prioritization and proration mechanisms in the Conversion Plan. The Conversion Plan does not prescribe a minimum or maximum amount of Net Offering Proceeds and Economical Insurance has no obligation to distribute any specific aggregate amount of Demutualization benefits in the form of cash to Eligible Policyholders.

The proration mechanisms in the Conversion Plan provide that the amount of cash Demutualization benefits distributed will be equal to the Net Offering Proceeds and the aggregate number of Common Shares distributed as Demutualization benefits will increase or decrease, as applicable, based on the aggregate number of Common Shares sold in the Offering and the Cornerstone Private Placements (excluding Common Shares sold pursuant to the Over-Allotment Option and the HOOPP Over-Allotment Private Placement). For example, if the total number of Common Shares that would be issued to Eligible Policyholders based on their elections and deemed elections is greater than (i) 100 million plus that number of Common Shares to be sold pursuant to the Offering for purposes of funding the payment of the Offering and Cornerstone Private Placement Expenses, minus (ii) the aggregate number of Common Shares to be sold pursuant to the Offering and the Cornerstone Private Placements, then the Conversion Plan provides that the number of Common Shares to be issued to such Eligible Policyholders is to be reduced on a pro rata basis to eliminate such excess and such Eligible Policyholders will receive cash in lieu of such Common Shares.

Due to the above proration mechanisms, an increase in the number of Common Shares sold pursuant to the Offering will result in a corresponding reduction in the number of Common Shares distributed to Eligible Policyholders pursuant to the Conversion Plan. However, as described above, any increase in the number of Common Shares sold pursuant to the Offering will result in a corresponding increase in the aggregate amount payable for the Underwriters’ Fee and the Placement Fee (with respect to the HOOPP Cornerstone Private Placement) and additional Common Shares will be sold pursuant to the Offering to fund those additional expenses. As a result, the issued and outstanding Common Shares immediately following the closing of the Offering and the Cornerstone Private Placements will be equal to 100 million plus that number of Common Shares to be sold pursuant to the Offering for purposes of funding the payment of the Offering and Cornerstone Private Placement Expenses. See “General Matters” and “Consolidated Capitalization”.

At the effective time of the Demutualization, Demutualization benefits in the form of Common Shares will be issued to Eligible Policyholders. On or shortly after the completion of the Offering, Demutualization benefits in the form of cash will be distributed to Eligible Policyholders and the Foundation out of the net proceeds of the Offering. See “Our Business – Community Investment and the Definity Insurance Foundation” and “Use of Proceeds”.

Major Shareholder Restriction Period

The Demutualization Regulations contain takeover protection applicable to Definity for a period following the Demutualization. Specifically, the Demutualization Regulations currently provide that for a two-year period following a demutualization (the “**major shareholder restriction period**”), the Minister of Finance will not approve an acquisition by any person of more than 20% of any class of voting shares of a demutualized insurance company or, when a holding company structure is used, its holding body corporate (unless such company is in financial difficulty and the Minister of Finance believes the acquisition will improve the company’s financial position) (the “**major shareholder restriction**”). The major shareholder restriction is intended to provide a recently demutualized company, which following demutualization will have access to capital to better allow it to grow and compete, time to strengthen and adapt its competitive position. This major shareholder restriction would prevent a person from acquiring a controlling interest in Economical Insurance or Definity for two years following the Demutualization, and from acquiring more than 20% of any class of shares of Economical Insurance or, for so long as it remains an ICA company, Definity, for that same two-year period. See “Risk Factors – Risks Relating to Our Business – Restrictions on ownership and regulatory protection from takeovers may defer or prevent transactions involving a change of control of the Company”.

Continuance under the CBCA

We are currently subject to leverage restrictions under the ICA, which provide that our total debt cannot exceed 2% of our total assets. After the Demutualization, for so long as Definity remains an ICA company, its ability to access debt capital will continue to be limited compared to other Canadian P&C insurer holding companies that are not subject to such restrictions, unless we proceed with the Continuance. If Definity proceeds with the Continuance, it would not be subject to these leverage restrictions under the ICA and would have significantly more flexibility in the size and types of acquisitions and investments that we could make and in our capital structure.

The process to complete the Continuance involves a number of steps and regulatory approvals, including an application to the Minister of Finance under the ICA for approval to apply under the CBCA for the Continuance, and upon receipt of such approval, an application to the Director under the CBCA for the certificate of continuance.

Following the closing of the Offering, we intend to seek regulatory approval from the Minister of Finance to allow us to complete the Continuance. However, we do not intend for the Continuance to circumvent the major shareholder restriction imposed by the Demutualization Regulations. As a result, we do not intend to apply to the Minister of Finance for the Continuance, nor do we believe that the Continuance would be approved, unless the Demutualization Regulations are amended so that the major shareholder restriction would continue to apply to Definity as a CBCA corporation following the Continuance. Such amendments may not be implemented until after the end of the major shareholder restriction period or at all, and regulatory approval for the Continuance may not otherwise be obtained on a timely basis or at all.

See “– Major Shareholder Restriction Period”, “Our Business – Our Strengths – Significant Financial Flexibility to Support Value Creation”, “Canadian P&C Insurance Regulatory Environment – Regulation of Definity and Impact of Continuance” and “Risk Factors – Risks Affecting our Business – We may not proceed with the Continuance during the major shareholder restriction period or at all, which could negatively impact our financial flexibility and our ability to drive value creation and execute our strategy”.

THE CORNERSTONE PRIVATE PLACEMENTS

In connection with the Offering, HOOPP and Swiss Re have agreed to purchase Common Shares on a private placement basis at the Offering Price. HOOPP is one of Canada’s largest defined benefit pension plans with over \$100 billion of plan assets as of December 31, 2020. Swiss Re is part of the Swiss Re Group, which is one of the world’s leading providers of reinsurance and insurance, with a prominent presence in the Canadian market.

Subscription Agreements

General

Pursuant to the HOOPP Subscription Agreement, HOOPP has agreed to purchase (i) concurrently with the closing of the Offering, an aggregate number of Common Shares that will be equal to 14.99% of the issued and outstanding Common Shares (on a non-diluted basis) immediately following the closing of the Offering (after taking into account the issuance of Common Shares to Swiss Re pursuant to the Swiss Re Subscription Agreement and excluding the issuance of Common Shares, if any, concurrently with the closing of the Offering on exercise by the Underwriters of the Over-Allotment Option) and (ii) following the closing of the Offering on the Closing Date, an aggregate number of Common Shares that, together with the Common Shares purchased concurrently with the closing of the Offering, will result in HOOPP owning 19.9% of the issued and outstanding Common Shares (on a non-diluted basis excluding the issuance of Common Shares, if any, concurrently with the closing of the Offering on exercise by the Underwriters of the Over-Allotment Option) immediately following such issuance, in each case on a private placement basis at the Offering Price. HOOPP has also agreed that, in the event that any additional Common Shares are issued to the Underwriters pursuant to the exercise of the Over-Allotment Option, HOOPP will purchase such additional number of Common Shares that, when added to the HOOPP Offering Shares, will be equal to 19.9% of the issued and outstanding Common Shares (on a non-diluted basis) after taking into account the issuance of Common Shares to the Underwriters pursuant to the exercise of the Over-Allotment Option and the issuance of such additional Common Shares to HOOPP. Pursuant to the Swiss Re Subscription Agreement, Swiss Re has agreed to purchase, concurrent with the closing of the Offering, an aggregate number of Common Shares equal to the quotient determined by dividing (x) the Canadian dollar equivalent of US\$200 million by (y) the Offering Price.

We will use the net proceeds from the Cornerstone Private Placements, together with the net proceeds from the Offering, to fund the distribution of cash benefits of the Demutualization to Eligible Policyholders and the Foundation pursuant to the Conversion Plan. If the Over-Allotment Option is exercised in full or in part, we will use the net proceeds thereof, together with the net proceeds from the related HOOPP Over-Allotment Private Placement, for general corporate purposes. See “Use of Proceeds”. BMO and RBC are acting as financial advisors and private placement agents for the Cornerstone Private Placements. See “Plan of Distribution” and “Description of Share Capital”.

Immediately following the closing of the Offering and the Cornerstone Private Placements, 32,141,179 Common Shares (representing 30.9% of the issued and outstanding Common Shares) will be owned by the Cornerstone Investors.

Representations and Warranties; Covenants

The HOOPP Subscription Agreement and the Swiss Re Subscription Agreement contain representations and warranties of Economical Insurance, Definity and HOOPP or Swiss Re, as applicable. The representations and warranties are, in some cases, subject to specified exceptions and qualifications. Each of the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement also contains a representation, warranty and covenant by each of Economical Insurance and Definity to not issue Common Shares to any other investor, concurrently with or within 30 days following the completion of the Offering, at a price per Common Share lower than the Offering Price.

Each of the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement also contains covenants of Economical Insurance and Definity to use commercially reasonable efforts to obtain the approval of the TSX and covenants of HOOPP or Swiss Re, as applicable, to use commercially reasonable efforts to obtain the Minister’s Approval. Each of Economical Insurance, Definity and HOOPP or Swiss Re, as applicable, have also given a usual and customary covenant to, subject to the terms and conditions thereof, perform all obligations required to be performed by it under the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement, as applicable, to co-operate with the other parties in connection therewith and to do all such other commercially reasonable acts and things as may be necessary or desirable to consummate and make effective, as soon as reasonably practicable, the HOOPP Private Placement or the Swiss Re Private Placement, as applicable.

Termination

Each of the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement may be terminated by the mutual agreement of the parties thereto or if a governmental entity has issued an order or taken an action, and such

order or action has become final and non-appealable, permanently prohibiting the HOOPP Private Placement or the Swiss Re Private Placement, as applicable. Definity may terminate the HOOPP Subscription Agreement or the Swiss Re Subscription Agreement if HOOPP or Swiss Re, as applicable, subject in each case to a customary cure period, (i) fails to perform a covenant under the HOOPP Subscription Agreement or the Swiss Re Subscription Agreement, as applicable, (ii) breaches a fundamental representation and warranty, or (iii) breaches one or more representations and warranties that are not fundamental representations and warranties resulting in a material adverse effect. HOOPP and Swiss Re may terminate the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement, respectively, if (x) Definity or Economical Insurance, subject to a customary cure period, (i) fails to perform a covenant under the HOOPP Subscription Agreement or the Swiss Re Subscription Agreement, as applicable, (ii) breaches a fundamental representation and warranty, (iii) breaches the representations and warranties regarding authorized and issued capital, except for *de minimis* inaccuracies or (iv) breaches one or more representations and warranties that are not fundamental representations and warranties resulting in a material adverse effect or (y) subject to a customary cure period, a material adverse effect occurs. In addition, (a) the HOOPP Subscription Agreement may be terminated in the event that the closing of the HOOPP Private Placement does not occur by June 30, 2022 (provided that a party may not terminate the HOOPP Subscription Agreement on this basis if such party's failure to fulfill an obligation under the HOOPP Subscription Agreement was a principal cause of, or has primarily resulted in, the failure of the closing to occur prior to such date) or if Definity provides notice to HOOPP that it does not intend to pursue the closing of the Demutualization or the Offering, respectively and (b) the Swiss Re Subscription agreement may be terminated in the event that the closing of the Swiss Re Private Placement does not occur by January 14, 2022, unless a Canadian federal election is called before January 14, 2022, in which case such date shall be automatically extended to April 14, 2022 (provided that a party may not terminate the Swiss Re Subscription Agreement on this basis if such party's failure to fulfill an obligation under the Swiss Re Subscription Agreement was a principal cause of, or has primarily resulted in, the failure of the closing to occur prior to such date) or if Definity provides notice to Swiss Re that it does not intend to pursue the closing of the Demutualization or the Offering, respectively.

Conditions to the Closing of the Cornerstone Private Placements

The completion of each of the HOOPP Private Placement and the Swiss Re Private Placement is subject to a number of mutual conditions, including: (i) completion of the Demutualization; (ii) approval of the listing of the Common Shares on the TSX, subject only to customary conditions; (iii) receipt of the Minister's Approval; (iv) no order having been enacted or enforced by a governmental entity or any law being in effect that has the effect of prohibiting the consummation of the HOOPP Private Placement or the Swiss Re Private Placement, as applicable; and (v) the closing of the Offering occurring contemporaneously, on terms and conditions acceptable to us, in our sole discretion (or in the case of the closing of the issuance of Common Shares to HOOPP pursuant to the HOOPP Over-Allotment Option Private Placement, the closing of the issuance of Common Shares to the Underwriters pursuant to the exercise of the Over-Allotment Option occurring contemporaneously). The obligation of each of Definity and HOOPP to complete the HOOPP Private Placement is also subject to a customary bringdown condition and to the execution and delivery by Definity and HOOPP of a governance agreement in the form attached to the HOOPP Subscription Agreement (the "**HOOPP Governance Agreement**") to provide for certain rights and obligations of HOOPP. The obligation of each of Definity and Swiss Re to complete the Swiss Re Private Placement is also subject to a customary bringdown condition and to the execution and delivery by Definity and HOOPP of a governance agreement in the form attached to the Swiss Re Subscription Agreement (the "**Swiss Re Governance Agreement**" and together with the HOOPP Governance Agreement, the "**Governance Agreements**") to provide for certain rights and obligations of Swiss Re. The obligation of HOOPP and Swiss Re to complete the HOOPP Cornerstone Private Placement and the Swiss Re Cornerstone Private Placement, respectively, is also subject to the condition that there has not been a material adverse effect in respect of Definity and Economical Insurance, subject to certain exceptions, since the date of the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement, respectively.

The Minister's Approval in respect of the purchase of Common Shares by each of HOOPP and Swiss Re as contemplated in the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement, respectively, has been issued to each of HOOPP and Swiss Re.

Purchasers of the Common Shares offered under this prospectus should not rely on the fact that the Cornerstone Investors have agreed to purchase Common Shares pursuant to the Cornerstone Private Placements. See "Risk Factors – Risks Relating to the Offering and Ownership of the Common Shares – The Cornerstone Private Placements may fail to close".

Governance Agreements

The following is a summary of the material terms of the Governance Agreements. This summary is qualified in its entirety by reference to the provisions of the Governance Agreements, which will be available following the Closing Date under Definity's profile on SEDAR at www.sedar.com.

HOOPP Governance Agreement

Board Nomination Rights

Pursuant to the HOOPP Governance Agreement, (a) for so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares (excluding Common Shares in respect of which HOOPP has entered into certain specified derivative transactions) equal to or greater than 17.5% of the issued and outstanding Common Shares (on a non-diluted basis), HOOPP will have the right to designate: (i) one nominee, if the Board is comprised of fewer than 10 members; (ii) two nominees, if the Board is comprised of between 10 and 16 members; and (iii) three nominees, if the Board is between 17 and 21 members; and (b) for so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares (excluding Common Shares in respect of which HOOPP has entered into certain specified derivative transactions) equal to or greater than 10% but less than 17.5% of the issued and outstanding Common Shares (on a non-diluted basis), HOOPP will have the right to designate one nominee. For so long as HOOPP is entitled to, but has not exercised, its right to designate one or more of the nominees it is entitled to designate in accordance with the terms of the HOOPP Governance Agreement, HOOPP will have the right to designate one individual acceptable to Definity, acting reasonably, as a non-voting Board observer in lieu of each individual it would have otherwise been entitled to designate as a nominee.

Committee Participation

For so long as a nominee designated by HOOPP serves as a member of the Board, we have agreed that our Board will designate one of HOOPP's nominee directors to serve as a member of the Audit Committee and one of the HOOPP's nominee directors (who may be the same individual as the nominee designated to serve as a member of the Audit Committee) to serve as a member of the Corporate Governance Committee.

Board Support

For so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares equal to not less than 10% of the issued and outstanding Common Shares (on a non-diluted basis), HOOPP will be required to support management's nominees for election to the Board at any meeting of shareholders at which directors are to be elected (provided that such nominees include the nominees designated by HOOPP, if applicable). HOOPP has also agreed to vote in favour of any proposed resolution at a meeting of shareholders for the Continuance. See "Demutualization – Continuance under the CBCA" and "– Major Shareholder Restriction Period".

Demand Registration Rights and Piggy-Back Registration Rights

Following the expiry of the HOOPP Lock-Up Period (as defined below), for so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares equal to not less than 10% of the issued and outstanding Common Shares (on a non-diluted basis), HOOPP will have the right to require us to use commercially reasonable efforts to file one or more prospectuses with applicable Canadian securities regulatory authorities qualifying registrable securities for public distribution (a "**Demand Registration**"). The obligations of Definity to effect a Demand Registration may be satisfied by us, in our sole discretion, through the use of a shelf prospectus and the applicable shelf prospectus supplement (as defined in National Instrument 44-102 – *Shelf Distributions*). HOOPP's Demand Registration right is subject to certain customary limitations.

We are required, following the expiry of the HOOPP Lock-Up Period and for so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares equal to not less than 10% of the issued and outstanding Common Shares (on a non-diluted basis), to

notify HOOPP of our intention to register any securities for sale in a public offering. Upon receiving such notice, HOOPP may require that all or a specified part of the registrable securities held by HOOPP be included in the proposed registration, subject to certain customary limitations. We have also agreed with HOOPP that, if we file a registration statement under the U.S. Securities Act or register the Common Shares pursuant to Section 12(b) or 12(g) of the Exchange Act, we will supplement the HOOPP Governance Agreement to grant HOOPP demand registration rights and piggy-back registration rights to register Common Shares in the United States which are substantially similar to the demand registration rights and piggy-back registration rights, respectively, granted under the HOOPP Governance Agreement with respect to Canadian prospectus qualifications.

Pre-Emptive Right

During the HOOPP Lock-Up Period and for a period of two years thereafter, for so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares (excluding Common Shares in respect of which HOOPP has entered into certain specified derivative transactions) equal to not less than 10% of the issued and outstanding Common Shares (on a non-diluted basis), HOOPP will have the right to participate in any offering of Common Shares on a pro rata basis to maintain its percentage ownership immediately prior to the completion of such offering, subject to customary exceptions.

Non-Convertible Securities Participation Right

During the HOOPP Lock-Up Period and for a period of two years thereafter, for so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares (excluding Common Shares in respect of which HOOPP has entered into certain specified derivative transactions) equal to not less than 10% of the issued and outstanding Common Shares (on a non-diluted basis), in the event we issue any non-convertible debt securities or non-convertible preferred shares by way of a public offering or private placement for gross proceeds that would reasonably be expected to be not less than \$50 million, HOOPP will have the right to subscribe for such percentage of non-convertible debt securities or preferred shares, as applicable, as is equal to its percentage ownership of Common Shares (excluding Common Shares in respect of which HOOPP has entered into certain specified derivative transactions) immediately prior to the completion of the Offering.

Top-Up Right

During the HOOPP Lock-Up Period and for a period of two years thereafter, for so long as HOOPP beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares (excluding Common Shares in respect of which HOOPP has entered into certain specified derivative transactions) equal to not less than 10% of the issued and outstanding Common Shares (on a non-diluted basis), HOOPP will have the right (the “**Top-Up Right**”), in connection with the issuance by Definity of Common Shares pursuant to one or more acquisition or business combination transactions as consideration to the sellers of the acquired business (a “**Specified Dilutive Transaction**”), to subscribe to purchase from us such number of Common Shares (“**Top-Up Shares**”) that will allow HOOPP to maintain its proportionate ownership interest in the Common Shares, after giving effect to the Specified Dilutive Transaction, at a purchase price based on the market price of the Common Shares prior to the closing of the Specified Dilutive Transaction. The Top-Up Right will only be exercisable following the completion of one or more Specified Dilutive Transactions which result in the issuance of such number of Common Shares that exceed 5% of the number of issued and outstanding Common Shares (on a non-diluted basis) immediately following the completion of the Offering. At our option, we will have the right, in lieu of issuing Top-Up Shares to HOOPP, to authorize HOOPP to acquire such Top-Up Shares through market purchases over the facilities of the TSX (or other stock exchange on which Common Shares are listed or traded) rather than subscribing for Common Shares to be issued by us, notwithstanding any other restrictions on purchases of Common Shares by HOOPP that would otherwise apply under the terms of the HOOPP Governance Agreement.

Standstill

For a period of five years from the date of the HOOPP Governance Agreement, HOOPP will be prohibited from, without the prior written consent of the Board: (a) acquiring or agreeing to acquire or making any proposal to acquire, directly or indirectly, by means of purchase, merger, amalgamation, consolidation, take-over bid, business combination or in any other manner, any Common Shares, securities or assets of Definity or its affiliates, except as permitted by the

HOOPP Governance Agreement; (b) soliciting proxies of shareholders of Definity, or seeking to advise or influence any other person with respect to the voting of any securities of Definity, or forming, joining or in any way participating in a proxy or proxy solicitation or dissident shareholder group, in each case for any such purpose; (c) otherwise acting, alone or jointly or in concert with others, to seek to control or influence, in any manner, the management, the Board or policies of Definity or its affiliates; (d) taking any actions, directly or indirectly, that question the validity or effectiveness of any shareholder rights plan, rights agreements or any other “poison pill” or other antitakeover arrangement of Definity or any securities that may be issued pursuant thereto, or seek to cause any Person, court or regulatory body to “cease trade” or otherwise restrict the operation of such plan; (e) having any discussions or entering into any arrangements, understandings or agreements, whether written or oral, with, or advising, financing, aiding, assisting, encouraging or act jointly or in concert with, any other persons in connection with any of the foregoing; or (f) making any public announcement with respect to the foregoing, except as may be required by applicable law, regulatory authorities or stock exchanges.

Restrictions on Transfer

For a period of five years from the date of the HOOPP Governance Agreement (the “**HOOPP Lock-Up Period**”), subject to certain exceptions and to the early termination of the HOOPP Lock-Up Period in certain circumstances, HOOPP will not, and will cause its affiliates not to, without the prior written consent of the Board: (a) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Common Shares, any warrants issued by Definity to purchase Common Shares, any convertible securities or any securities that represent the right to receive any Common Shares (“**Lock-Up Securities**”) or agree or commit to do any of the foregoing (any such transaction, a “**Transfer**”); or (b) engage in any hedging or other transaction or other arrangement that is designed to or which could reasonably be expected to lead to or result in (i) a Transfer (whether by HOOPP, any of HOOPP’s affiliates, a counterparty to any contract entered into with HOOPP or any of the HOOPP’s affiliates or by someone other than HOOPP or its affiliates), or (ii) a change in or transfer of any voting rights or entitlements of HOOPP or any of HOOPP’s affiliates under any Lock-Up Securities, or (iii) a change in or transfer of any of the economic consequences to ownership of HOOPP or any of HOOPP’s affiliates in respect of the Lock-Up Securities, in each case whether any such transaction or arrangement would be settled by delivery of Lock-Up Securities or other securities, in cash or otherwise, or agree or commit to do any of the foregoing (any such transaction or arrangement, a “**Derivative Transaction**” and together with any Transfer, a “**Restricted Activity**”).

HOOPP will not, and will cause its affiliates not to, engage in any Restricted Activity (whether during or after the HOOPP Lock-Up Period) that is intended or reasonably expected to cause or accommodate a Transfer of Lock-Up Securities or the transfer of any right or entitlement to exercise voting control or direction over any Lock-Up Securities to: (a) any person (or such person and its affiliates and persons acting jointly or in concert with such person) if such Restricted Activity would result in that person, together with its affiliates and persons acting jointly or in concert with such person, beneficially owning, or having voting control or direction over, more than 10% of the issued and outstanding Common Shares after giving effect to such Restricted Activity; or (b) any Competitor; provided that HOOPP will not be restricted from engaging in a Restricted Activity that (A) if the Restricted Activity involves a Derivative Transaction, such Derivative Transaction either (x) occurs after the HOOPP Lock-Up Period, provided that such Derivative Transaction is only entered into with a financial institution that is acting as a principal and on arm’s length market terms and conditions and not with any intention, directly or indirectly, on the part of HOOPP to cause or accommodate a Transfer of Lock-Up Securities or any right or entitlement to exercise, control or direct the exercise of voting rights under any Common Shares as a block to any predetermined person (it being recognized that a financial institution may in turn independently determine to sell Lock-Up Securities (including a short sale of Common Shares) by trading over the facilities of a stock exchange or other organized securities market on which Shares are listed or quoted in circumstances where such trading is not pursuant to a block sale to any predetermined person or any other pre-arranged transaction), or (y) occurs after the third anniversary of the HOOPP Governance Agreement and involves the hedging by HOOPP of up to a specified portion of its risk exposure to Common Shares, subject to certain conditions, in circumstances where the Market Value of the Common Shares is more than a specified multiple of the Offering Price or the total fair market value of HOOPP’s Common Shares exceeds a specified percentage of the consolidated net asset value of all of HOOPP’s and its affiliates investment portfolio assets; or (B) if the Restricted Activity involves a Transfer of Lock-Up Securities, such Transfer occurs after the HOOPP Lock-Up Period and is either (x) effected over the facilities of a stock exchange or other organized securities market on which Common Shares are listed or quoted in circumstances where such trading is not pursuant to a block sale to any predetermined

person or any other pre-arranged transaction, or (y) is qualified under a prospectus in the context of an underwritten offering.

The restrictions on transfer in the HOOPP Governance Agreement will not restrict HOOPP from, following the third anniversary of the HOOPP Governance Agreement, tendering, or permitting any of HOOPP's affiliates to tender, any or all of its Common Shares pursuant to a takeover bid (as defined in National Instrument 62-104 – *Take-Over Bids and Issuer Bids*) made by an acquiror (together with any joint actors) to holders of all of the Common Shares if the offer price is at least three times the book value of the Common Shares as shown on the balance sheet included in our most recent annual or quarterly, as applicable, financial statements filed on SEDAR.

Early Termination of HOOPP Lock-Up Period

The HOOPP Lock-Up Period will terminate, subject to certain conditions, if: (a) following the third anniversary of the date of the HOOPP Governance Agreement, certain of our senior executives fail to comply with our Share Ownership Guidelines, subject to certain exceptions; or (b) a certain combination of our senior executives depart Definity within a 36-month window; or (c) following the third anniversary of the date of the HOOPP Governance Agreement, there is a downgrade of the financial strength rating of Economical Insurance by AM Best Rating Services below A-; or (d) following the third anniversary of the date of the HOOPP Governance Agreement, the Market Value is less than the Specified Market Value Threshold, and for any fiscal quarter ending on or after September 30, 2024 (i) our GWP during the three-year period consisting of the 12 most recently completed fiscal quarters does not exceed our GWP during the Look-Back Three-Year Period by at least 5%, excluding from the calculation of GWP for both periods any premiums derived from a regulated P&C insurance business acquired or sold by us during the initial 12-month period following the closing of the acquisition or sale, as applicable, of such business or (ii) our trailing 12-quarter Operating ROE (adjusted for significant capital transactions, as appropriate) is below (x) a specified ROE threshold, and (y)(A) for the fiscal quarter ending on September 30, 2024, the Industry Average ROE plus 1%, or (B) for the fiscal quarters ending on or after December 31, 2024, the Industry Average ROE plus 2%.

Maintenance of Ownership Level at or below 19.9%

The HOOPP Governance Agreement contains covenants by us and HOOPP for the maintenance of HOOPP's proportionate ownership of Common Shares at or below 19.9% of the issued and outstanding Shares (on a non-diluted basis). Pursuant to the HOOPP Governance Agreement, if we establish a normal course issuer bid under the rules of the TSX, or a similar share buyback program under the rules of any other stock exchange on which the Common Shares are listed, and the acquisition of Common Shares under such program could reasonably be expected to increase the HOOPP's proportionate percentage ownership of Common Shares over 19.9% of the issued and outstanding Common Shares (on a non-diluted basis) after giving effect to the purchase of the maximum number of Common Shares that we would be permitted to purchase under such program, we will be required to notify HOOPP of such program and, subject to the approval of the TSX (and/or any other stock exchange on which the Common Shares are listed) and securities laws applicable in Canada and other applicable laws, HOOPP will be required to enter into an Automatic Concurrent Repurchase and Disposition Plan; provided, however, if we are not able to implement an Automatic Concurrent Repurchase and Disposition Plan and do not notify HOOPP that we have abandoned our intention to acquire Common Shares for cancellation under such program, HOOPP will be permitted to sell such number of Common Shares as is necessary in order for its proportionate percentage ownership of Common Shares to be equal to 19.9% of the issued and outstanding Common Shares (on a non-diluted basis) after giving effect to the purchase by us of the maximum number of Common Shares we would be permitted to purchase pursuant to such program; provided further that any such sales of Common Shares must be effected by HOOPP: (a) over the facilities of a stock exchange or other organized securities market on which Common Shares are listed or quoted in circumstances where such trading is not pursuant to a block sale to any predetermined person or any other pre-arranged transaction; (b) pursuant to a prospectus in the context of an underwritten offering; or (c) in such other manner as may be agreed upon by us and HOOPP, each acting reasonably. We have also agreed that purchases under a specific share buyback program established during the five year period beginning on the date of the HOOPP Governance Agreement and in respect of which we are required to provide notice to HOOPP, will not, without the consent of HOOPP, exceed 5% of the issued and outstanding Common Shares (over a 12-month period) as of the date of acceptance of the first notice of such program provided by the stock exchange under which the program is established.

We and HOOPP have also agreed that, in the event that Common Shares held by "lost recipients" (as such term is defined in the Conversion Plan) are cancelled by us pursuant to the terms of the Conversion Plan, HOOPP will, subject

to applicable securities laws in Canada and other applicable laws, sell such number of Common Shares as is necessary to maintain its proportionate percentage ownership under 20% of the issued and outstanding Shares (on a non-diluted basis) after giving effect to the maximum number of Common Shares that may be cancelled by us. Any such sale of Common Shares by HOOPP is required to be effected: (a) over the facilities of a stock exchange or other organized securities market on which Common Shares are listed or quoted in circumstances where such trading is not pursuant to a block sale to any predetermined person or any other pre-arranged transaction; or (b) pursuant to a prospectus in the context of an underwritten offering. We have agreed to, among other things, cooperate with HOOPP in good faith to facilitate the sale of Common Shares by HOOPP prior to the cancellation of any Common Shares by Definity. See “Canadian P&C Insurance Regulatory Environment – Regulation of Definity and Impact of Continuance”.

Swiss Re Governance Agreement

Board Nomination Rights

Pursuant to the Swiss Re Governance Agreement, for so long as Swiss Re beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares (excluding Common Shares in respect of which Swiss Re has entered into certain specified derivative transactions) equal to or greater than 7.5% of the issued and outstanding Common Shares (on a non-diluted basis), Swiss Re will have the right to designate one nominee. For so long as Swiss Re is entitled to, but has not exercised, its right to designate a nominee in accordance with the terms of the Swiss Re Governance Agreement, Swiss Re will have the right to designate one individual acceptable to Definity, acting reasonably, as a non-voting Board observer in lieu of the individual it would have otherwise been entitled to designate as a nominee.

Committee Participation

For so long as a nominee designated by Swiss Re serves as a member of the Board and is independent within the meaning of NI 52-110, we have agreed that our Board will designate Swiss Re’s nominee director to serve as a member of the Audit Committee and to serve as a member of the Corporate Governance Committee, respectively.

Board Support

For so long as Swiss Re beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares equal to not less than 7.5% of the issued and outstanding Common Shares (on a non-diluted basis), Swiss Re will be required to support management’s nominees for election to the Board at any meeting of shareholders at which directors are to be elected (provided that such nominees include the nominee designated by Swiss Re, if applicable). Swiss Re has also agreed to vote in favour of any proposed resolution at a meeting of shareholders for the Continuance, provided that such continuance would not reasonably be expected to adversely impact Swiss Re’s rights and obligations under the Swiss Re Governance Agreement. See “Demutualization – Continuance under the CBCA” and “– Major Shareholder Restriction Period”.

Demand Registration Rights and Piggy-Back Registration Rights

Following the expiry of the Swiss Re Lock-Up Period (as defined below), for so long as Swiss Re beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares equal to not less than 5% of the issued and outstanding Common Shares (on a non-diluted basis), Swiss Re will have the right to require us to effect a Demand Registration. The obligations of Definity to effect a Demand Registration may be satisfied by us, in our sole discretion, through the use of a shelf prospectus and the applicable shelf prospectus supplement (as defined in National Instrument 44-102 – *Shelf Distributions*). Swiss Re’s Demand Registration right is subject to certain customary limitations.

We are required, following the expiry of the Swiss Re Lock-Up Period and for so long as Swiss Re beneficially owns, or exercises control or direction over (or any combination thereof), directly or indirectly, an aggregate number of Common Shares equal to not less than 5% of the issued and outstanding Common Shares (on a non-diluted basis), to notify Swiss Re of our intention to register any securities for sale in a public offering. Upon receiving such notice, Swiss Re may require that all or a specified part of the registrable securities held by Swiss Re be included in the proposed registration, subject to certain customary limitations. We have also agreed with Swiss Re that, if we file a

registration statement under the U.S. Securities Act or register the Common Shares pursuant to Section 12(b) or 12(g) of the Exchange Act, we will supplement the Swiss Re Governance Agreement to grant Swiss Re demand registration rights and piggy-back registration rights to register Common Shares in the United States which are substantially similar to the demand registration rights and piggy-back registration rights, respectively, granted under the Swiss Re Governance Agreement with respect to Canadian prospectus qualifications.

Pre-Emptive Right

During the Swiss Re Lock-Up Period, Swiss Re will have the right to participate in any offering of Common Shares (or securities convertible into Common Shares) on a pro rata basis to maintain its percentage ownership immediately prior to the completion of such offering, subject to customary exceptions.

Top-Up Right

During the Swiss Re Lock-Up Period, Swiss Re will have the Top-Up Right in connection with the issuance by Definity of Common Shares pursuant to a Specified Dilutive Transaction to subscribe to purchase from us for Top-Up Shares that will allow Swiss Re to maintain its proportionate ownership interest in the Common Shares, after giving effect to the Specified Dilutive Transaction, at a purchase price determined on the basis of the market price of the Common Shares prior to the closing of the Specified Dilutive Transaction. The terms and conditions of Swiss Re's Top-Up Right are consistent with the terms and conditions of HOOPP's Top-Up Right. See “– HOOPP Governance Agreement – Top-Up Right”.

Standstill

For a period of five years from the date of the Swiss Re Governance Agreement, subject to certain specified exceptions, each of Swiss Re and Swiss Re Ltd. (“**Swiss Re Parent**”), Swiss Re's parent company, will be prohibited from, without the prior written consent of the Board: (a) acquiring or agreeing to acquire or making any proposal to acquire, directly or indirectly, by means of purchase, merger, amalgamation, consolidation, take-over bid, business combination or in any other manner, any Common Shares, securities or assets (except assets acquired pursuant to ordinary course commercial arrangements between the parties and their affiliates) of Definity or its affiliates except as permitted by the Swiss Re Governance Agreement; (b) soliciting proxies of shareholders of Definity, or seeking to advise or influence any other person with respect to the voting of any securities of Definity, or forming, joining or in any way participating in a proxy or proxy solicitation or dissident shareholder group, in each case for any such purpose; (c) otherwise acting, alone or jointly or in concert with others, to seek to control or influence, in any manner, the management, the Board or policies of Definity or its affiliates; (d) taking any actions, directly or indirectly, that question the validity or effectiveness of any shareholder rights plan, rights agreements or any other “poison pill” or other antitakeover arrangement of Definity or any securities that may be issued pursuant thereto, or seek to cause any Person, court or regulatory body to “cease trade” or otherwise restrict the operation of such plan; (e) having any discussions or entering into any arrangements, understandings or agreements, whether written or oral, with, or advising, financing, aiding, assisting, encouraging or act jointly or in concert with, any other persons in connection with any of the foregoing; or (f) making any public announcement with respect to the foregoing, except as may be required by applicable law, regulatory authorities or stock exchanges.

Restrictions on Transfer

For a period of three years from the date of the Swiss Re Governance Agreement (the “**Swiss Re Lock-Up Period**”), subject to certain exceptions, and to the early termination of the Lock-Up Period in certain circumstances, Swiss Re will not, and will cause its affiliates not to, without the prior written consent of the Board, engage in any Restricted Activity.

Swiss Re will not, and will cause its affiliates not to, without the prior written consent of Definity, engage in any Restricted Activity (whether during or after the Swiss Re Lock-Up Period) that is intended or reasonably expected to cause or accommodate a Transfer of Lock-Up Securities or the transfer of any right or entitlement to exercise voting control or direction over any Lock-Up Securities to: (a) any person (or such person and its affiliates and persons that, to the actual knowledge, after reasonable inquiry, of Swiss Re, are acting jointly or in concert with such person) if such Restricted Activity would, to the actual knowledge, after reasonable inquiry, of Swiss Re, result in that person,

together with its affiliates and persons that, to the actual knowledge, after reasonable inquiry, of Swiss Re, are acting jointly or in concert with such person, beneficially owning, or having voting control or direction over, more than 5% of the issued and outstanding Common Shares after giving effect to such Restricted Activity; or (b) the actual knowledge, after reasonable inquiry, of Swiss Re, any Competitor (the transactions described in clauses (a) and (b), a “**Restricted Sale**”); provided that Swiss Re will not be restricted from engaging in a Restricted Activity that (A) if the Restricted Activity involves a Derivative Transaction, such Derivative Transaction occurs after the Swiss Re Lock-Up Period, provided that such Derivative Transaction is only entered into with a financial institution that is acting as a principal and on arm’s length market terms and conditions and not with any intention, directly or indirectly, on the part of Swiss Re to cause or accommodate a Transfer of Lock-Up Securities or any right or entitlement to exercise, control or direct the exercise of voting rights under any Common Shares as a block to any predetermined person (it being recognized that a financial institution may in turn independently determine to sell Lock-Up Securities (including a short sale of Common Shares) by trading over the facilities of a stock exchange or other organized securities market on which Common Shares are listed or quoted in circumstances where such trading is not pursuant to a block sale to any predetermined person or any other pre-arranged transaction); or (B) if the Restricted Activity involves a Transfer of Lock-Up Securities, such Transfer occurs after the Swiss Re Lock-Up Period and is either (x) effected over the facilities of a stock exchange or other organized securities market on which Common Shares are listed or quoted in circumstances where such trading is not pursuant to a block sale to any predetermined person or any other pre-arranged transaction, (y) is qualified under a prospectus in the context of an underwritten offering or (z) is pursuant to a Board-approved change of control transaction.

The restrictions on transfer in the Swiss Re Governance Agreement will not restrict Swiss Re or its affiliates from, following the second anniversary of the Swiss Re Governance Agreement, (i) tendering, or permitting any of Swiss Re’s affiliates to tender, any or all of its Common Shares pursuant to a takeover bid (as defined in National Instrument 62-104 – *Take-Over Bids and Issuer Bids*) made by an acquiror (together with any joint actors) to holders of all of the Common Shares, or (ii) Transferring its Lock-Up Securities pursuant to a Board approved change of control transaction, if, in each case, the offer or purchase price is at least three times the book value of the Common Shares as shown on the balance sheet included in our most recent annual or quarterly, as applicable, financial statements filed on SEDAR. In addition, the Swiss Re Governance Agreement will provide that any transaction involving securities of the Swiss Re Parent, including a consummation of a change of control transaction of Swiss Re Parent, will not be considered a Transfer or a Restricted Activity.

Early Termination of Swiss Re Lock-Up Period

The Swiss Re Lock-Up Period will terminate, subject to certain conditions, if: (a) following the second anniversary of the date of the Swiss Re Governance Agreement, certain of our senior executives fail to comply with our Share Ownership Guidelines, subject to certain exceptions; or (b) a certain combination of our senior executives depart Definity within a 24-month window; or (c) following the second anniversary of the date of the Swiss Re Governance Agreement, there is a downgrade of the financial strength rating of Economical Insurance by AM Best Rating Services below A-.

Maintenance of Ownership Level at or below 19.9%

The Swiss Re Governance Agreement contains covenants by us and Swiss Re for the maintenance of Swiss Re’s proportionate ownership of Common Shares at or below 19.9% of the issued and outstanding Common Shares (on a non-diluted basis) that are consistent with the covenants in the HOOPP Governance Agreement. See “– HOOPP Governance Agreement – Maintenance of Ownership Level at or below 19.9%”.

CANADIAN P&C INSURANCE REGULATORY ENVIRONMENT

Federally incorporated P&C insurance companies in Canada (referred to in this section as “**P&C Companies**”) are subject to regulation and supervision by the federal and provincial insurance regulatory authorities of the jurisdictions in which they are incorporated and licensed to carry on business. Such regulation and supervision is designed to protect policyholders and creditors rather than investors. The following is a brief description of the regulatory environment in which we operate.

General

Economical Insurance and each of its Insurance Subsidiaries is federally incorporated under the ICA as a P&C Company and is licensed under the insurance legislation in each of the Canadian provinces and territories in which it operates.

The ICA and provincial insurance legislation require the filing by Economical Insurance and its Insurance Subsidiaries of annual and other reports on their financial condition, impose restrictions on dealing with related parties and set out requirements governing reserves for actuarial liabilities and the safekeeping of assets and other matters.

The ICA is administered, and Economical Insurance and its Insurance Subsidiaries are supervised, by OSFI. OSFI is responsible to the Minister of Finance for the supervision of federal financial institutions, including P&C Companies. OSFI conducts prudential reviews of federally incorporated insurance companies to determine their financial soundness, including the enforcement of regulations concerning required capital levels. Provincial insurance regulators supervise the licensing of insurers operating in their jurisdictions as well as the marketing of insurance products. Home and commercial insurance rates are mostly unregulated, while personal and non-fleet commercial auto rates are regulated in many provinces.

As long as Definity is a P&C Company governed by the ICA, Definity will also be supervised by OSFI and be subject to federal insurance regulation. However, because Definity will not carry on active insurance operations (i.e., will not write insurance policies – see “Corporate Structure”), the scope of supervision and applicable regulation will be narrower for Definity as compared to Economical Insurance and the Insurance Subsidiaries, and Definity will not be subject to any provincial insurance regulation. If we proceed with the Continuance, Definity will not be governed by the ICA or supervised by OSFI and will instead be governed by the CBCA. However, as a CBCA company, Definity would continue to be indirectly impacted by the regulation of Economical Insurance and the Insurance Subsidiaries. See “– Regulation of Definity and Impact of Continuance” below.

Federal Insurance Regulation

Investment Powers

Under the ICA, an insurance company must maintain a prudent portfolio of investments and loans, subject to certain overall limitations on the amount they may invest in certain classes of investments, such as commercial loans, real estate and equities. Additional restrictions (and in some cases, the need for regulatory approvals) limit the type of investments which an insurance company can make.

The ICA provides broad powers to invest in securities, but limits the acquisition of control or substantial investments in other entities. A federal insurance company will have a substantial investment in an entity if it has direct or indirect beneficial ownership of voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of a body corporate, shares representing more than 25% of the shareholders’ equity of a body corporate, or more than 25% of the ownership interests in an unincorporated entity.

Subject to certain restrictions, P&C Companies may make controlling and, in certain circumstances, non-controlling substantial investments in Canadian banks, trust and loan companies, other insurance companies, cooperative credit societies, entities primarily engaged in dealing in securities, and in foreign entities that are primarily engaged outside Canada in a business that if carried on in Canada would be the business of banking, the business of a cooperative credit society, the business of insurance, the business of providing fiduciary services or the business of

dealing in securities. P&C Companies may also make certain investments in entities that engage in financial agent activities, real property management and brokerage activities, mutual fund and mutual fund distribution activities, and entities that provide certain information technology and processing services, and investment counselling and portfolio management services. In some cases, these investments require regulatory approval.

A P&C Company and its non-financial institution subsidiaries: (i) may not make commercial or consumer loans where the aggregate value of those loans would exceed 5% of the total assets of the company; (ii) may not hold real property interests where the aggregate value of those interests and improvements to those interests would exceed 10% of the total assets of the company; and (iii) may not hold a substantial investment in participating shares in a body corporate or ownership interests in an unincorporated entity, other than a permitted entity, if their aggregate value would exceed 25% of the total assets of the company.

In addition, on an aggregate basis, a P&C Company may not acquire a substantial investment in shares or ownership interests in entities or interests in real property if the aggregate value of those investments would exceed 35% of its total assets. The Superintendent has the authority to make a divestment order if an insurance company contravenes the investment restrictions.

Restrictions on Debt Obligations

The ICA contains a restriction on the total debt obligations of a P&C Company. The aggregate of the total debt obligations of a P&C Company and the total debt obligations of its subsidiaries (excluding subsidiaries that are financial institutions) may not exceed 2% of the total assets of the company.

Capital Requirements

Under the ICA, P&C Companies must maintain adequate capital and adequate and appropriate forms of liquidity. OSFI is responsible for setting and monitoring these regulatory requirements and has published the MCT guideline which provides the framework within which OSFI assesses whether a P&C Company maintains adequate capital for purposes of the ICA. The MCT ratio measures the capital adequacy of a P&C Company by dividing capital available by minimum capital required. To ensure that insurers are well protected against balance sheet and off-balance sheet risks, the MCT guideline sets minimum and supervisory targets for the MCT ratio. The minimum and supervisory targets are currently 100% and 150% respectively. However, these targets are based on assumptions applicable on an industry-wide basis and are not tailored to an individual insurer's risk profile. OSFI requires insurers to determine an internal target based on their Own Risk and Solvency Assessment ("ORSA") that is higher than the supervisory target, and to maintain a capital ratio that exceeds the internal target. As at September 30, 2021, our MCT ratio was 272%.

Under the MCT guideline, a P&C Company is required to maintain a minimum amount of capital calculated by reference to, and varying with, the risk characteristics of each category of on- and off-balance sheet assets held by that company, policy liabilities and reinsurance receivables and recoverables. Capital is calculated on a consolidated basis, where applicable. This MCT calculation typically requires the application of quantitative factors to assets as well as to certain off-balance sheet items based on a number of prescribed risk components. The capital factor for policy liabilities takes into account the risk associated with variations in claims provisions, the possible inadequacy of provisions for unearned premiums and the occurrence of catastrophes. The capital factor for recoverables from reinsurers takes into account the credit risk that the reinsurers may fail to pay what is owed and the actuarial risk associated with assessing the amount of the required provision.

If minimum capital requirements are not met or maintained in compliance with the MCT guideline, directors of companies may not declare dividends. The ICA provides the Superintendent with various remedies if the minimum capital requirements are not met, including directing companies to increase their capital or assets or to provide additional liquidity, requiring that they enter into prudential agreements, suspending or removing directors or senior officers, and taking control of companies or the assets of companies, if necessary, to protect the interests of policyholders or creditors.

Financial Condition Testing

Economical Insurance and its Insurance Subsidiaries periodically examine, as required, their capital adequacy by conducting financial condition testing (“FCT”) which examines the effect of various plausible adverse scenarios on an insurer’s forecasted capital adequacy. Our appointed actuary reports FCT results annually to Economical Insurance’s board of directors.

The purpose of FCT is to identify plausible threats to satisfactory financial condition, actions which lessen the likelihood of those threats and actions which would mitigate a threat if it materialized. FCT is defensive in that it addresses threats to financial condition rather than the exploitation of opportunity.

The insurer’s financial condition is considered satisfactory if throughout the forecast period it is able to meet all of its future obligations under the base scenario and all plausible adverse scenarios, and if under the base scenario it meets the minimum regulatory capital requirement. The base scenario is a realistic set of assumptions used to forecast the insurer’s financial position over the forecast period. Normally, the base scenario is largely consistent with the insurer’s business plan. A plausible adverse scenario is a scenario of adverse, but plausible, assumptions about matters to which the insurer’s financial condition is sensitive. Plausible adverse scenarios vary among insurers and may vary over time for a particular insurer.

For P&C Companies, the actuaries would consider threats to capital adequacy under plausible adverse scenarios that include but are not limited to the following risk categories: frequency and severity; pricing; misestimation of policy liabilities; inflation; interest rates; premium volume; expenses; reinsurance; deterioration of asset values; government and political action; and off balance sheet items such as structured settlements in the P&C insurance business.

Restrictions on Dividends and Capital Transactions

Economical Insurance and its Insurance Subsidiaries require regulatory approval prior to withdrawing capital and, in certain circumstances, prior to the payment of dividends. The ICA prohibits the declaration or payment of any dividend on shares of an insurance company if there are reasonable grounds for believing a company is, or the payment of the dividend would cause the company to be, in contravention of its requirements to maintain adequate capital and adequate or appropriate forms of liquidity. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least fifteen days prior to the date fixed for its payment.

The ICA also prohibits the purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company is, or the payment would cause the company to be, in contravention of its requirements to maintain adequate capital and adequate and appropriate forms of liquidity. Even if not so prohibited, any such share cancellation or redemption would require the prior approval of the Superintendent.

Constraints on the Transfer of Shares or Assets

The ICA and the regulations thereunder contain restrictions on the purchase or other acquisition, issue, transfer and voting of any shares of an insurance company or, when a holding company structure is used, its holding body corporate. No person is permitted to acquire shares of any federally incorporated insurance company, or to acquire control of an entity that holds such an interest, if the acquisition would cause the person to have a “significant interest” in any class of shares of the company or acquire control of the company, unless the prior written approval of the federal Minister of Finance is obtained. A person has a significant interest in a class of shares of a federal insurance company where the aggregate of any shares of that class beneficially owned by that person, or an entity controlled by that person and by any person associated or acting jointly or in concert with that person, exceeds 10% of all outstanding shares of that class of shares of the company. In addition, a federal insurance company is not permitted to record any transfer or issue of shares to a person if the transfer or issue would cause the person to have or increase a significant interest in the company unless regulatory approval has been obtained.

If a person contravenes any of these ownership restrictions, the person may not exercise any voting rights attached to the shares of the insurance company owned by the person or any entity controlled by the person. Moreover, the Minister of Finance may, by order, direct that person to dispose of all or any portion of those shares.

Under the ICA, the approval of the Minister of Finance is required for an insurance company to transfer all or substantially all of its assets to another person, or transfer or reinsure its policies, other than reinsurance in the ordinary course of its business. The Superintendent's approval is generally required by an insurance company to acquire assets from, or transfer assets to, a person if the total value of the assets and all other assets acquired from or transferred to the person by the company and its subsidiaries in the 12 months preceding the transfer is greater than 10% of the total value of the assets of the company.

In addition, under the major shareholder restriction provided by the Demutualization Regulations, the Minister of Finance will not approve, for a period following a demutualization, an acquisition by any person of more than 20% of any class of voting shares of a demutualized insurance company or, when a holding company structure is used, its holding body corporate (unless such company is in financial difficulty and the Minister of Finance believes the acquisition will improve the company's financial position). The major shareholder restriction is intended to provide a recently demutualized company, which following demutualization will have access to capital to better allow it to grow and compete, time to strengthen and adapt its competitive position. This major shareholder restriction would prevent a person from acquiring a controlling interest in Economical Insurance or Definity for two years following the Demutualization, and from acquiring more than 20% of any class of shares of Economical Insurance or, for so long as it remains an ICA company, Definity, for that same two-year period.

Related Party Transactions

The ICA sets out a regime for transactions between insurance companies and their related parties (which includes most affiliates). The related party rules in the ICA provide that only certain types of transactions are permitted between an insurance company and its related parties (e.g., provision and acquisition of services, borrowing and lending, reinsurance, nominal value transactions), and that certain of the permitted types of related party transactions require the approval of the Superintendent or the Minister of Finance (e.g., transfer of assets in the course of a restructuring). All related party transactions must be on terms and conditions that are at least as favourable to the insurance company as market terms and conditions. The purpose of the related party regime is to ensure that regulated entities do not enter into disadvantageous transactions with their unregulated related parties.

Regulation of Definity and Impact of Continuance

General

So long as Definity is a P&C Company governed by the ICA, Definity will be subject to all of the federal insurance regulation described above under "Federal Insurance Regulation". If we proceed with the Continuance, Definity will not be supervised by OSFI or subject to federal insurance regulation, but rather will be governed by the CBCA. As a result, if we proceed with the Continuance, Definity would not be subject to the P&C Company investment or lending restrictions under the ICA, would not have capital or liquidity requirements, and would not be subject to the ICA restrictions on dividends. Definity would be subject to any applicable restrictions or limitations under the CBCA, including on the declaration of dividends.

However, if we proceed with the Continuance, Definity will remain indirectly impacted by the regulation of Economical Insurance and its Insurance Subsidiaries. For example, the ability of Economical Insurance and its Insurance Subsidiaries to pay dividends and capital upstream to Definity will be subject to restrictions on dividends and capital transactions. Continuance under the CBCA would also impact Definity's related party status under the ICA. As an ICA company, Definity will be exempt from the related party rules in respect of transactions with Economical Insurance and each of the Insurance Subsidiaries, but as a CBCA company, Definity would be a related party of Economical Insurance and each of the Insurance Subsidiaries and dealings between them would be subject to the related party transaction rules in the ICA. See "Risk Factors – Risks Relating to Our Business – We are subject to substantial government laws, regulations and administrative policies, which impose changing restrictions on our business and could result in substantial fines or significant sanctions for non-compliance" and "Risk Factors – Risks Relating to the Offering and Ownership of Common Shares – As a holding company, we depend on our subsidiaries to meet our obligations, including future dividend payments".

Restriction on the Issuance of Shares Post-Listing on TSX

The Demutualization Regulations provide that neither a demutualized P&C insurance company nor its holding company may, prior to the listing of its shares on a recognized stock exchange in Canada and for a period of one year

after such a listing, issue or provide shares, share options or rights to acquire shares of the company to any director, officer or employee of the company or any person who was a director, officer or employee of the company during the year preceding the effective date of demutualization and who ceased to be a director, officer or employee of the company, other than shares issued to that person in their capacity as a policyholder. As a result, whether or not we proceed with the Continuance, Definity will remain subject to this limitation for one year following closing of the Offering.

Constraints on the Transfer of Shares or Assets

If we proceed with the Continuance, then following the expiry of the major shareholder restriction period, the approval of the Minister of Finance will be required under the ICA in order for any person to acquire control of Definity (meaning the acquisition of more than 50% of Definity's voting shares, or control in fact of Definity), since this would result in the indirect acquisition of control of Economical Insurance and the Insurance Subsidiaries. See “– Federal Insurance Regulation – Constraints on the Transfer of Shares or Assets” and “Demutualization – Continuance Under the CBCA” and “– Major Shareholder Restriction Period”.

Provincial Insurance Regulation

Economical and its Insurance Subsidiaries are subject to provincial and territorial legislation and supervision in each of the provinces and territories of Canada in which they operate. See “Risk Factors – Risks Relating to Our Business – We are subject to substantial government laws, regulations and administrative policies. The laws, regulations and policies to which we are subject will change over time and those changes could impose material limits on our ability to do business. In addition, our failure to comply with these laws, regulations and policies could subject us to substantial fines and other significant sanction”.

Provincial insurance legislation typically deals with the form and content of insurance policies and the sale and marketing of insurance products, including licensing and supervision of insurance distributors, and the settlement of claims. Under provincial legislation, many types of insurance contracts are deemed automatically to include certain terms that cannot be changed without the approval of the relevant regulatory authority, as well as certain terms that cannot be changed without statutory or regulatory amendment. These requirements may vary from province to province, which has an impact on the cost of insurance and profitability.

The auto insurance sector faces particularly extensive regulation at the provincial level. The provinces of British Columbia, Saskatchewan and Manitoba operate public automobile insurance systems; in these jurisdictions, the government and private insurers compete for optional and excess coverage. In Québec, a public automobile insurance system operates in respect of bodily injury, and a private sector automobile insurance system operates in respect of property damage and rates in respect of that property damage insurance must be filed with the provincial insurance regulator. In the provinces of Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador premium rates for automobile insurance are regulated by public authorities. Insurers may only use approved rates in these provinces and there is a regime for the submission and approval of proposed rates.

The regulatory regime for automobile insurance in particular has been influenced by public policy and political agenda. For example, in recognition of claims costs and to address consumer concerns over rate increases, provincial and territorial governments have at times intervened to impose automobile insurance rate reductions or to introduce government insurance schemes. Provincial regulators actively determine which factors insurers can and cannot use when setting auto insurance rates and also impose mandatory minimum coverages and enforce accident benefit laws.

Some recent provincial regulatory changes and consultations impacting personal auto insurance in Canada include:

Ontario

In April 2019, the Ontario government announced proposed changes to automobile insurance with the potential to reduce costs for consumers, reduce regulatory burdens on insurers, and enhance digital ease of doing business. Details on these reforms have not yet been disclosed, so the financial impact and timing of implementation remains uncertain.

In March 2020, the Ontario Financial Services Regulatory Authority (“**FSRA**”) released a consultation related to the “Take-All-Comers rule” in Ontario, which refers to the regulatory requirements in Ontario that no driver be denied coverage and that no insurer terminate, refuse to renew or decline to issue an auto policy other than on grounds filed with FSRA. In the consultation, FSRA posed a number of questions to consumers regarding their experience in obtaining auto insurance, and to licensed individuals and entities regarding compliance with the Take-All-Comers rule. In November 2021, FSRA issued “Take-All-Comers” guidance intended to strengthen compliance standards across the industry in light of the development of quoting technology used by insurers and to reiterate that auto insurance providers are required by law to provide all Ontario consumers with access to timely auto insurance quotes and the lowest rates available to them.

Alberta

In October 2020, the Alberta government announced changes regarding the Insurance Act and regulations. Updates that came into force in late 2020 and early 2021 included modification to the minor injury definition, additional measures to improve care of Albertans by increasing some coverages, and measures to support insurers to provide more choice in insurance products (e.g., pay-as-you-drive and other forms of usage-based insurance). Changes to enable direct compensation for property damage are targeted to be implemented in early 2022.

The authority of the Automobile Insurance Rate Board was expanded to provide full authority over elements such as insurer rating factors and rating programs, helping it to respond better to consumer and industry needs, and modernize Alberta’s system for setting insurance premiums, and the authority to establish guidelines and rules followed by the industry.

British Columbia

In May 2021, the British Columbia government introduced an Enhanced Care program for auto insurance that eliminated the existing tort-based system of settlements for accidents and replaced it with a system of care and recovery benefits. This new system eliminates the right to sue for personal injuries and vehicle damage and is therefore considered a no-fault system. With Enhanced Care coming into effect, ICBC lowered basic and optional rates by 20 percent on average. 2021 was the first time in almost a decade that the ICBC did not increase basic insurance rates.

P&C Insurance Compensation Corporation

The P&C Insurance Compensation Corporation (“**PACICC**”) provides Canadian P&C insurance policyholders with protection, within limits, against the loss of policy benefits in the event of the insolvency of their insurance company. PACICC is funded by its member insurance companies, including Economical and the Insurance Subsidiaries. Member companies are assessed using a formula largely based on Canadian premium income from covered policies. PACICC has the ability to make a maximum potential annual general assessment of members of 1.5% of covered premiums written. Each of Economical Insurance and the Insurance Subsidiaries are current with all PACICC assessments. Definity is not required to be a member of PACICC because it does not carry on any insurance business.

USE OF PROCEEDS

We expect to receive (i) approximately \$1,327,500,134 (\$1,528,050,143 if the Over-Allotment Option is exercised in full) in net proceeds from the Offering, after deducting the Underwriters' Fee and the expenses of the Offering and (ii) approximately \$2,019,638,953 (\$2,271,317,791 if the Over-Allotment Option is exercised in full) in net proceeds from the Offering and the Cornerstone Private Placements, after deducting the Offering and Cornerstone Private Placement Expenses.

We will use all of the net proceeds of the Offering and the Cornerstone Private Placements to fund the distribution of cash benefits of the Demutualization pursuant to the terms of the Conversion Plan, as follows: (i) \$100 million of those net proceeds will be paid to the Foundation, and (ii) the remaining net proceeds will be paid to Eligible Policyholders using the allocation formula set out in the Conversion Plan. Following the Closing, Definity will subscribe for additional common shares of Economical Insurance for cash consideration equal to the net proceeds of the Offering and the Cornerstone Private Placements. Economical Insurance will then distribute such cash as set out above in accordance with the Conversion Plan. Prior to the completion of the Demutualization, Eligible Policyholders were able to indicate their preference to receive their Demutualization benefits in the form of cash, Common Shares, or a combination of both, or were deemed to have elected to receive Demutualization benefits in a particular form (i.e., cash or Common Shares). However, the amount of cash and Common Shares that Eligible Policyholders will receive is subject to the prioritization and proration mechanisms in the Conversion Plan. See "Demutualization – Allocation of Demutualization Benefits and Election Process" and "Our Business – Community Investment and the Definity Insurance Foundation".

If the Over-Allotment Option is exercised in full or in part, we will use the net proceeds thereof, together with the net proceeds from the related HOOPP Over-Allotment Private Placement, for general corporate purposes. There will not be any proceeds from the issuance of Common Shares to Eligible Policyholders under the Conversion Plan. See "Plan of Distribution".

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain selected consolidated financial information of Economical Insurance. We have derived this consolidated financial information from Economical Insurance's audited consolidated financial statements and unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. The following data shows the historical results of Economical Insurance and does not give effect to the Demutualization, the Offering or the Cornerstone Private Placements. For a description of the *pro forma* effect of the Demutualization, the Offering and the Cornerstone Private Placements, see the *pro forma* financial statements of Definity included elsewhere in this prospectus. Economical Insurance's consolidated financial statements have been prepared in accordance with GAAP and are included elsewhere in this prospectus. The unaudited interim condensed consolidated financial information presented has been prepared on a basis consistent with Economical Insurance's audited consolidated financial statements. In the opinion of our management, such unaudited financial information reflects all adjustments necessary for the fair presentation of results for those periods. Economical Insurance's historical results are not necessarily indicative of the results that should be expected in any future period. All amounts are in millions of Canadian dollars, except as otherwise indicated.

Prospective investors should review this information in conjunction with Economical Insurance's consolidated financial statements, including the notes thereto, included elsewhere in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Consolidated Statement of Comprehensive Income (Loss) Data

(in millions of dollars)	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Gross written premiums	\$851.5	\$753.9	\$2,384.8	\$2,058.8	\$2,814.7	\$2,511.0	\$2,456.3
Net written premiums	788.7	708.3	2,214.2	1,937.1	2,639.8	2,331.0	2,380.7
Net earned premiums	725.1	645.0	2,088.6	1,843.1	2,508.7	2,343.2	2,244.6
Other underwriting revenues	2.1	1.8	6.2	5.6	7.5	10.1	15.4
Total underwriting revenues	\$727.2	\$646.8	\$2,094.8	\$1,848.7	\$2,516.2	\$2,353.3	\$2,260.0
Net claims and underwriting expenses:							
Net claims and adjustment expenses	\$439.0	\$398.3	\$1,251.2	\$1,182.4	\$1,562.3	\$1,713.9	\$1,694.7
Net commissions	109.3	100.8	325.7	281.7	379.6	361.3	381.0
Operating expenses	96.4	84.7	285.1	252.7	344.8	310.2	369.2
Premium taxes	27.4	23.9	78.6	68.2	93.1	86.2	80.7
	\$672.1	\$607.7	\$1,940.6	\$1,785.0	\$2,379.8	\$2,471.6	\$2,525.6
Underwriting income (loss)	\$ 55.1	\$ 39.1	\$ 154.2	\$ 63.7	\$ 136.4	\$ (118.3)	\$ (265.6)
Impact of discounting	1.9	(13.7)	35.2	(103.9)	(114.0)	(29.0)	4.3
Underwriting income (loss) after the impact of discounting	\$ 57.0	\$ 25.4	\$ 189.4	\$ (40.2)	\$ 22.4	\$ (147.3)	\$ (261.3)
Investment income:							
Net investment income	24.6	25.0	71.8	76.6	100.3	105.4	102.6
Recognized (losses) gains on investments	(7.1)	7.7	(11.6)	75.9	79.8	68.3	58.9
	\$ 17.5	\$ 32.7	\$ 60.2	\$ 152.5	\$ 180.1	\$ 173.7	\$ 161.5
Other (expenses) income	(5.0)	—	(13.5)	(0.4)	(1.9)	(6.0)	(0.4)
Restructuring (expenses) recovery	—	—	—	—	—	0.8	(17.3)
Income (loss) before income taxes	69.5	58.1	236.1	111.9	200.6	21.2	(117.5)
Income tax (expense) recovery	(16.2)	(12.5)	(56.5)	(24.7)	(46.7)	(3.8)	44.5
Net income (loss)	\$ 53.3	\$ 45.6	\$ 179.6	\$ 87.2	\$ 153.9	\$ 17.4	\$ (73.0)
Other comprehensive income (loss)	15.5	34.5	32.2	24.5	53.1	26.3	(90.1)
Comprehensive income (loss)	\$ 68.8	\$ 80.1	\$ 211.8	\$ 111.7	\$ 207.0	\$ 43.7	\$ (163.1)

Consolidated Balance Sheet Data

(in millions of dollars)	As at September 30,	As at December 31,	
	2021	2020	2019
Cash and cash equivalents	\$ 339.9	\$ 510.3	\$ 94.7
Investments	4,969.8	4,366.3	4,191.0
Premiums receivable	1,052.0	958.7	850.7
Total assets	<u>\$7,251.6</u>	<u>\$6,620.3</u>	<u>\$5,956.5</u>
Unearned premiums	1,564.0	1,433.1	1,294.5
Claim liabilities	3,246.5	3,026.3	2,808.2
Accounts payable and other liabilities	363.8	324.2	240.6
Total liabilities	<u>\$5,221.8</u>	<u>\$4,802.3</u>	<u>\$4,345.5</u>
Total equity	<u>\$2,029.8</u>	<u>\$1,818.0</u>	<u>\$1,611.0</u>

Selected Financial Ratios

	For the three months ended September 30, ⁽¹⁾		For the nine months ended September 30, ⁽¹⁾		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Claims ratio ⁽²⁾	60.5%	61.8%	59.9%	64.1%	62.3%	73.1%	75.5%
Expense ratio ⁽²⁾	31.9%	32.1%	32.7%	32.4%	32.3%	31.9%	36.3%
Combined ratio ⁽²⁾	92.4%	93.9%	92.6%	96.5%	94.6%	105.0%	111.8%
Return on equity ⁽²⁾	13.1%	5.7%	13.1%	5.7%	9.0%	1.1%	(4.4%)
Operating return on equity ⁽²⁾	13.6%	7.0%	13.6%	7.0%	11.0%	(0.3%)	(6.2%)

Notes:

- (1) Claims ratio, expense ratio and combined ratio are calculated for the three and nine months ended September 30, 2021 and 2020. Return on equity and operating return on equity are calculated for the 12 months ended September 30, 2021.
- (2) Claims ratio is a supplementary financial measure. Expense ratio, combined ratio, return on equity and operating return on equity are non-GAAP ratios. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations (this "MD&A") of Economical Insurance for the three and nine months ended September 30, 2021 and 2020 and for the years ended December 31, 2020, 2019 and 2018 should be read in conjunction with Economical Insurance's unaudited interim condensed consolidated financial statements as at September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020 and Economical Insurance's audited consolidated financial statements as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 included elsewhere in this prospectus. This MD&A is presented as of the date of this prospectus and is current to that date unless otherwise stated.

Economical Insurance's unaudited interim condensed consolidated financial statements and audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB (referred to in this MD&A as "GAAP"). All amounts are in Canadian dollars except where otherwise indicated. In this MD&A, unless the context otherwise requires, the terms "we", "our", "ours", "us" or similar terms refer to Economical Insurance and its consolidated subsidiaries. In this MD&A, the "third quarter" refers to the three months ended September 30, 2021 and "first nine months" and "year to date" refers to the nine months ended September 30, 2021, and all results commentary is compared to the equivalent period in the prior year, in each case, unless the context indicates otherwise.

Certain totals, subtotals and percentages may not reconcile due to rounding.

Forward-Looking Information

This MD&A contains forward-looking information within the meaning of applicable securities laws in Canada. Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the risk factors described under "Risk Management" in this MD&A and "Risk Factors" in this prospectus. There can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, prospective investors should not place undue reliance on forward-looking information. See "Forward-Looking Information" in this prospectus.

Overview

We are one of the leading P&C insurers in Canada, with more than one million policies in force across the country. We are the seventh largest provider of P&C insurance in Canada, with a market share of 4.6%.²⁸ We had approximately \$3.1 billion in GWP for the 12 months ended September 30, 2021.

We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 74% of our GWP in 2020, we offer auto, property, liability and pet insurance products to individual customers. Our commercial lines insurance operations, which represented 26% of our GWP in 2020, includes fleet, IRCA, property, liability and specialty insurance products, which are provided to businesses of all sizes in Canada.

As a multi-channel insurer, we distribute our products on an intermediated basis, primarily through brokers, as well as directly to customers. We have active relationships with a network of approximately 700 independent brokerage firms and a broker base of more than 27,000 individual brokers. Our direct distribution channel includes our digital direct business, Sonnet Insurance; our pet insurer, Petline Insurance; and portions of our group insurance offering. In 2020, broker and direct distribution represented 89% and 11%, respectively, of our total GWP.

²⁸ Market share of Canadian P&C insurance industry DWP of \$65.6 billion for the twelve months ended June 30, 2021.

Our financial performance is primarily determined by our underwriting income (which is our net earned premiums less the sum of net claims and adjustment expenses and our underwriting expenses) and our net investment income (which represents interest and dividends earned on our investments). As premiums are collected, we invest the proceeds to earn ongoing returns until claims and operating expenses are required to be paid.

Gains and losses on our investment portfolio also contribute to our financial performance. These are presented and managed separately from recurring investment income from interest and dividends due to the unpredictable nature of the market.

Premiums

Our revenue is primarily derived from P&C insurance offered to our personal and commercial lines customers. Gross written premiums (GWP) primarily represent the sales of insurance policies to customers either directly or through brokers, as well as those that we have assumed and/or ceded from various risk-sharing pools or the Facility Association during the period. We protect ourselves from excessive losses by ceding a portion of our premiums to reinsurers in exchange for sharing in future claims exposures. These ceded reinsurance premiums and net reinstatement premiums, if any, are reflected as a reduction in our GWP, resulting in net written premiums (NWP). NWP are then earned over the period of the policy as we provide coverage to customers for potential claims. The resulting amount of premiums earned over the period are our net earned premiums (NEP).

Expenses

Our insurance-related expenses, referred to as “net claims and underwriting expenses” on our consolidated statement of comprehensive income (loss), fall under two categories: net claims and adjustment expenses and underwriting expenses. Net claims and adjustment expenses are the largest portion of these costs and represent the cost to satisfy claims for insured events and other costs associated with providing that insurance coverage for such claims. Profitability in our business depends greatly on our ability to predict these costs, price our insurance products accordingly and manage the settlement of claims based on our strict underwriting protocols. Underwriting expenses (net of other underwriting revenues) are comprised of net commissions (which are paid to brokers), operating expenses (net of other underwriting revenues, which consist of various customer service fees) and premium taxes. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”. Commissions are paid to brokers for a large portion of our business for selling our P&C insurance products, while the balance is sold directly to customers without incurring commissions to brokers. The largest component of operating expenses is salaries and other employee-related costs. Overall, the level of our expenses is driven by business volume as well as our ability to effectively manage our operations on an ongoing basis.

Impact of COVID-19

Responding to the impact that the COVID-19 pandemic has had on our customers, we introduced a variety of options for our customers to provide financial relief.

COVID-19 restrictions in Canada reduced auto claims frequency from the inception of the COVID-19 pandemic in late March 2020 as customers drove less. Restrictions related to the COVID-19 pandemic that have impacted driving activity have varied throughout 2020 and into 2021 depending on the jurisdiction. For our personal insurance customers, we offered the ability to defer payments or change their payment plans. For Ontario customers that purchased auto insurance through our broker channel, we offered a 5% reduction in auto rates, which started on September 1, 2020. For certain customers whose driving habits changed, we introduced an enhanced discount for the reduction in annual driving distance and provided options to change coverage for certain customers who are not driving at all.

Certain customers of our commercial insurance business were also impacted by the COVID-19 pandemic by virtue of reduced business levels and by mandated shutdowns. We provided flexible underwriting options for businesses that had to pivot their operations, shift to delivery models, or cover equipment for employees working remotely. For businesses that were significantly impacted by mandated shutdowns and public-health restrictions, we evaluated the decreased exposures and in response provided relief in the form of premium reductions, and maintained coverage on temporarily closed locations. \$30.0 million was recorded in 2020 for potential exposures and associated legal costs pertaining to the COVID-19 pandemic.

We have announced that the customer relief actions related to the COVID-19 pandemic noted above are extending through mid-2022, as we continue to assist our customers as they manage the challenges of the COVID-19 pandemic. Management expects these ongoing actions will continue to impact written and earned premiums for the balance of 2021 and into 2022. The impact of the customer relief related to the COVID-19 pandemic in the first nine months of 2021 was a reduction in GWP of approximately \$40 million (2020: \$40 million) and a reduction in net earned premiums of approximately \$45 million (2020: \$15 million).

From the onset of the COVID-19 pandemic, we acted swiftly to make our employees feel safe and capable of being productive. We switched most of our workforce to remote work without any significant interruption to our operations, broker support, or customer service, while ensuring that those who did come into the office were entering a space that was regularly cleaned and followed physical distancing guidelines. We continue to manage the ongoing impact of the COVID-19 pandemic, while developing long-term approaches to support workforce flexibility.

We continue to monitor the evolving economic impact of the COVID-19 pandemic on our operations and capital position. Severity of claims has increased due to a number of different factors, including lack of access to medical treatment, increasing cost of materials and the less timely resolution of claims.

Summary of Key Factors Affecting Our Performance

We believe that the growth and future success of our business depends on many factors, including those described below. Our performance depends to a large extent on the amount of premiums for the policies that we write, the adequacy of our pricing and underwriting for those policies, our returns on invested assets, and our ability to effectively manage our expenses and other risks to our business. In turn, those factors are impacted by market conditions and our operating environment. While the factors that drive our business present significant opportunities for us, they also pose important challenges and risks, some of which are discussed below or in the “Risk Factors” section of this prospectus.

Acquisition of New Customers and Broker Relationships

Our ability to increase our market share depends heavily on our ability to continue to acquire new customers in the direct and broker distribution channels. In the direct channel, the success of our customer acquisition efforts is critical to both growing our premium base, and achieving the scale required to profitably operate the Sonnet platform. In the broker channel, expanding our number of broker relationships is a key driver of premium growth and scale-related efficiencies, as is increasing the amount of a broker’s total business written by us. We intend to continue to target new attractive customer additions through expanding underwriting expertise, new product offerings, increasing penetration in existing regions or entering new business lines. Key to our success in customer-base growth is continued investment in our customer- and broker-centric digital platforms and strong execution by our sales and marketing teams. In addition, our ability to attract new customers to the Sonnet platform will be impacted by our ability to maintain and grow Sonnet’s brand awareness. We intend to continue to invest in digital and traditional marketing channels to further strengthen Sonnet’s brand awareness.

Retention of Existing Customers and Brokers

Our future revenue and profitability growth are dependent upon our ability to maintain existing customer and broker relationships and to continue to expand the volume of business we write with them. We leverage our advanced analytics and customer segmentation capabilities to focus our retention efforts on our most profitable relationships. We are willing to allow less profitable business to lapse if we cannot effectively re-price the policies. Customer retention will depend on a number of factors, including our customers’ satisfaction with our products, offerings of our competitors and pricing of our products. We believe that our focus on providing superior service and ongoing product development will support growth with and retention of our existing broker relationships.

Increasing Revenues Through Cross-Selling

Cross-sales allow us to generate additional premiums and ultimately higher revenue per customer while controlling the amount of incremental marketing spend. Sonnet provides a significant opportunity to cross-sell additional products and third party offerings to our Sonnet customer base through new product purchases or expanded coverage on existing policies. Our success in expanding revenues through cross-sales depends on our marketing efforts with new products and the pricing of our bundled products.

Investment in our Technology and Product Portfolio

We believe that our focus on innovation is important to maintain and improve our financial performance. We have invested heavily to create Sonnet and Vyne and are beginning to realize strong returns on these investments. We expect that our investments in innovation, including Sonnet and Vyne, will continue to contribute to strong premium growth and profitability. Certain competitors in the Canadian P&C insurance industry are also investing in digital capabilities. Maintaining our pace of innovation, including continued investment in technology, will be required to maintain and improve our financial performance and grow our business.

Market Conditions

The market conditions of the Canadian P&C insurance industry can materially influence our premium growth and underwriting profitability. Market conditions (e.g., “hard” or “soft” markets) are generally driven by the balance of customer demand for insurance products and the willingness of carriers to supply insurance coverage based on their risk appetite, profitability and capital position. The financial performance of the Canadian P&C insurance industry has historically tended to fluctuate in cyclical patterns of “soft” markets, characterized generally by increased competition resulting in lower premium rates and underwriting standards, followed by “hard” markets, characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. In “hard” markets, we expect to be able to implement larger rate increases with less impact on retention and related costs relative to soft markets. In “soft” markets, we may be required to reduce rates. In regulated auto lines, market conditions are also impacted by regulation, which can introduce limits on allowable rate increases or mandate rate reductions and otherwise regulate the form and content of insurance policies and the sale and marketing of insurance products. The quantum of rate increases we are able to implement will impact both premium growth and underwriting profitability.

Risk Segmentation and Underwriting Performance

Selecting the risks that we are willing to assume and appropriately pricing the assumption of these risks is critical to our profitability. Accurately predicting claims and the costs of settling them can significantly impact our results. Achieving profitable results depends on our ability to manage future claims and other costs through product design, strict underwriting criteria and efficient claims management. We believe that our risk appetite and underwriting is prudent and have invested heavily in our underwriting and risk segmentation capabilities (see “Our Business – Pricing and Underwriting Operations”).

Effective Expense Management

While relatively smaller than claims-related expenses, our underwriting expenses are significant to profitability, and so it is critical to effectively manage these expenses. We have focused on increasing the efficiency of our operations, including investing in Sonnet and Vyne and the transformation of our claims function. These platforms are highly scalable and as such require less incremental cost per added policy. As a result, we expect our expense ratio to decline as we increase our volume on these platforms, to the extent that we do not reinvest these savings to drive further growth or expense efficiencies. Continued improvement in the efficiency of our operations is important to maintaining or improving our profitability.

Regulatory Changes

The regulated nature of the P&C insurance industry means that our business and operations may be positively or negatively impacted by changes in regulations. Specifically, changes to laws and regulatory policies, including changes in the way they are applied and new laws and regulations, can increase the regulatory requirements imposed on our business or change the way we may do business. As a result, changes in regulations can significantly impact our operations and both premium growth and underwriting profitability, particularly the regulation of pricing and product design in personal auto and IRCA. Our ability to meet our return on equity objectives is influenced by the combination of provincial regulations on products and pricing, and federal regulations on leverage and capital. We believe that our extensive experience operating in a variety of regulatory environments positions us to efficiently adapt to future regulatory changes.

Severity and Frequency of Weather Events

The severity and frequency of weather events across Canada, including severe weather caused by climate change, have a material impact on the financial results of the Canadian P&C insurance industry. Weather events are expected to continue to result in higher and more volatile claim costs, particularly in property insurance. See “– Risk Management – Strategic Risk – Climate Change Risks”. Periods of relatively benign weather, however, can be beneficial to our underwriting results, given we model an expected level of weather losses per quarter. Severe weather events, including floods and wildfires, can result in catastrophe losses if we experience a sufficient number of claims or significant amount of claims costs. We mitigate our catastrophe loss exposure by monitoring exposure to concentrations of insured risks, considering the potential impact on capital position and our overall risk tolerances, and through the deductibles that we charge to policyholders and limitations on policy terms, by limiting our underwriting of particular risks or geographies and by purchasing reinsurance.

Economic Conditions

Accelerating inflation can be a key driver for changes in interest rates but can also impact our loss ratios as our policies are generally priced on an annual basis and rate changes may lag inflation rates if we have not forecasted or regulators have not permitted the appropriate rate increases. Changes in the macroeconomic environment can also result in fluctuations in the value of our investment portfolio and our investment income earned. Our investment portfolio is comprised primarily of short-duration, investment-grade fixed income, which generally reduces the impact of volatility related to macroeconomic conditions. Changes in the interest rate and credit market environment can impact our future investment income, particularly given the short duration of our portfolio.

Key Accounting Terms and Concepts

Claim Liabilities

Claim liabilities are established to reflect the estimate of the full amount of all liabilities associated with our insurance contracts at the end of the applicable period for claims that have occurred on or before the reporting date. Total claim liabilities consist of reserves for reported claims as determined on a case-by-case basis by claims adjusters and an actuarially determined provision for incurred but not reported claims (“**IBNR**”). IBNR includes amounts to cover future development on reported claims, as well as amounts for claims that have occurred but have not yet been reported to us. The estimates include related investigation, settlement and internal and external adjustment expenses. The ultimate cost of our claim liabilities may vary from the best estimate made at any point in time. As a result, we review and re-evaluate claims and reserves on a regular basis and any resulting adjustments are included in “net claims and adjustment expenses” in the period the adjustment is made. Net claims and adjustment expenses are reported net of reinsurance.

Claim liabilities do not include what we refer to as “**premium liabilities**”, which are associated with claims that may occur in the future on policies in force on the reporting date. Premium liabilities are represented by the amount of net unearned premiums less the amount of net deferred policy acquisition expenses. Our “**policy liabilities**” represent the amount of our obligations on insurance policies effective on or before the reporting date and consist of both claim liabilities and premium liabilities.

Impact of Discounting

To reflect the time value of money, the expected future payments of claim liabilities are discounted back to present value using the market yield rate of the investments used to support those liabilities. In addition, an amount (referred to as provisions for adverse deviation, or “**PfAD**”) is added to claim liabilities to reduce the uncertainty of potential adverse effects that are inherent in the assumptions and data used to estimate those liabilities. The effect of discounting plus PfAD is included in the “impact of discounting” line item in our consolidated statement of comprehensive income.

Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios

We measure and evaluate the performance of our business using a number of financial measures. Among these measures are the “supplementary financial measures”, “non-GAAP financial measures” and “non-GAAP ratios” (as

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

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

Below is further information about the supplementary financial measures, non-GAAP financial measures and non-GAAP ratios disclosed in this prospectus.

Supplementary Financial Measures

Claims Ratio

We define claims ratio as net claims and adjustment expenses during a defined period expressed as a percentage of net earned premiums for the same period. This is a relevant metric to evaluate our level of claims activity relative to our NEP in a given period. For a further explanation of the composition and calculation of claims ratio for the three and nine months ended September 30, 2021 and 2020 and the years ended December 31, 2020, 2019 and 2018, see “– Net Claims and Adjustment Expenses” in the period-over-period comparisons below in this MD&A.

Core Accident Year Claims and Adjustment Expenses

We define core accident year claims and adjustment expenses (a disaggregated component of our financial statement line item “net claims and adjustment expenses”) as net claims and adjustment expenses less catastrophe losses and prior year claims development.

Catastrophe Losses

We define catastrophe losses (a disaggregated component of our financial statement line item “net claims and adjustment expenses”) as an event causing gross losses in excess of \$2 million, and generally greater than 100 claims, or a single claim with a gross loss in excess of \$3 million.

Certain Other Ratios

In our discussion of our financial results, we disclose certain ratios as a percentage of NEP during a defined period for the following financial measures: core accident year claims and adjustment expenses, catastrophe losses, prior year claims development, net commissions and premium taxes. These ratios may be considered supplementary financial measures under NI 52-112. See “– Net Claims and Adjustment Expenses” and “– Underwriting Expenses” in the period-over-period comparisons below in this MD&A.

Non-GAAP Financial Measures

Operating Net Income (Loss), Operating Income (Loss) and Non-Operating Gains (Losses)

We define operating net income (loss) as net income (loss) less (or plus): non-operating gains (losses) net of applicable income taxes. We define non-operating gains (losses) as recognized gains (losses) on investments, impact of discounting, demutualization and IPO-related expenses, amortization of intangible assets recognized in business combinations, transaction costs in business combinations, restructuring costs, and other expenses or revenues that in the view of management are not part of our insurance operations. We define operating income (loss) as net income (loss) less (or plus): (i) income tax (expense) recovery and (ii) non-operating gains (losses).

Operating net income (loss), operating income (loss) and non-operating gains (losses) are not standardized financial measures under GAAP and may not be comparable to similar financial measures disclosed by other issuers. Management uses operating net income (loss) to measure and evaluate the ongoing operational performance of the business and uses operating income (loss) and non-operating gains (losses) to calculate that measure. Management believes that operating net income (loss) is useful information for investors for such purpose. Although they may calculate these measures in a different manner, operating net income (loss) and similar measures are used by other insurers and analysts in the P&C insurance industry.

Net income (loss) is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to operating net income (loss), operating income (loss) and non-operating gains (losses). Below is a quantitative reconciliation of operating net income (loss), operating income (loss) and non-operating gains (losses) to net income (loss) for the indicated periods:

(in millions of dollars)	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Net income (loss)	\$ 53.3	\$ 45.6	\$179.6	\$ 87.2	\$ 153.9	\$ 17.4	\$ (73.0)
Remove: income tax (expense) recovery	(16.2)	(12.5)	(56.5)	(24.7)	(46.7)	(3.8)	44.5
Income (loss) before income taxes	\$ 69.5	\$ 58.1	\$236.1	\$ 111.9	\$ 200.6	\$ 21.2	\$(117.5)
Remove: non-operating (losses) gains							
Recognized (losses) gains on investments							
Realized gains on sale of AFS investments	\$ 2.2	\$ 2.1	\$ 46.3	\$ 8.1	\$ 12.6	\$ 39.5	\$ 74.6
Net (losses) gains on FVTPL investments	(9.3)	7.5	(57.9)	83.4	84.8	29.1	—
Impairment losses on AFS investments . . .	—	(1.9)	—	(15.6)	(17.6)	(0.3)	(15.7)
Impact of discounting	1.9	(13.7)	35.2	(103.9)	(114.0)	(29.0)	4.3
Demutualization and IPO-related expenses ⁽¹⁾	(4.7)	(0.5)	(13.4)	(2.2)	(3.8)	(4.8)	(9.7)
Amortization of intangible assets recognized in business combinations ⁽¹⁾	(0.8)	(1.1)	(2.9)	(3.3)	(4.5)	(4.4)	(4.3)
Gain on sale of investments in associates ⁽¹⁾ . .	—	—	—	—	—	—	5.5
Restructuring (expenses) recovery	—	—	—	—	—	0.8	(17.3)
Other ⁽¹⁾⁽²⁾	0.6	(0.2)	0.3	1.1	1.0	0.2	0.2
Non-operating (losses) gains	\$(10.1)	\$ (7.8)	\$ 7.6	\$ (32.4)	\$ (41.5)	\$ 31.1	\$ 37.6
Operating income (loss)	\$ 79.6	\$ 65.9	\$228.5	\$ 144.3	\$ 242.1	\$ (9.9)	\$(155.1)
Operating income tax (expense) recovery	(18.9)	(14.6)	(54.5)	(33.3)	(57.7)	4.5	54.6
Operating net income (loss)	\$ 60.7	\$ 51.3	\$174.0	\$ 111.0	\$ 184.4	\$ (5.4)	\$(100.5)

Notes:

(1) Included in Other (expenses) income in our consolidated financial statements.

(2) Other represents foreign currency translation of the insurtech venture capital fund and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.

Underwriting Expenses (Net of Other Underwriting Revenues) / Operating Expenses (Net of Other Underwriting Revenues)

Our underwriting expenses consist of net commissions, operating expenses and premium taxes, which are line items shown on our consolidated statement of comprehensive income (loss). When calculating our combined ratio and expense ratio, we deduct other underwriting revenues (which consist of various customer service fees), which is also a line item on our consolidated statement of comprehensive income (loss). As such, when describing or disclosing the calculation of those ratios, or disclosing our underwriting expenses (excluding our other underwriting revenues), we use the terms “underwriting expenses (net of other underwriting revenues)” or “operating expenses (net of other underwriting revenues)”, which represent underwriting expenses or operating expenses (as applicable) less other underwriting revenues. See “— Underwriting Results” and “— Underwriting Expenses” in the period-over-period comparisons below in this MD&A.

Underwriting expenses (net of other underwriting revenues) and operating expenses (net of other underwriting revenues) are not standardized financial measures under GAAP and may not be comparable to similar financial measures disclosed by other issuers. Management uses underwriting expenses (net of other underwriting revenues) and operating expenses (net of other underwriting revenues) to calculate the combined ratios and expense ratios.

Net claims and underwriting expenses is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to underwriting expenses (net of other underwriting revenues). Operating expenses is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to operating expenses (net of other underwriting revenues). Below is the quantitative reconciliation of underwriting expenses (net of other underwriting revenues) to net claims and underwriting expenses for the indicated periods:

(in millions of dollars)	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Net claims and underwriting expenses . . .	\$672.1	\$607.7	\$1,940.6	\$1,785.0	\$2,379.8	\$2,471.6	\$2,525.6
Deduct: net claims and adjustment expenses	439.0	398.3	1,251.2	1,182.4	1,562.3	1,713.9	1,694.7
Deduct: other underwriting revenues	2.1	1.8	6.2	5.6	7.5	10.1	15.4
Underwriting expenses (net of other underwriting revenues)	\$231.0	\$207.6	\$ 683.2	\$ 597.0	\$ 810.0	\$ 747.6	\$ 815.5

Underwriting expenses (net of other underwriting revenues) by line of business is as shown in the following table for the indicated periods:

(in millions of dollars)	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Personal auto	\$ 95.5	\$ 90.8	\$289.6	\$265.4	\$358.9	\$341.9	\$381.3
Personal property	68.9	59.0	202.0	166.6	227.8	191.1	197.5
Commercial lines	66.6	57.8	191.6	165.0	223.3	214.6	236.7
Underwriting expenses (net of other underwriting revenues)	\$231.0	\$207.6	\$683.2	\$597.0	\$810.0	\$747.6	\$815.5

Below is the quantitative reconciliation of operating expenses (net of other underwriting revenues) to operating expenses for the indicated periods:

(in millions of dollars)	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Operating expenses	\$96.4	\$84.7	\$285.1	\$252.7	\$344.8	\$310.2	\$369.2
Deduct: other underwriting revenues	2.1	1.8	6.2	5.6	7.5	10.1	15.4
Operating expenses (net of other underwriting revenues)	\$94.3	\$82.9	\$278.9	\$247.1	\$337.3	\$300.1	\$353.8

Non-GAAP Ratios

Expense Ratio

We define expense ratio as the total of our net commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period (such total being underwriting expenses (net of other underwriting revenues)), expressed as a percentage of net earned premiums for the same period. We also disclose a component of the expense ratio, operating expenses (net of other underwriting revenues), as a percentage of NEP. Expense ratio is not a standardized financial measure under GAAP and may not be comparable to similar financial measures disclosed by other issuers. Management uses expense ratio to evaluate our underwriting expenses relative to

our NEP in a given period. Management believes that expense ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, expense ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry. For a further explanation of the composition and calculation of expense ratio for the three and nine months ended September 30, 2021 and 2020 and the years ended December 31, 2020, 2019 and 2018, see “– Underwriting Expenses” in the period-over-period comparisons below in this MD&A.

Combined Ratio

We define combined ratio as the total of our net claims and adjustment expenses and underwriting expenses (net of other underwriting revenues) during a defined period expressed as a percentage of net earned premiums for the same period. We also disclose a component of the combined ratio, underwriting expenses (net of other underwriting revenues), as a percentage of NEP. Combined ratio is not a standardized financial measure under GAAP and may not be comparable to similar financial measures disclosed by other issuers. Management uses combined ratio to evaluate the underlying insurance underwriting results relative to our NEP in a given period. Management believes that combined ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, combined ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry. For a further explanation of the composition and calculation of combined ratio for the three and nine months ended September 30, 2021 and 2020 and the years ended December 31, 2020, 2019 and 2018, see “– Underwriting Results” in the period-over-period comparisons below in this MD&A.

Return on Equity (“ROE”)

We define return on equity (or “ROE”) as net income (loss) for the 12 months ended at a specified date divided by the average total equity over the same 12-month period. For disclosure of our ROE for the 12 months ended September 30, 2021 and 2020 and the years ended December 31, 2020, 2019 and 2018, see the table below.

ROE is not a standardized financial measure under GAAP and may not be comparable to similar financial measures disclosed by other issuers. ROE is a metric used by management to evaluate our net return, including investment returns, relative to our overall balance sheet position. Management believes that ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of ROE for the periods shown:

(in millions of dollars, except as otherwise noted)	For the 12 months ended September 30,		For the years ended December 31,		
	2021	2020	2020	2019	2018
Return on equity					
Net income (loss)	\$ 246.3	\$ 94.0	\$ 153.9	\$ 17.4	\$ (73.0)
Total equity ⁽¹⁾	\$2,029.8	\$1,722.7	\$1,818.0	\$1,611.0	\$1,567.3
Average total equity ⁽²⁾	\$1,876.2	\$1,661.5	\$1,714.5	\$1,589.2	\$1,648.9
Return on equity	13.1%	5.7%	9.0%	1.1%	(4.4%)

Notes:

- (1) Total equity is as at September 30, 2021 and 2020 and December 31, 2020, 2019 and 2018.
- (2) Average total equity is the average of total equity as shown on our consolidated balance sheet at the end of the applicable period and the end of the preceding 12-month period. No adjustments for significant capital transactions have been made for the periods shown, but such adjustments may be made in the future. Total equity as at September 30, 2019 and December 31, 2017 was \$1,600.4 million and \$1,730.4 million, respectively.

Operating Return on Equity (“Operating ROE”)

We define operating return on equity (or “Operating ROE”) as operating net income (loss) (a non-GAAP financial measure as described above) for the 12 months ended at a specified date divided by the average of total equity, excluding accumulated other comprehensive income (loss) (“AOCI”), over the same 12-month period. For disclosure of our Operating ROE for the 12 months ended September 30, 2021 and 2020 and the years ended December 31, 2020, 2019 and 2018, see the table below.

Operating ROE is not a standardized financial measure under GAAP and may not be comparable to similar financial measures disclosed by other issuers. Management uses Operating ROE to measure and evaluate our performance with respect to the periodic return that our operational performance is providing relative to the equity position of the organization. Management believes that Operating ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, Operating ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of Operating ROE for the periods shown:

(in millions of dollars, except as otherwise noted)	For the 12 months ended September 30,		For the years ended December 31,		
	2021	2020	2020	2019	2018
Operating ROE					
Operating net income (loss) for the last 12 months ⁽¹⁾	\$ 247.4	\$ 115.6	\$ 184.4	\$ (5.4)	\$ (100.5)
Total equity, excluding AOCI ⁽²⁾	\$1,949.1	\$1,695.8	\$1,755.9	\$1,608.6	\$1,588.3
Average total equity, excluding AOCI ⁽³⁾	\$1,822.4	\$1,647.3	\$1,682.3	\$1,598.5	\$1,616.6
Operating ROE	13.6%	7.0%	11.0%	(0.3%)	(6.2%)

Notes:

- (1) Operating net income (loss) is a non-GAAP financial measure. See “– Non-GAAP Financial Measures”, above.
- (2) Total equity, excluding AOCI is as at September 30, 2021 and 2020 and December 31, 2020, 2019 and 2018.
- (3) Average total equity, excluding AOCI is the average of total equity, excluding AOCI, each as shown on our consolidated balance sheet at the end of the applicable period and the end of the preceding 12-month period. No adjustments for significant capital transactions have been made for the periods shown, but such adjustments may be made in the future. Total equity, excluding AOCI, as at September 30, 2019 and December 31, 2017 was \$1,598.9 million and \$1,644.8 million, respectively.

Results of Operations

The following table sets forth certain of our results from operations for the three and nine months ended September 30, 2021 and 2020 and for the years ended December 31, 2020, 2019 and 2018:

(in millions of dollars, except as otherwise noted)	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Gross written premiums	\$851.5	\$753.9	\$2,384.8	\$2,058.8	\$2,814.7	\$2,511.0	\$2,456.3
Net written premiums	788.7	708.3	2,214.2	1,937.1	2,639.8	2,331.0	2,380.7
Net earned premiums	725.1	645.0	2,088.6	1,843.1	2,508.7	2,343.2	2,244.6
Net claims and adjustment expenses	439.0	398.3	1,251.2	1,182.4	1,562.3	1,713.9	1,694.7
Underwriting expenses (net of other underwriting revenues) ⁽¹⁾	231.0	207.6	683.2	597.0	810.0	747.6	815.5
Underwriting income (loss)	\$ 55.1	\$ 39.1	\$ 154.2	\$ 63.7	\$ 136.4	\$ (118.3)	\$ (265.6)
Impact of discounting	1.9	(13.7)	35.2	(103.9)	(114.0)	(29.0)	4.3
Underwriting income (loss) after the impact of discounting	\$ 57.0	\$ 25.4	\$ 189.4	\$ (40.2)	\$ 22.4	\$ (147.3)	\$ (261.3)
Net investment income	24.6	25.0	71.8	76.6	100.3	105.4	102.6
Recognized (losses) gains on investments	(7.1)	7.7	(11.6)	75.9	79.8	68.3	58.9
Other (expenses) income	(5.0)	—	(13.5)	(0.4)	(1.9)	(6.0)	(0.4)
Restructuring (expenses) recovery	—	—	—	—	—	0.8	(17.3)
Income (loss) before income taxes	\$ 69.5	\$ 58.1	\$ 236.1	\$ 111.9	\$ 200.6	\$ 21.2	\$ (117.5)
Income tax (expense) recovery	(16.2)	(12.5)	(56.5)	(24.7)	(46.7)	(3.8)	44.5
Net income (loss)	\$ 53.3	\$ 45.6	\$ 179.6	\$ 87.2	\$ 153.9	\$ 17.4	\$ (73.0)
Non-operating (losses) gains ⁽¹⁾	(10.1)	(7.8)	7.6	(32.4)	(41.5)	31.1	37.6
Operating income (loss) ⁽¹⁾	79.6	65.9	228.5	144.3	242.1	(9.9)	(155.1)
Operating net income (loss) ⁽¹⁾	60.7	51.3	174.0	111.0	184.4	(5.4)	(100.5)
Claims ratio ⁽²⁾	60.5%	61.8%	59.9%	64.1%	62.3%	73.1%	75.5%
Expense ratio ⁽³⁾	31.9%	32.1%	32.7%	32.4%	32.3%	31.9%	36.3%
Combined ratio ⁽³⁾	92.4%	93.9%	92.6%	96.5%	94.6%	105.0%	111.8%
Return on equity ⁽³⁾	13.1%	5.7%	13.1%	5.7%	9.0%	1.1%	(4.4%)
Operating return on equity ⁽³⁾	13.6%	7.0%	13.6%	7.0%	11.0%	(0.3%)	(6.2%)

Notes:

- (1) Underwriting expenses (net of other underwriting revenues), non-operating (losses) gains, operating income (loss) and operating net income (loss) are non-GAAP financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Claims ratio is a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Expense ratio, combined ratio, return on equity and operating return on equity are non-GAAP ratios. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Results of Operations for the Three and Nine Months Ended September 30, 2021 and 2020

Premiums

GWP for the third quarter of 2021 increased by \$97.6 million or 12.9% compared to the third quarter of 2020, driven by growth across all our lines of business. Personal lines GWP was up 9.1% over the same quarter a year ago, with increases in both our broker and direct businesses. Commercial lines GWP increased 25.7% over the same quarter a year ago, reflecting our expanded underwriting capabilities and focus on growth in this line of business as well as our relationship with Uber, which launched on September 1, 2020. In the third quarter of 2021, customer relief related to the COVID-19 pandemic resulted in a reduction in GWP of approximately \$15 million (2020: \$25 million) and a reduction in net earned premiums of approximately \$15 million (2020: \$10 million). Year to date, personal lines GWP increased 11.8% and commercial lines GWP increased 27.9% compared to 2020. The impact of the customer relief

related to the COVID-19 pandemic in the first nine months of 2021 was a reduction in GWP of approximately \$40 million (2020: \$40 million) and a reduction in net earned premiums of approximately \$45 million (2020: \$15 million).

NWP increased 11.4% in the third quarter of 2021 and 14.3% year to date, largely in line with the GWP growth of 12.9% in the third quarter of 2021 and 15.8% in the first nine months of 2021.

See “– Results by Line of Business for the Three and Nine Months Ended September 30, 2021 and 2020” in this MD&A for further details regarding our premiums by line of business.

Underwriting Results

The composition of the combined ratio for the three and nine months ended September 30, 2021 and 2020 is as follows:

(in millions of dollars, except as otherwise noted)	For the three months ended September 30, 2021		For the three months ended September 30, 2020		Change		For the nine months ended September 30, 2021		For the nine months ended September 30, 2020		Change	
	(\$)		(\$)		(\$)		(\$)		(\$)		(\$)	
	Ratio ⁽¹⁾		Ratio ⁽¹⁾		Ratio		Ratio ⁽¹⁾		Ratio ⁽¹⁾		Ratio	
Net earned premiums	\$725.1		\$645.0		\$80.1	12.4%	\$2,088.6		\$1,843.1		\$245.5	13.3%
Net claims and adjustment expenses	439.0	60.5%	398.3	61.8%	40.7	(1.3) pts	1,251.2	59.9%	1,182.4	64.1%	68.8	(4.2) pts
Underwriting expenses (net of other underwriting revenues) ⁽²⁾	231.0	31.9%	207.6	32.1%	23.4	(0.2) pts	683.2	32.7%	597.0	32.4%	86.2	0.3 pts
Combined ratio ⁽³⁾		<u>92.4%</u>		<u>93.9%</u>		<u>(1.5) pts</u>		<u>92.6%</u>		<u>96.5%</u>		<u>(3.9) pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Combined ratio is a non-GAAP ratio. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The growth in net earned premiums was due primarily to a high level of NWP growth in 2020 and in the first nine months of 2021.

Our underwriting results for the third quarter of 2021 improved, producing underwriting income of \$55.1 million and a combined ratio of 92.4%, compared to underwriting income of \$39.1 million and a combined ratio of 93.9% in the same quarter a year ago. The underwriting improvement was due primarily to the growth in our business, our ongoing improved underwriting performance and favourable claims development. These were partially offset by higher levels of catastrophe losses. Year to date, our underwriting income increased substantially, driven by lower claims frequency, due in part to COVID-19-related reduced activity levels (which impacted the first nine months of 2021 and only started impacting 2020 in the second quarter), ongoing improved underwriting performance, lower levels of catastrophe losses and increased levels of favourable claims development. Given the ongoing uncertainty around the COVID-19 pandemic, we continue to closely monitor the adequacy of our reserves as claims severity and frequency emerge. This monitoring of reserves is illustrated by the proactive reserving actions taken in 2021 in respect of emerging inflationary trends in our property lines.

Net Claims and Adjustment Expenses

The composition of the claims ratio for the three and nine months ended September 30, 2021 and 2020, illustrating the impact of core accident year claims and adjustment expenses incurred, catastrophe losses and prior year claims development, is as follows:

(in millions of dollars, except as otherwise noted)	For the three months ended September 30, 2021		For the three months ended September 30, 2020		Change		For the nine months ended September 30, 2021		For the nine months ended September 30, 2020		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Core accident year claims and adjustment expenses ⁽²⁾	\$416.9	57.5%	\$387.1	60.1%	\$ 29.8	(2.6) pts	\$1,236.3	59.2%	\$1,129.7	61.2%	\$106.6	(2.0) pts
Catastrophe losses ⁽³⁾	37.0	5.1%	9.8	1.5%	27.2	3.6 pts	57.9	2.8%	73.6	4.0%	(15.7)	(1.2) pts
Prior year (favourable) adverse claims development	(14.9)	(2.1%)	1.4	0.2%	(16.3)	(2.3) pts	(43.0)	(2.1%)	(20.9)	(1.1%)	(22.1)	(1.0) pts
Net claims and adjustment expenses ⁽⁴⁾	\$439.0	60.5%	\$398.3	61.8%	\$ 40.7	(1.3) pts	\$1,251.2	59.9%	\$1,182.4	64.1%	\$ 68.8	(4.2) pts

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of catastrophe losses and prior year (favourable) adverse claims development as a percentage of NEP is a supplementary financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses is a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (4) The ratio shown for this line item is our claims ratio, which is a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, improved in the third quarter of 2021 due primarily to our ongoing improved underwriting performance. Year to date, the core accident year claims ratio improved due primarily to lower claims frequency, due in part to COVID-19-related reduced activity levels (which impacted the first nine months of 2021 and only started impacting 2020 in the second quarter), and our ongoing improved underwriting performance. These were partially offset by proactive reserving actions taken in 2021 in recognition of recent inflationary trends in our property lines.

Catastrophe losses increased in the third quarter of 2021 as compared to the same quarter a year ago. In the third quarter of 2021, we were impacted by a number of catastrophe losses including wind and rain storms in Ontario, a wind and hail storm in Alberta and a wildfire in British Columbia. We had a low level of catastrophe losses in the third quarter of 2020. On a year-to-date basis, catastrophe losses decreased as 2020 was impacted by higher catastrophe losses including provisions related to COVID-19.

We experienced favourable claims development in the third quarter of 2021 driven by our personal auto and property lines of business, as compared to adverse claims development in the third quarter of 2020. Year to date, we experienced increased levels of favourable claims development driven by personal auto. Personal property and the commercial lines of business were impacted by proactive reserving actions taken in 2021 with respect to inflation.

Underwriting Expenses

The key components of our underwriting expenses (net of other underwriting revenues) and our expense ratio for the three and nine months ended September 30, 2021 and 2020 are as follows:

(in millions of dollars, except as otherwise noted)	For the three months ended September 30, 2021		For the three months ended September 30, 2020		Change		For the nine months ended September 30, 2021		For the nine months ended September 30, 2020		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Net commissions	\$109.3	15.1%	\$100.8	15.6%	\$ 8.5	(0.5) pts	\$325.7	15.6%	\$281.7	15.3%	\$44.0	0.3 pts
Operating expenses (net of other underwriting revenues) ⁽²⁾	94.3	13.0%	82.9	12.8%	11.4	0.2 pts	278.9	13.3%	247.1	13.4%	31.8	(0.1) pts
Premium taxes	27.4	3.8%	23.9	3.7%	3.5	0.1 pts	78.6	3.8%	68.2	3.7%	10.4	0.1 pts
Underwriting expenses (net of other underwriting revenues) ⁽²⁾⁽³⁾	<u>\$231.0</u>	<u>31.9%</u>	<u>\$207.6</u>	<u>32.1%</u>	<u>\$23.4</u>	<u>(0.2) pts</u>	<u>\$683.2</u>	<u>32.7%</u>	<u>\$597.0</u>	<u>32.4%</u>	<u>\$86.2</u>	<u>0.3 pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of net commissions and premium taxes as a percentage of NEP is a supplementary financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Operating expenses (net of other underwriting revenues) and underwriting expenses (net of other underwriting revenues) are non-GAAP financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The net commissions ratio decreased in the third quarter of 2021 due primarily to our relationship with Uber (which began in September 2020), which does not have associated commissions. This was partially offset by an increase in broker underwriting profitability which resulted in higher contingent profit commissions. Year to date, the net commissions ratio increased slightly due to higher contingent profit commissions, partially offset by our relationship with Uber.

The operating expense ratio increased slightly in the third quarter of 2021 and decreased slightly year to date.

Net Investment Income

The composition of net investment income for the three and nine months ended September 30, 2021 and 2020 is as follows:

(in millions of dollars)	For the three months ended September 30,			For the nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Interest income	\$18.0	\$18.4	\$(0.4)	\$53.0	\$57.6	\$(4.6)
Dividend income	7.7	7.3	0.4	22.2	21.7	0.5
Investment expenses	(1.1)	(0.7)	(0.4)	(3.4)	(2.7)	(0.7)
Net investment income	<u>\$24.6</u>	<u>\$25.0</u>	<u>\$(0.4)</u>	<u>\$71.8</u>	<u>\$76.6</u>	<u>\$(4.8)</u>

Net investment income declined slightly in the third quarter of 2021 and also declined year to date as compared to the same periods in 2020, due primarily to the decreased interest income as a result of lower yields and increased investment expenses. The investment of funds generated from our improved underwriting results and business growth helped stabilize net investment income in the third quarter.

Non-Operating (Losses) Gains

The composition of non-operating (losses) gains for the three and nine months ended September 30, 2021 and 2020 is as follows:

(in millions of dollars)	For the three months ended September 30,			For the nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Recognized (losses) gains on investments						
Realized gains on sale of AFS investments	\$ 2.2	\$ 2.1	\$ 0.1	\$ 46.3	\$ 8.1	\$ 38.2
Net (losses) gains on FVTPL investments	(9.3)	7.5	(16.8)	(57.9)	83.4	(141.3)
Impairment losses on AFS investments	—	(1.9)	1.9	—	(15.6)	15.6
Impact of discounting	1.9	(13.7)	15.6	35.2	(103.9)	139.1
Demutualization and IPO-related expenses ⁽¹⁾	(4.7)	(0.5)	(4.2)	(13.4)	(2.2)	(11.2)
Amortization of intangible assets recognized in business combinations ⁽¹⁾	(0.8)	(1.1)	0.3	(2.9)	(3.3)	0.4
Other ⁽¹⁾⁽²⁾	0.6	(0.2)	0.8	0.3	1.1	(0.8)
Non-operating (losses) gains ⁽³⁾	<u>\$(10.1)</u>	<u>\$ (7.8)</u>	<u>\$ (2.3)</u>	<u>\$ 7.6</u>	<u>\$ (32.4)</u>	<u>\$ 40.0</u>

Notes:

- (1) Included in Other (expenses) income in our consolidated financial statements.
- (2) Other represents foreign currency translation of the insurtech venture capital fund and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.
- (3) Non-operating (losses) gains is a non-GAAP financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”, above.

Realized gains on our Available for Sale (“AFS”) portfolio increased slightly in the third quarter of 2021. Year to date, realized gains on our AFS portfolio increased driven by the recognition from other comprehensive income (loss) of unrealized gains on common stocks which were sold as a result of a change in foreign equity managers. Net losses on our Fair Value Through Profit or Loss (“FVTPL”) portfolio in the third quarter were due primarily to an increase in fixed income yields in the quarter. Year to date, net losses on FVTPL bonds were driven by a significant increase in fixed income yields, as compared to a sharp decline in 2020.

In the first quarter of 2020, we recognized an impairment charge of \$13.6 million as a result of the significant volatility in global equity markets, largely due to market disruption caused by the COVID-19 pandemic.

See “– Consolidated Balance Sheet” for additional details of our investment portfolio mix.

The discounting recovery in the third quarter of 2021 was due to an increase in yields on investments supporting the claim liabilities as compared to a decline in yields in the third quarter of 2020. The discounting recovery of \$1.9 million in the third quarter of 2021 was offset by losses of \$9.3 million associated with the FVTPL investment portfolio. Year to date, discounting was a recovery of \$35.2 million, and the FVTPL investment portfolio had net losses of \$57.9 million.

Demutualization and IPO-related expenses increased in the third quarter of 2021 and year to date due to increased activity and costs associated with the demutualization process and preparing for the Offering. Year to date 2021 was also impacted by costs associated with the final special meeting held on May 20, 2021 and the Cornerstone Private Placements.

Income Tax (Expense) Recovery

The effective tax rate for the third quarter of 2021 was 23.3% compared to 21.6% for the third quarter of 2020. The year-to-date effective tax rate was 23.9% compared to 22.1% for 2020. The effective tax rates for the third quarter and the first nine months of each of 2021 and 2020 were lower than the statutory rate of 26.3% (2020: 26.6%) due primarily to the impact of non-taxable Canadian dividend income.

Net Income (Loss)

Net income was \$53.3 million in the third quarter of 2021 compared to \$45.6 million in the third quarter of 2020 due primarily to our improved underwriting performance. Year to date, net income increased by \$92.4 million due primarily to our improved underwriting performance and gains on common stocks realized on the change in foreign equity managers. These were partially offset by increased demutualization and IPO-related costs.

Operating Net Income (Loss)

Operating net income was \$60.7 million in the third quarter of 2021 compared to \$51.3 million in the third quarter of 2020. The improvement in operating net income was due primarily to our improved underwriting performance. The operating effective tax rate for the third quarter of 2021 was 23.7% compared to 22.2% for the third quarter of 2020. Year to date, operating net income was \$174.0 million compared to \$111.0 million in 2020. Year to date, the operating effective tax rate was 23.9% compared to 23.1% for 2020. Operating net income (loss) is a non-GAAP financial measure. See “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios – Non-GAAP Financial Measures – Operating Net Income (Loss), Operating Income (Loss) and Non-Operating Gains (Losses)”.

Operating ROE

Operating ROE was 13.6% for the 12-month period ended September 30, 2021, compared to 7.0% in the same period a year ago. This increase was driven by a significant improvement in our underwriting performance for the 12-month period ended September 30, 2021. Operating ROE is a non-GAAP ratio. See “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios – Non-GAAP Ratios – Operating ROE” in this MD&A.

Results of Operations for the Years Ended December 31, 2020 and 2019

Premiums

GWP increased by \$303.7 million or 12.1% in 2020 compared to 2019, driven by new business and rate increases being realized across our business, partially offset by significant customer relief related to the COVID-19 pandemic. The impact of these measures in 2020 was a reduction in gross written premiums of approximately \$60 million and a reduction in net earned premiums of approximately \$25 million. Personal lines GWP grew by 10.1%, with increases in both our broker and direct businesses. Commercial lines GWP increased by 18.1%, reflecting our increased capabilities and focus on growth in this line of business and our new relationship with Uber, which launched on September 1, 2020.

Net written premiums increased 13.2% largely in line with the GWP growth of 12.1%.

See “– Results by Line of Business for the Years Ended December 31, 2020 and 2019” in this MD&A for further details regarding our premiums by line of business.

Underwriting Results

The composition of the combined ratio for the years ended December 31, 2020 and 2019 is as follows:

(in millions of dollars, except as otherwise noted)	For the year ended December 31, 2020		For the year ended December 31, 2019		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Net earned premiums	\$2,508.7		\$2,343.2		\$ 165.5	7.1%
Net claims and adjustment expenses	1,562.3	62.3%	1,713.9	73.1%	(151.6)	(10.8) pts
Underwriting expenses (net of other underwriting revenues) ⁽²⁾	810.0	32.3%	747.6	31.9%	62.4	0.4 pts
Combined ratio ⁽³⁾		94.6%		105.0%		(10.4) pts

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Combined ratio is a non-GAAP ratio. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The growth in net earned premiums is due primarily to a high level of NWP growth in 2020 as compared to a decline in NWP in 2019.

Our underwriting results improved substantially in 2020, with underwriting income of \$136.4 million and a combined ratio of 94.6%, compared to an underwriting loss of \$118.3 million and a combined ratio of 105.0% in 2019. The underwriting improvement of \$254.7 million in 2020 was due to ongoing underwriting actions, earned rate increases, lower claims frequency due to relatively benign weather and COVID-19-related reduced activity levels, and favourable business mix shift to personal property. These were partially offset by the impact of our ongoing customer relief related to the COVID-19 pandemic.

Net Claims and Adjustment Expenses

The composition of the claims ratio for the years ended December 31, 2020 and 2019, illustrating the impact of core accident year claims and adjustment expenses incurred, catastrophe losses and prior year claims development, is as follows:

(in millions of dollars, except as otherwise noted)	For the year ended December 31, 2020		For the year ended December 31, 2019		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Core accident year claims and adjustment expenses ⁽²⁾ . . .	\$1,498.8	59.8%	\$1,685.4	71.9%	\$(186.6)	(12.1) pts
Catastrophe losses ⁽³⁾	93.1	3.7%	66.4	2.8%	26.7	0.9 pts
Prior year favourable claims development	(29.6)	(1.2%)	(37.9)	(1.6%)	8.3	0.4 pts
Net claims and adjustment expenses ⁽⁴⁾	<u>\$1,562.3</u>	<u>62.3%</u>	<u>\$1,713.9</u>	<u>73.1%</u>	<u>\$(151.6)</u>	<u>(10.8) pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of catastrophe losses and prior year favourable claims development as a percentage of NEP is a supplementary financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses is a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (4) The ratio shown for this line item is our claims ratio, which is a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, significantly improved during the year. This improvement was driven by our ongoing underwriting actions, earned rate increases, lower claims frequency, which benefitted from relatively benign weather and COVID-19-related reduced activity levels, and favourable business mix shift to personal property. These were partially offset by the impact of our ongoing customer relief related to the COVID-19 pandemic.

Catastrophe losses increased in 2020 as compared to 2019. In 2020, catastrophe losses included \$30.0 million for potential exposures pertaining to COVID-19, losses associated with an Alberta hailstorm and flooding in Fort McMurray, and wind and rain storms in Ontario and Québec. Comparatively, in 2019 we were impacted primarily by a number of wind and rain storms in Ontario, Québec and the Atlantic region.

We experienced slightly lower favourable claims development in 2020, driven by a shift from favourable to adverse development on our share of industry pools. In contrast to 2019, where the favourable claims development was primarily driven by our auto lines of business, the 2020 favourable claims development was more evenly split between property and auto lines.

Underwriting Expenses

The key components of our underwriting expenses (net of other underwriting revenues) and our expense ratio for the years ended December 31, 2020 and 2019 are as follows:

(in millions of dollars, except as otherwise noted)	For the year ended December 31, 2020		For the year ended December 31, 2019		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Net commissions	\$379.6	15.1%	\$361.3	15.4%	\$18.3	(0.3) pts
Operating expenses (net of other underwriting revenues) ⁽²⁾	337.3	13.5%	300.1	12.8%	37.2	0.7 pts
Premium taxes	93.1	3.7%	86.2	3.7%	6.9	—
Underwriting expenses (net of other underwriting revenues) ⁽²⁾⁽³⁾	<u>\$810.0</u>	<u>32.3%</u>	<u>\$747.6</u>	<u>31.9%</u>	<u>\$62.4</u>	<u>0.4 pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of net commissions and premium taxes as a percentage of NEP is a supplementary financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Operating expenses (net of other underwriting revenues) and underwriting expenses (net of other underwriting revenues) are non-GAAP financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The net commissions ratio decreased slightly in 2020, due primarily to the impact of Sonnet, which pays no commissions, and whose impact on net earned premiums is increasing, our new relationship with Uber, where broker commissions are paid directly by the client, and the beneficial impact of reinsurance commission income pursuant to the Quota Share Agreement. These were partially offset by an increase in broker underwriting profitability which resulted in higher contingent profit commissions.

The operating expense ratio increased slightly driven primarily by investments in talent to support our growth and strategic objectives, and higher variable compensation resulting from the significantly improved financial performance.

Net Investment Income

The composition of net investment income for the years ended December 31, 2020 and 2019 is as follows:

(in millions of dollars)	For the year ended December 31,		Change
	2020	2019	
Interest income	\$ 75.3	\$ 82.5	\$(7.2)
Dividend income	29.1	27.0	2.1
Investment expenses	<u>(4.1)</u>	<u>(4.1)</u>	<u>—</u>
Net investment income	<u>\$100.3</u>	<u>\$105.4</u>	<u>\$(5.1)</u>

Net investment income decreased in 2020, as the negative impact on interest income from lower yields more than offset higher dividend income.

Non-Operating Gains (Losses)

The composition of non-operating gains (losses) for the years ended December 31, 2020 and 2019 is as follows:

(in millions of dollars)	For the year ended December 31,		
	2020	2019	Change
Recognized gains (losses) on investments			
Realized gains on sale of AFS investments	\$ 12.6	\$ 39.5	\$(26.9)
Net gains on FVTPL investments	84.8	29.1	55.7
Impairment losses on AFS investments	(17.6)	(0.3)	(17.3)
Impact of discounting	(114.0)	(29.0)	(85.0)
Demutualization and IPO-related expenses ⁽¹⁾	(3.8)	(4.8)	1.0
Amortization of intangible assets recognized in business combinations ⁽¹⁾	(4.5)	(4.4)	(0.1)
Restructuring (expenses) recovery	—	0.8	(0.8)
Other ⁽¹⁾⁽²⁾	1.0	0.2	0.8
Non-operating (losses) gains ⁽³⁾	<u>\$ (41.5)</u>	<u>\$ 31.1</u>	<u>\$(72.6)</u>

Notes:

- (1) Included in Other (expenses) income in our consolidated financial statements.
- (2) Other represents foreign currency translation of the insurtech venture capital fund and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.
- (3) Non-operating gains (losses) is a non-GAAP financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”, above.

Realized gains on the AFS portfolio decreased due primarily to lower gains on common stocks and bonds. Global equity markets experienced significant volatility in 2020, largely due to the COVID-19 pandemic, which resulted in lower gains on common stocks, driven by reduced trading activity in our investment portfolio and an impairment charge of \$17.6 million on common stocks. Market uncertainty and reductions in interest rates also led to sharp declines in fixed income yields in 2020, resulting in an increase in net gains in the FVTPL bond portfolio. These gains were more than offset by the negative impact of discounting.

See “– Consolidated Balance Sheet” for additional details of our investment portfolio mix.

The discounting expense was \$114.0 million in 2020 compared to \$29.0 million in 2019, due to a larger decrease in yields on investments supporting the claim liabilities in 2020. The impact of the discounting expense in 2020 was partially offset by gains of \$84.8 million associated with the FVTPL investment portfolio.

Income Tax (Expense) Recovery

The effective tax rate for 2020 was 23.3% compared to 18.0% for 2019. The effective tax rate continues to be lower than the statutory rate of 26.5% (2019: 26.8%) due primarily to the impact of non-taxable Canadian dividend income. As underwriting income increased substantially during 2020, the proportionate impact of non-taxable Canadian dividend income was reduced, causing the effective tax rate to increase.

Net Income (Loss)

Net income increased to \$153.9 million compared to \$17.4 million in 2019 due primarily to our improved underwriting performance despite the impact of discounting expense as a result of declining interest rates. The recognized gains in our FVTPL bond portfolio only partially offset the impact of discounting, and net income was further negatively impacted in 2020 by increased investment impairment charges.

Operating Net Income (Loss)

Operating net income was \$184.4 million in 2020 compared to a loss of \$5.4 million in 2019 due primarily to our improved underwriting performance. The operating effective tax rate for 2020 was 23.8% compared to 45.5% for 2019. The difference between the operating effective tax rate and the effective tax rate for 2019 was driven primarily by the

relative proportion non-taxable dividends are of the underlying income figures. Operating net income is a non-GAAP financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios – Operating Net Income (Loss), Operating Income (Loss) and Non-Operating Gains (Losses)”.

Operating ROE

Operating ROE was 11.0% for 2020 compared to (0.3%) in 2019. The improvement was driven by a significant improvement in our underwriting performance in 2020. Operating ROE is a non-GAAP ratio. See “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios – Non-GAAP Ratios – Operating ROE” in this MD&A.

Results of Operations for the Years Ended December 31, 2019 and 2018

Premiums

GWP increased by 2.2% in 2019 compared to 2018, as personal lines growth outpaced our corrective underwriting actions in our commercial business. Personal lines GWP grew by 6.5%, driven by Sonnet and our broker personal property business. Commercial lines GWP declined by 9.0% due to the impact of our underwriting actions.

In May 2019, we entered into the Quota Share Agreement retroactive to January 1, 2019, ceding a proportion of certain broker personal lines business to facilitate overall growth levels. This resulted in a \$105.1 million decrease in net written premiums in 2019.

See “– Results by Line of Business for the Years Ended December 31, 2019 and 2018” in this MD&A for further details regarding our premiums by line of business.

Underwriting Results

The composition of the combined ratio for the years ended December 31, 2019 and 2018 is as follows:

(in millions of dollars, except as otherwise noted)	For the year ended December 31, 2019		For the year ended December 31, 2018		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Net earned premiums	\$2,343.2		\$2,244.6		\$ 98.6	4.4%
Net claims and adjustment expenses	1,713.9	73.1%	1,694.7	75.5%	19.2	(2.4) pts
Underwriting expenses (net of other underwriting revenues) ⁽²⁾	747.6	31.9%	815.5	36.3%	(67.9)	(4.4) pts
Combined ratio ⁽³⁾		<u>105.0%</u>		<u>111.8%</u>		<u>(6.8) pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Combined ratio is a non-GAAP ratio. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The growth in net earned premiums in 2019 was due primarily to the significant GWP growth in the second half of 2018. The growth in net earned premiums was partially offset by a reinsurance arrangement entered into in May 2019.

Our underwriting results improved \$147.3 million in 2019, representing an improvement in the combined ratio of 6.8 points. The underwriting improvement was due primarily to a significant improvement in our commercial lines, which benefitted from our underwriting actions and rate increases, and lower catastrophe losses in 2019 as compared to the prior year. Additional improvements were realized due to a decrease in the commissions ratio and a decrease in the impact of our strategic investments.

In 2019, actions continued to be implemented across our entire book of business, including targeted rate increases, enhanced pricing segmentation, exiting unprofitable and volatile books of business, increased underwriting discipline, and focus on underwriting quality. We continued to refine Sonnet's customer targeting and acquisition approach using advanced analytics to reduce fraud and improve profitability. In addition, Vyne was deployed in 2018 to improve operating efficiency, pricing, underwriting, and ease of doing business for our brokers.

Net Claims and Adjustment Expenses

The composition of the claims ratio for the years ended December 31, 2019 and 2018, illustrating the impact of core accident year claims and adjustment expenses incurred, catastrophe losses and prior year claims development, is as follows:

(in millions of dollars, except as otherwise noted)	For the year ended December 31, 2019		For the year ended December 31, 2018		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Core accident year claims and adjustment expenses ⁽²⁾	\$1,685.4	71.9%	\$1,608.4	71.6%	\$ 77.0	0.3 pts
Catastrophe losses ⁽³⁾	66.4	2.8%	105.1	4.7%	(38.7)	(1.9) pts
Prior year favourable claims development	(37.9)	(1.6%)	(18.8)	(0.8%)	(19.1)	(0.8) pts
Net claims and adjustment expenses ⁽⁴⁾	<u>\$1,713.9</u>	<u>73.1%</u>	<u>\$1,694.7</u>	<u>75.5%</u>	<u>\$ 19.2</u>	<u>(2.4) pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of catastrophe losses and prior year favourable claims development as a percentage of NEP is a supplementary financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses is a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (4) The ratio shown for this line item is our claims ratio, which is a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, increased slightly in 2019. The increase in the core accident year claims ratio was driven by personal auto, where the loss ratios remained elevated, which reinforced the need for our underwriting and rate actions. This was partially offset by stronger results in the commercial lines of business, supported by our targeted rate increases and corrective underwriting actions.

Catastrophe losses decreased in 2019 as compared to 2018. In 2019, catastrophe losses were driven by a number of wind and rain storms in Ontario, Québec and in the Atlantic region. Comparatively, in 2018, we were impacted primarily by Ontario and Québec wind and ice storms of much higher severity than those in 2019, as well as an Ontario and Québec tornado.

We experienced higher favourable claims development in 2019, primarily attributable to our commercial lines of business.

Underwriting Expenses

The key components of our underwriting expenses (net of other underwriting revenues) and our expense ratio for the years ended December 31, 2019 and 2018 are as follows:

(in millions of dollars, except as otherwise noted)	For the year ended December 31, 2019		For the year ended December 31, 2018		Change	
	(\$)	Ratio ⁽¹⁾	(\$)	Ratio ⁽¹⁾	(\$)	Ratio
Net commissions	\$361.3	15.4%	\$381.0	17.0%	\$(19.7)	(1.6) pts
Operating expenses (net of other underwriting revenues) ⁽²⁾	300.1	12.8%	353.8	15.7%	(53.7)	(2.9) pts
Premium taxes	86.2	3.7%	80.7	3.6%	5.5	0.1 pts
Underwriting expenses (net of other underwriting revenues) ⁽²⁾⁽³⁾	<u>\$747.6</u>	<u>31.9%</u>	<u>\$815.5</u>	<u>36.3%</u>	<u>\$(67.9)</u>	<u>(4.4) pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of net commissions and premium taxes as a percentage of NEP is a supplementary financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Operating expenses (net of other underwriting revenues) and underwriting expenses (net of other underwriting revenues) are non-GAAP financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The net commissions ratio decreased in 2019 due to the impact of Sonnet, which pays no commissions, and whose impact on net earned premiums increased, and the beneficial impact of reinsurance commissions income pursuant to the Quota Share Agreement.

The operating expense ratio decreased due primarily to lower operating expenses and rapidly-growing net earned premiums in Sonnet, and reduced costs as a result of the completion of the Vyne deployment in 2018.

Net Investment Income

The composition of net investment income for the years ended December 31, 2019 and 2018 is as follows:

(in millions of dollars)	For the year ended December 31,		Change
	2019	2018	
Interest income	\$ 82.5	\$ 71.8	\$10.7
Dividend income	27.0	35.4	(8.4)
Investment expenses	(4.1)	(4.6)	0.5
Net investment income	<u>\$105.4</u>	<u>\$102.6</u>	<u>\$ 2.8</u>

The shift in our investment portfolio toward higher bond holdings and lower stock holdings resulted in a corresponding increase in interest income, which was somewhat offset by lower fixed income yields and a decline in dividend income in 2019.

Non-Operating Gains

The composition of non-operating gains for the years ended December 31, 2019 and 2018 is as follows:

(in millions of dollars)	For the year ended December 31,		Change
	2019	2018	
Recognized gains (losses) on investments			
Realized gains on sale of AFS investments	\$ 39.5	\$ 74.6	\$(35.1)
Net gains on FVTPL investments	29.1	—	29.1
Impairment losses on AFS investments	(0.3)	(15.7)	15.4
Impact of discounting	(29.0)	4.3	(33.3)
Demutualization and IPO-related expenses ⁽¹⁾	(4.8)	(9.7)	4.9
Amortization of intangible assets recognized in business combinations ⁽¹⁾	(4.4)	(4.3)	(0.1)
Gain on sale of investments in associates ⁽¹⁾	—	5.5	(5.5)
Restructuring (expenses) recovery	0.8	(17.3)	18.1
Other ⁽¹⁾⁽²⁾	0.2	0.2	—
Non-operating gains ⁽³⁾	<u>\$ 31.1</u>	<u>\$ 37.6</u>	<u>\$ (6.5)</u>

Notes:

- (1) Included in Other (expenses) income in our consolidated financial statements.
- (2) Other represents foreign currency translation of the insurtech venture capital fund and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.
- (3) Non-operating gains (losses) is a non-GAAP financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”, above.

Realized gains on the AFS portfolio decreased due to lower gains triggered on common stocks and losses on preferred stocks, which were partially offset by gains on bonds due to a decrease in bond yields in 2019. The net gains on the FVTPL bond portfolio arose due to the decrease in bond yields in 2019. Investment impairment losses in 2019 were minimal.

See “– Consolidated Balance Sheet” for additional details of our investment portfolio mix.

The impact of discounting shifted to an expense of \$29.0 million in 2019 from a recovery of \$4.3 million in 2018, driven by a significant decrease in yields on investments supporting the claim liabilities in 2019, compared to an increase in the yields in 2018. The impact of the discounting expense in 2019 was offset by gains associated with the FVTPL investment portfolio.

In the first quarter of 2018, we announced that we would be updating our operational structure to optimize efficiency and simplicity for our brokers and customers and recorded a restructuring charge of \$17.3 million in 2018. The changes to the operational structure included the consolidation of our brands and headcount reductions, aimed at improving future operating results. We executed this plan in phases during 2018 and 2019. In 2019, a recovery of \$0.8 million was recorded pertaining to employee severance and outplacement services, as the restructuring efforts for these costs were complete, and no further payments are required. The restructuring provision of \$0.9 million as at December 31, 2019 includes decommissioning costs associated with our legacy policy administration system.

Income Tax (Expense) Recovery

The effective tax rate for 2019 was an expense of 18.0% compared to a recovery of 37.9% for 2018. The effective tax rate was impacted by a return to pre-tax profitability in 2019, Canadian dividends not subject to tax, the effect of changes in enacted tax rates, and other matters.

Net Income (Loss)

Net income of \$17.4 million represented a significant improvement of \$90.4 million from the net loss in 2018 of \$73.0 million due primarily to lower underwriting losses, higher recognized gains on investments, and restructuring charges recorded in 2018, partially offset by the negative impact of discounting, driven by lower effective yields.

Operating Net Income (Loss)

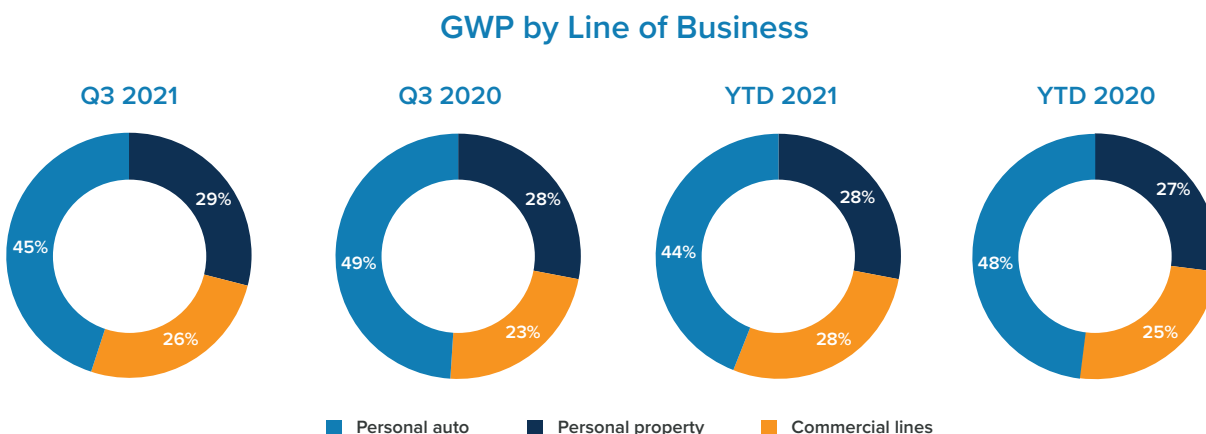
Operating net loss was \$5.4 million in 2019 compared to \$100.5 million in 2018 due primarily to lower underwriting losses. The operating effective tax rate for 2019 was 45.5% compared to 35.2% for 2018. The difference between the operating effective tax rate and the effective tax rate for 2019 was driven primarily by the relative proportion non-taxable dividends are of the underlying income figures. Operating net loss is a non-GAAP financial measure. See “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios – Non-GAAP Financial Measures – Operating Net Income (Loss), Operating Income (Loss) and Non-Operating Gains (Losses)”.

Operating ROE

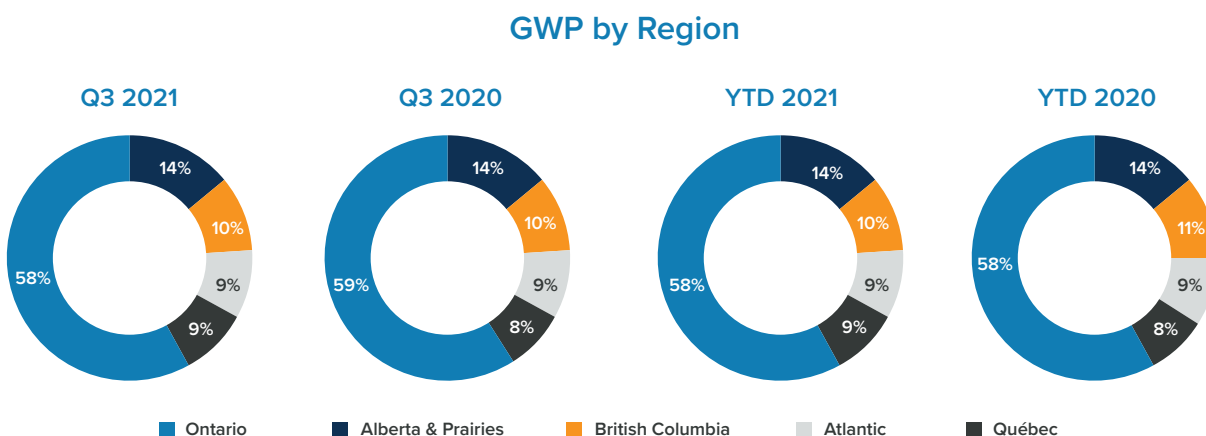
Operating ROE was (0.3%) in 2019 compared to (6.2%) in 2018. The improvement was driven by a significant improvement in our underwriting performance in 2019. Operating ROE is a non-GAAP ratio. See “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios – Non-GAAP Ratios – Operating ROE” in this MD&A.

Results by Line of Business for the Three and Nine Months Ended September 30, 2021 and 2020

The following charts illustrate our GWP mix by line of business for the three and nine months ended September 30, 2021 and 2020:



The shift in business mix was due to growth in our commercial lines reflecting our expanded underwriting capabilities and focus on growth in this line of business as well as the growth in personal property.



There were slight shifts in the regional mix in the three and nine months ended September 30, 2021 compared to the same periods in the prior year.

Underwriting – Personal Lines

The table below sets forth selected results of operations of our personal lines of business for the three and nine months ended September 30, 2021 and 2020 and the policies in force as at September 30, 2021 and 2020.

(in millions of dollars, except as otherwise noted)	For the three months ended September 30,			For the nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Policies in force (thousands) (at period end)						
Auto	759.4	719.1	5.6%	759.4	719.1	5.6%
Property	767.0	671.3	14.3%	767.0	671.3	14.3%
Total	<u>1,526.4</u>	<u>1,390.4</u>	<u>9.8%</u>	<u>1,526.4</u>	<u>1,390.4</u>	<u>9.8%</u>
Gross written premiums						
Auto	\$ 381.7	\$ 369.2	3.4%	\$ 1,071.0	\$ 996.2	7.5%
Property	249.3	209.3	19.1%	657.5	549.6	19.6%
Total	<u>\$ 631.0</u>	<u>\$ 578.5</u>	<u>9.1%</u>	<u>\$ 1,728.5</u>	<u>\$ 1,545.8</u>	<u>11.8%</u>
Net earned premiums						
Auto	\$ 337.0	\$ 321.7	4.8%	\$ 988.2	\$ 923.7	7.0%
Property	195.7	165.2	18.5%	557.4	468.4	19.0%
Total	<u>\$ 532.7</u>	<u>\$ 486.9</u>	<u>9.4%</u>	<u>\$ 1,545.6</u>	<u>\$ 1,392.1</u>	<u>11.0%</u>
Net claims and adjustment expenses						
Auto	\$ 212.0	\$ 210.0	\$ 2.0	\$ 599.5	\$ 629.2	\$(29.7)
Property	127.4	94.9	32.5	358.4	270.9	87.5
Total	<u>\$ 339.4</u>	<u>\$ 304.9</u>	<u>\$ 34.5</u>	<u>\$ 957.9</u>	<u>\$ 900.1</u>	<u>\$ 57.8</u>
Underwriting expenses (net of other underwriting revenues) ⁽¹⁾						
Auto	\$ 95.5	\$ 90.8	\$ 4.7	\$ 289.6	\$ 265.4	\$ 24.2
Property	68.9	59.0	9.9	202.0	166.6	35.4
Total	<u>\$ 164.4</u>	<u>\$ 149.8</u>	<u>\$ 14.6</u>	<u>\$ 491.6</u>	<u>\$ 432.0</u>	<u>\$ 59.6</u>
Underwriting income (loss)						
Auto	\$ 29.5	\$ 20.9	\$ 8.6	\$ 99.1	\$ 29.1	\$ 70.0
Property	(0.6)	11.3	(11.9)	(3.0)	30.9	(33.9)
Total	<u>\$ 28.9</u>	<u>\$ 32.2</u>	<u>\$ (3.3)</u>	<u>\$ 96.1</u>	<u>\$ 60.0</u>	<u>\$ 36.1</u>

Notes:

- (1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Overall, personal lines GWP increased 9.1% in the third quarter of 2021 (11.8% year to date). Sonnet GWP was \$87.7 million in the third quarter of 2021, an increase of 23.6% compared to Sonnet GWP of \$71.0 million in the third quarter of 2020. Sonnet GWP was \$215.6 million year to date, an increase of 24.4% compared to Sonnet GWP of \$173.3 million for the nine months ended September 30, 2020. Personal auto GWP increased 3.4% in the third quarter of 2021 (7.5% year to date), driven by improved new business and the growth in Sonnet in 2021 and lower levels of customer relief related to the COVID-19 pandemic in the third quarter of 2021 (approximately \$10 million in the third quarter of 2021 compared to approximately \$25 million in the third quarter of 2020). This growth was partially offset by the impact of industry pools. Personal property GWP increased 19.1% in the third quarter of 2021 (19.6% year to date), benefitting from the organic growth enabled by both Sonnet and Vyne and continued firm market conditions in our personal property business.

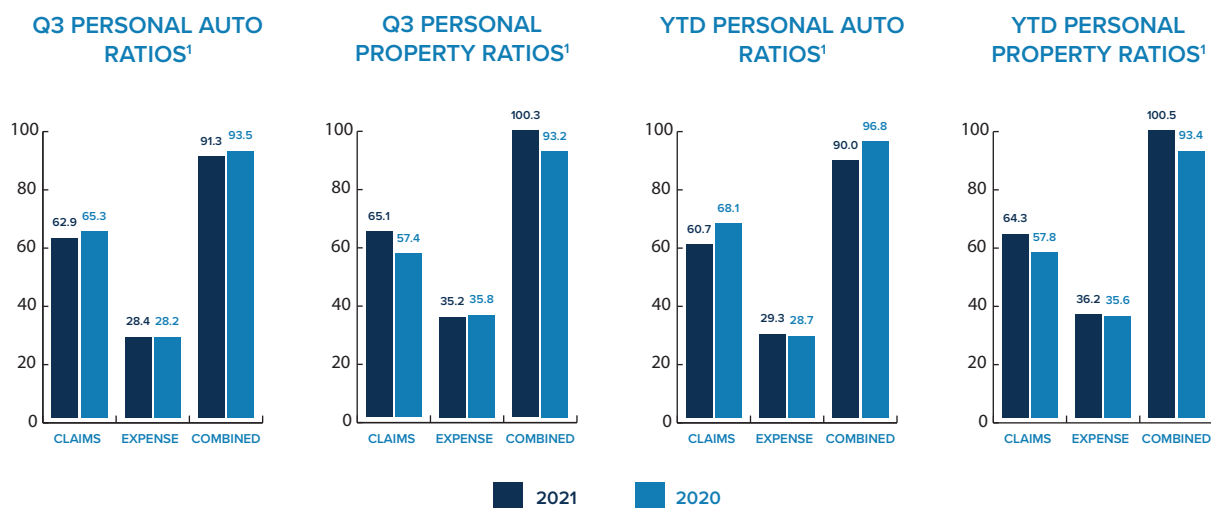
The composition of the claims ratio for the three and nine months ended September 30, 2021 and 2020 for our personal lines of business is as follows:

	Auto ⁽¹⁾			Property ⁽¹⁾			Auto ⁽¹⁾			Property ⁽¹⁾		
	For the three months ended September 30,			For the three months ended September 30,			For the nine months ended September 30,			For the nine months ended September 30,		
	2021	2020	Change	2021	2020	Change	2021	2020	Change	2021	2020	Change
Core accident year claims and adjustment expenses ⁽²⁾	64.6%	64.7%	(0.1) pts	51.2%	56.4%	(5.2) pts	64.3%	68.4%	(4.1) pts	55.7%	53.6%	2.1 pts
Catastrophe losses ⁽³⁾	1.5%	—	1.5 pts	15.5%	0.4%	15.1 pts	0.6%	0.9%	(0.3) pts	8.2%	5.3%	2.9 pts
Prior year (favourable) adverse claims development	(3.2%)	0.6%	(3.8) pts	(1.6%)	0.6%	(2.2) pts	(4.2%)	(1.2%)	(3.0) pts	0.4%	(1.1%)	1.5 pts
Claims ratio ⁽³⁾	<u>62.9%</u>	<u>65.3%</u>	<u>(2.4) pts</u>	<u>65.1%</u>	<u>57.4%</u>	<u>7.7 pts</u>	<u>60.7%</u>	<u>68.1%</u>	<u>(7.4) pts</u>	<u>64.3%</u>	<u>57.8%</u>	<u>6.5 pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Personal lines produced underwriting income of \$28.9 million in the third quarter of 2021, compared to \$32.2 million in the same quarter a year ago. Year to date, personal lines produced underwriting income of \$96.1 million compared to \$60.0 million in 2020.



Three and nine months ended September 30

Notes:

- (1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The personal auto combined ratio of 91.3% in the third quarter of 2021 improved over the same quarter a year ago due primarily to favourable claims development, partially offset by an increase in catastrophe losses. Year to date, the personal auto combined ratio improved due primarily to lower claims frequency, improved Sonnet results, and an increase in favourable claims development. COVID-19-related reduced activity levels (which impacted the first nine months of 2021 and only started impacting 2020 in the second quarter) positively impacted year-to-date auto claims frequency. The personal property combined ratio was 100.3% in the third quarter of 2021 compared to 93.2% in the same quarter a year ago, due primarily to a significant increase in catastrophe losses. In the third quarter of 2021, personal property was impacted by a number of catastrophe losses including wind and rain storms in Ontario, a wildfire

in British Columbia and a wind and hail storm in Alberta. This was partially offset by a decrease in the core accident year claims ratio and favourable claims development. Year to date, the personal property combined ratio increased due to an increase in catastrophe losses and proactive reserving actions with respect to inflation, which impacted current accident year claims and prior year claims. We continue to monitor and incorporate recent inflation trends into our pricing models.

Underwriting – Commercial Lines

The table below sets forth selected results of operations of our commercial lines of business for the three and nine months ended September 30, 2021 and 2020.

(in millions of dollars, except as otherwise noted)	For the three months ended September 30,			For the nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Gross written premiums	\$220.5	\$175.4	25.7%	\$656.3	\$513.0	27.9%
Net earned premiums	\$192.4	\$158.1	21.7%	\$543.0	\$451.0	20.4%
Net claims and adjustment expenses	\$ 99.6	\$ 93.4	\$ 6.2	\$293.3	\$282.3	\$ 11.0
Underwriting expenses (net of other underwriting revenues) ⁽¹⁾	\$ 66.6	\$ 57.8	\$ 8.8	\$191.6	\$165.0	\$ 26.6
Underwriting income	\$ 26.2	\$ 6.9	\$ 19.3	\$ 58.1	\$ 3.7	\$ 54.4
Claims ratio ⁽²⁾	51.8%	59.1%	(7.3) pts	54.0%	62.6%	(8.6) pts
Expense ratio ⁽²⁾	34.6%	36.5%	(1.9) pts	35.3%	36.6%	(1.3) pts
Combined ratio ⁽²⁾	86.4%	95.6%	(9.2) pts	89.3%	99.2%	(9.9) pts

Notes:

- (1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Overall, the growth momentum in commercial lines continued in 2021 as we continued to benefit from a firm market environment and from expanded underwriting capabilities. GWP increased 25.7% in the third quarter of 2021 and 27.9% year to date, driven by improved retention, new business including the impact of our relationship with Uber (which launched on September 1, 2020), and strong rate achievement.

The composition of the claims ratio for the three and nine months ended September 30, 2021 and 2020 for our commercial lines of business is as follows:

	For the three months ended September 30, ⁽¹⁾			For the nine months ended September 30, ⁽¹⁾		
	2021	2020	Change	2021	2020	Change
Core accident year claims and adjustment expenses ⁽²⁾	51.5%	54.4%	(2.9) pts	53.5%	54.5%	(1.0) pts
Catastrophe losses ⁽³⁾	0.8%	5.8%	(5.0) pts	1.2%	9.1%	(7.9) pts
Prior year favourable claims development	(0.5%)	(1.1%)	0.6 pts	(0.7%)	(1.0%)	0.3 pts
Claims ratio ⁽³⁾	51.8%	59.1%	(7.3) pts	54.0%	62.6%	(8.6) pts

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

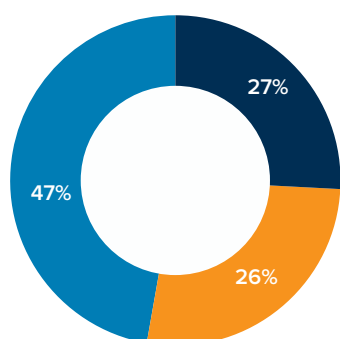
Commercial lines produced underwriting income of \$26.2 million in the third quarter of 2021, compared to \$6.9 million in the same quarter a year ago. Year to date, commercial lines produced underwriting income of \$58.1 million compared to underwriting income of \$3.7 million in 2020.

The commercial lines combined ratio of 86.4% in the third quarter of 2021 improved from the same quarter a year ago. The significant improvement was primarily the result of lower levels of catastrophe losses and underwriting and portfolio management initiatives. Year to date, the commercial lines combined ratio improved due primarily to lower catastrophe losses, underwriting and portfolio management initiatives, and lower claims frequency as a result of the COVID-19 pandemic. These were partially offset by proactive reserving actions with respect to inflation taken in 2021, which impacted current accident year claims and prior year claims. We continue to monitor and incorporate recent inflation trends into our pricing models.

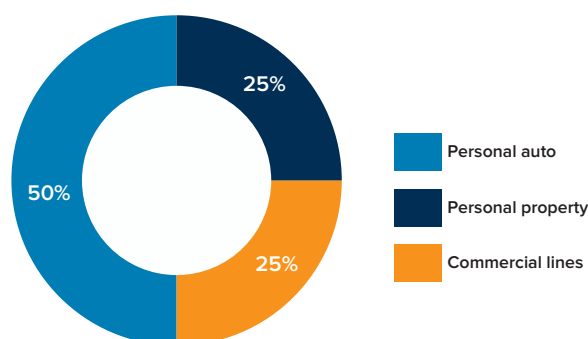
Results by Line of Business for the Years Ended December 31, 2020 and 2019

The following charts illustrate our GWP mix by line of business for the fiscal years 2020 and 2019:

2020 GWP by Line of Business

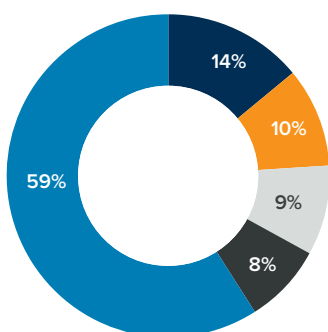


2019 GWP by Line of Business

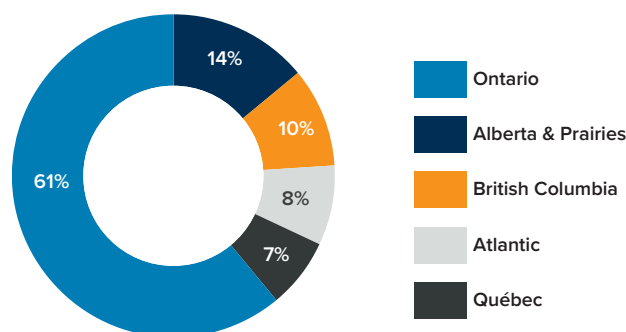


The shift in business mix was due to growth in our personal property business, growth in our commercial lines reflecting our increased capabilities and focus on growth in this line of business, and the reductions in GWP in our personal auto business from customer relief related to the COVID-19 pandemic.

2020 GWP by Region



2019 GWP by Region



There was a slight shift in the regional mix from the Ontario region to the Québec and Atlantic regions.

Underwriting – Personal Lines

The table below sets forth selected results of operations of our personal lines of business for the years ended December 31, 2020 and 2019 and the policies in force as at December 31, 2020 and 2019.

(in millions of dollars, except as otherwise noted)	For the year ended December 31,		Change
	2020	2019	
Policies in force (thousands) (at period end)			
Auto	727.0	718.8	1.1%
Property	689.1	623.0	10.6%
Total	<u>1,416.1</u>	<u>1,341.8</u>	<u>5.5%</u>
Gross written premiums			
Auto	\$1,335.4	\$1,261.9	5.8%
Property	750.7	632.3	18.7%
Total	<u>\$2,086.1</u>	<u>\$1,894.2</u>	<u>10.1%</u>
Net earned premiums			
Auto	\$1,251.2	\$1,195.6	4.7%
Property	641.7	551.8	16.3%
Total	<u>\$1,892.9</u>	<u>\$1,747.4</u>	<u>8.3%</u>
Net claims and adjustment expenses			
Auto	\$ 847.1	\$ 993.1	\$(146.0)
Property	344.9	329.7	15.2
Total	<u>\$1,192.0</u>	<u>\$1,322.8</u>	<u>\$(130.8)</u>
Underwriting expenses (net of other underwriting revenues) ⁽¹⁾			
Auto	\$ 358.9	\$ 341.9	\$ 17.0
Property	227.8	191.1	36.7
Total	<u>\$ 586.7</u>	<u>\$ 533.0</u>	<u>\$ 53.7</u>
Underwriting income (loss)			
Auto	\$ 45.2	\$ (139.4)	\$ 184.6
Property	69.0	31.0	38.0
Total	<u>\$ 114.2</u>	<u>\$ (108.4)</u>	<u>\$ 222.6</u>

Notes:

- (1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Overall, personal lines GWP increased 10.1% in 2020. Sonnet generated GWP of \$239.7 million in 2020, an increase of 16.1% over 2019, while GWP from our broker channel grew by 9.5% in 2020. Personal auto GWP increased 5.8% in 2020 compared to 2019. This growth was driven by rate increases approved in 2019 and early 2020, an increase in new business, and the growth in Sonnet, partially tempered by the significant impact of customer relief related to the COVID-19 pandemic. Personal property GWP increased 18.7% in 2020, benefitting from organic growth and continued firm market conditions. Sonnet continued to grow and benefitted from targeted rate actions and continued improvements in underwriting and customer acquisition capabilities. Our Vyne platform has also generated significant growth in our broker business.

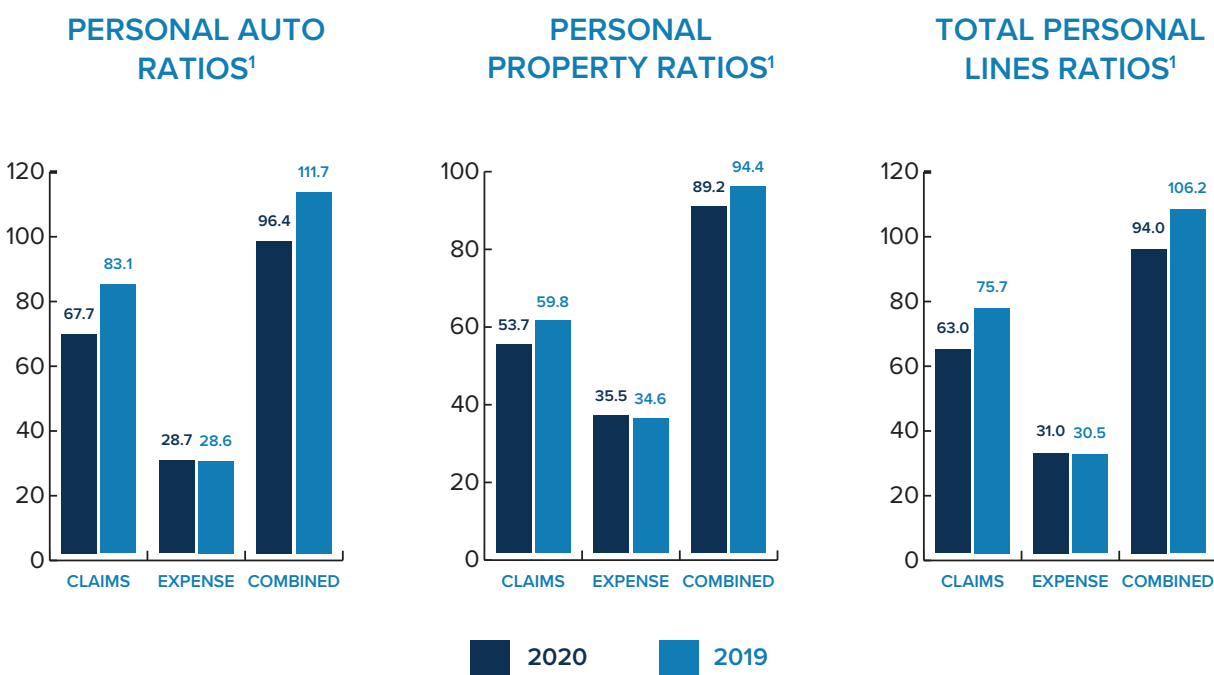
The composition of the claims ratio for the years ended December 31, 2020 and 2019 for our personal lines of business is as follows:

	Auto ⁽¹⁾			Property ⁽¹⁾		
	For the year ended December 31,		Change	For the year ended December 31,		Change
	2020	2019		2020	2019	
Core accident year claims and adjustment expenses ⁽²⁾	67.7%	84.9%	(17.2) pts	50.2%	54.4%	(4.2) pts
Catastrophe losses ⁽³⁾	0.9%	0.3%	0.6 pts	4.5%	6.7%	(2.2) pts
Prior year favourable claims development	(0.9%)	(2.1%)	1.2 pts	(1.0%)	(1.3%)	0.3 pts
Claims ratio ⁽³⁾	<u>67.7%</u>	<u>83.1%</u>	<u>(15.4) pts</u>	<u>53.7%</u>	<u>59.8%</u>	<u>(6.1) pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Personal lines produced underwriting income of \$114.2 million in 2020, representing an improvement of \$222.6 million as compared to 2019.



Notes:

- (1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The personal auto combined ratio in 2020 of 96.4% improved due primarily to lower auto claims frequency which benefitted from COVID-19-related reduced activity levels and benign weather, and rate increases from prior years, which were recognized in NEP in 2020. Underwriting and broker management actions also contributed to improvements in profitability. These were partially offset by a decrease in favourable claims development. The personal property combined ratio in 2020 of 89.2% improved due primarily to prior rate increases earning through, and benign weather including lower levels of catastrophe losses.

Underwriting – Commercial Lines

The table below sets forth selected results of operations of our commercial lines of business for the years ended December 31, 2020 and 2019.

(in millions of dollars, except as otherwise noted)	For the year ended December 31,		
	2020	2019	Change
Gross written premiums	\$728.6	\$616.8	18.1%
Net earned premiums	\$615.8	\$595.8	3.4%
Net claims and adjustment expenses	\$370.3	\$391.1	\$ (20.8)
Underwriting expenses (net of other underwriting revenues) ⁽¹⁾	\$223.3	\$214.6	\$ 8.7
Underwriting income (loss)	\$ 22.2	\$ (9.9)	\$ 32.1
Claims ratio ⁽²⁾	60.1%	65.6%	(5.5) pts
Expense ratio ⁽²⁾	36.3%	36.1%	0.2 pts
Combined ratio ⁽²⁾	96.4%	101.7%	(5.3) pts

Notes:

- (1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Commercial lines GWP increased 18.1% in 2020, reflecting our increased capabilities and focus on growth in this line of business. Growth was driven by higher rates, improved retention, and new business in the context of firm market conditions. On August 18, we announced a new and significant relationship with Uber in Canada, which launched on September 1, designed to provide insurance coverage for every peer-to-peer Uber ride in Ontario, Québec, Alberta and Nova Scotia and every Uber Eats delivery trip in Ontario, Québec, Alberta, Nova Scotia, New Brunswick and Newfoundland and Labrador. Our new relationship with Uber further contributed to growth and is part of our wider strategy to diversify our book of business and complement our regular P&C lines business with new specialty lines products.

Commercial lines achieved a combined ratio of 96.4% and produced underwriting income of \$22.2 million, compared to an underwriting loss of \$9.9 million in 2019.

The composition of the claims ratio for the years ended December 31, 2020 and 2019 for our commercial lines of business is as follows:

	For the year ended December 31, ⁽¹⁾		
	2020	2019	Change
Core accident year claims and adjustment expenses ⁽²⁾	53.3%	62.2%	(8.9) pts
Catastrophe losses ⁽³⁾	8.7%	4.3%	4.4 pts
Prior year favourable claims development	(1.9%)	(0.9%)	(1.0) pts
Claims ratio ⁽³⁾	60.1%	65.6%	(5.5) pts

Notes:

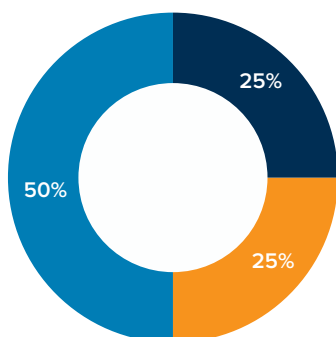
- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The commercial lines combined ratio of 96.4% improved from 2019 as a result of our underwriting and portfolio management initiatives, and lower claims frequency as a result of COVID-19 and benign weather. These were partially offset by an increase in catastrophe losses as we recorded \$30 million in 2020 for COVID-19-related exposures. The catastrophe losses reflected increasing uncertainty in commercial property and liability related to the re-emergence of COVID-19 in the latter part of 2020, coupled with the associated restrictions and other actions implemented by governments across Canada.

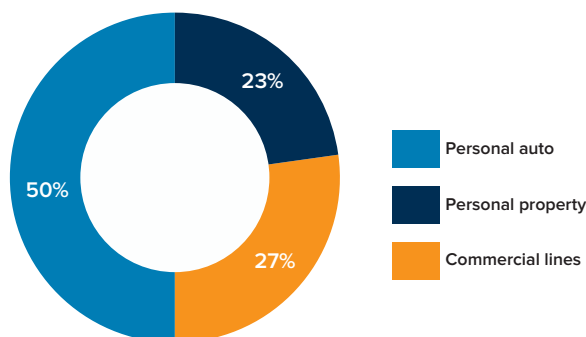
Results by Line of Business for the Years Ended December 31, 2019 and 2018

The following charts illustrate our GWP mix by line of business for the fiscal years 2019 and 2018:

2019 GWP by Line of Business

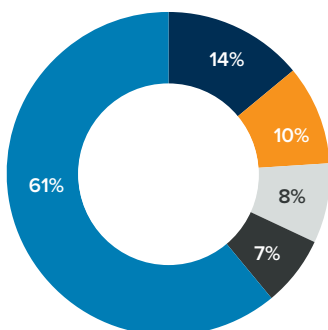


2018 GWP by Line of Business

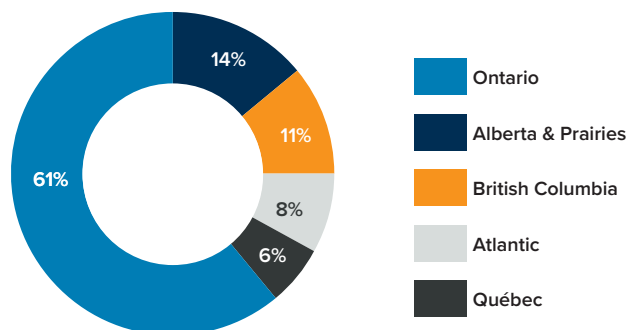


The shift in business mix was due to the growth in Sonnet and our broker personal property business along with our corrective underwriting actions in our commercial business.

2019 GWP by Region



2018 GWP by Region



There was a slight shift in the regional mix from the Ontario and British Columbia regions to Québec.

Underwriting – Personal Lines

The table below sets forth selected results of operations of our personal lines of business for the years ended December 31, 2019 and 2018 and the policies in force as at December 31, 2019 and 2018.

(in millions of dollars, except as otherwise noted)	For the year ended December 31,		Change
	2019	2018	
Policies in force (thousands) (at period end)			
Auto	718.8	751.8	(4.4%)
Property	623.0	582.2	7.0%
Total	<u>1,341.8</u>	<u>1,334.0</u>	<u>0.6%</u>
Gross written premiums			
Auto	\$1,261.9	\$1,224.4	3.1%
Property	632.3	554.1	14.1%
Total	<u>\$1,894.2</u>	<u>\$1,778.5</u>	<u>6.5%</u>
Net earned premiums			
Auto	\$1,195.6	\$1,099.2	8.8%
Property	551.8	494.6	11.6%
Total	<u>\$1,747.4</u>	<u>\$1,593.8</u>	<u>9.6%</u>
Net claims and adjustment expenses			
Auto	\$ 993.1	\$ 873.1	\$120.0
Property	329.7	315.2	14.5
Total	<u>\$1,322.8</u>	<u>\$1,188.3</u>	<u>\$134.5</u>
Underwriting expenses (net of other underwriting revenues) ⁽¹⁾			
Auto	\$ 341.9	\$ 381.3	\$(39.4)
Property	191.1	197.5	(6.4)
Total	<u>\$ 533.0</u>	<u>\$ 578.8</u>	<u>\$(45.8)</u>
Underwriting income (loss)			
Auto	\$ (139.4)	\$ (155.2)	\$ 15.8
Property	31.0	(18.1)	49.1
Total	<u>\$ (108.4)</u>	<u>\$ (173.3)</u>	<u>\$ 64.9</u>

Notes:

- (1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Overall, personal lines GWP increased by 6.5% in 2019. Sonnet generated GWP of \$206.5 million in 2019, an increase of 61.8% over 2018. Sonnet continued to scale and benefitted from significant rate increases, sophisticated new tools and analytics to more effectively advertise and acquire target customers and lower operating expenses. Our Vyne platform has contributed to this growth, with substantially all of our broker personal line GWP on this platform at the end of 2019.

Personal auto GWP increased by 3.1% in 2019 compared to 2018, due primarily to policy growth in Sonnet and rate increases, partially offset by underwriting and broker management actions to improve profitability.

Personal property GWP increased by 14.1% in 2019 compared to 2018, driven by strong growth from both Sonnet and Vyne, and rate increases in 2019.

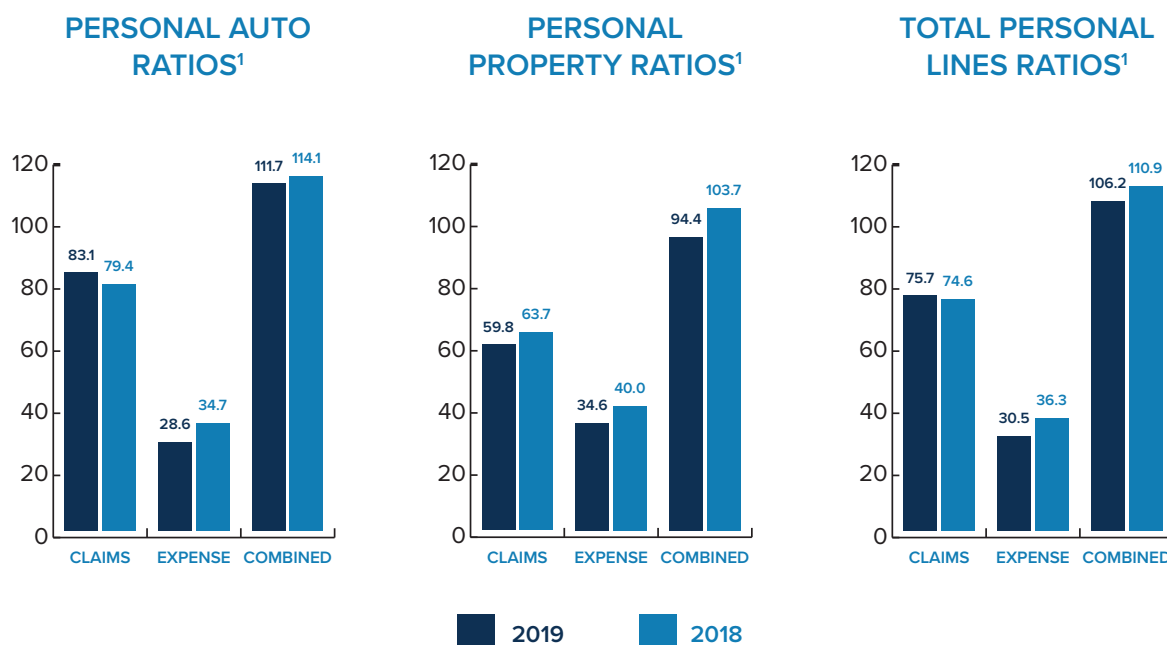
The composition of the claims ratio for the years ended December 31, 2019 and 2018 for our personal lines of business is as follows:

	Auto ⁽¹⁾			Property ⁽¹⁾		
	For the year ended December 31,			For the year ended December 31,		
	2019	2018	Change	2019	2018	Change
Core accident year claims and adjustment expenses ⁽²⁾	84.9%	82.3%	2.6 pts	54.4%	54.2%	0.2 pts
Catastrophe losses ⁽³⁾	0.3%	1.2%	(0.9) pts	6.7%	11.0%	(4.3) pts
Prior year favourable claims development	(2.1%)	(4.1%)	2.0 pts	(1.3%)	(1.5%)	0.2 pts
Claims ratio ⁽³⁾	<u>83.1%</u>	<u>79.4%</u>	<u>3.7 pts</u>	<u>59.8%</u>	<u>63.7%</u>	<u>(3.9) pts</u>

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Personal lines produced an underwriting loss of \$108.4 million in 2019 compared to an underwriting loss of \$173.3 million in 2018 as our profitability actions continued to work through the portfolio and losses from catastrophes declined versus 2018.



Notes:

- (1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The personal auto combined ratio of 111.7% decreased from 2018 due to a decrease in the expense ratio, a reduction in catastrophe losses, and rate increases in 2019. These were partially offset by an increase in the core accident year claims ratio and a decrease in favourable claims development. The personal property combined ratio in 2019 was solid, at 94.4%, and improved mainly due to a reduction in catastrophe losses compared to 2018, and a decrease in the expense ratio. The expense ratios in personal auto and personal property decreased due primarily to lower operating expenses and rapidly-growing net earned premiums in Sonnet, and reduced costs as a result of the completion of the Vyne deployment in 2018.

Underwriting – Commercial Lines

The table below sets forth selected results of operations of our commercial lines of business for the years ended December 31, 2019 and 2018.

(in millions of dollars, except as otherwise noted)	For the year ended December 31,		
	2019	2018	Change
Gross written premiums	\$616.8	\$677.8	(9.0%)
Net earned premiums	\$595.8	\$650.8	(8.5%)
Net claims and adjustment expenses	\$391.1	\$506.4	\$ (115.3)
Underwriting expenses (net of other underwriting revenues) ⁽¹⁾	\$214.6	\$236.7	\$ (22.1)
Underwriting loss	\$ (9.9)	\$ (92.3)	\$ 82.4
Claims ratio ⁽²⁾	65.6%	77.8%	(12.2) pts
Expense ratio ⁽²⁾	36.1%	36.4%	(0.3) pts
Combined ratio ⁽²⁾	101.7%	114.2%	(12.5) pts

Notes:

- (1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (2) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

Commercial lines GWP decreased by 9.0% with retention impacted by substantial pricing increases and the targeted exit from unprofitable business.

Commercial lines produced an underwriting loss of \$9.9 million compared to a \$92.3 million underwriting loss in 2018; a significant improvement as our actions continued to earn through this book of business. These actions continued to negatively impact premiums but were necessary to improve our mix of business and return to profitability.

The composition of the claims ratio for the years ended December 31, 2019 and 2018 for our commercial lines of business is as follows:

	For the year ended December 31, ⁽¹⁾		
	2019	2018	Change
Core accident year claims and adjustment expenses ⁽²⁾	62.2%	66.8%	(4.6) pts
Catastrophe losses ⁽³⁾	4.3%	5.8%	(1.5) pts
Prior year (favourable) adverse claims development	(0.9%)	5.2%	(6.1) pts
Claims ratio ⁽³⁾	65.6%	77.8%	(12.2) pts

Notes:

- (1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
- (2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.
- (3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, see “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” in this MD&A.

The commercial lines combined ratio of 101.7% significantly improved by 12.5 pts from 2018, reflecting the impact of our corrective underwriting actions, favourable claims development and a reduction in catastrophe losses.

Industry Outlook and Our Financial Targets

Industry Outlook

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

Industry results improved during 2020, bolstered by the benefits of reduced claims frequency in auto portfolios and improved personal property results, which were only partially offset by COVID-19-related provisions in commercial insurance. Overall, the industry reported a return on equity of approximately 10% in 2020.²⁹

The current low-yield environment is placing pressure on investment returns and increasing the importance of underwriting profits. This pressure was further exacerbated by the onset of the COVID-19 pandemic, as yields on government bonds declined meaningfully. More recently, yields have rallied but remain low from a historical perspective.

In response to overall profitability challenges and segment-specific dynamics, insurance markets had firmed across Canada prior to the onset of the COVID-19 pandemic. This firming of markets came in the form of both reduced capacity and higher rates. We expect this firm market will persist over the next 12 months and will become increasingly important to future industry profitability as auto claims frequency normalizes. See “Our Business – Industry Overview”.

Personal auto

- The COVID-19 pandemic environment has had a tempering effect on some of the underlying cost pressures of recent years. Although there has been a positive impact on physical damage claims frequency as a result of the COVID-19 pandemic, the COVID-19 pandemic’s impact on accident benefit and bodily injury coverage severity is uncertain. We expect costs of claims to start rising in the short term. As economies continue to open and more people start commuting to work, we expect costs of claims to drive a return to rate increases, particularly since rates have been suppressed as many insurers offered rate relief in response to the COVID-19 pandemic. Nevertheless, we expect that regulators will be reluctant to approve rate increases until they are comfortable that driving and claims patterns have returned to more normal levels.
- Longer term, costs of claims, including escalating fraud costs, and ongoing regulatory and competitive market dynamics are expected to again become the primary drivers of industry pricing.
- The regulatory changes in Ontario in 2020 and Alberta this year to allow pay-as-you-drive and pay-how-you-drive insurance could lead to insurers introducing more sophisticated telematics-based offerings than the basic discount options that currently comprise the majority of the market.

Personal property

- The volatility of weather events, such as floods and wildfires, has remained elevated in recent years and, combined with inflationary pressure on certain input costs, is leading to increased claim costs.
- We expect this volatility to continue, with commensurate rate actions, product changes, and an enhanced focus on loss prevention and mitigation.
- This volatility has prompted the federal government to engage insurers in consultations on options for low-cost residential flood insurance and on options for relocating residents in the highest risk areas. A federal task force will submit its final report by the spring of 2022.

Commercial lines

- As the Canadian economy emerges from more than 18 months of COVID-19 restrictions and various lockdown challenges, the commercial lines market remains in a transitional state focused on profitability.
- Capacity has not decreased to the same extent as 2020 but remains a key challenge in specific industries. Assuming an economic recovery in 2022, capacity levels should stabilize via underwriting expansion, reinsurance capacity and new entrants. The increased focus on ESG initiatives across the insurance industry could lead to capacity challenges in some industries, particularly the Energy sector.

²⁹ MSA Research.

- We expect the commercial lines market to remain firm for the medium-term. Recent trends point to short-term inflationary pressure on building and labour costs, which in turn will put continued pressure on commercial businesses.
- Capacity and inflationary challenges could result in a more elongated economic recovery pattern, with certain business segments in the market negatively impacted and others outperforming expectations.
- Pricing is expected to be influenced by the industry's overall performance, global reinsurance pressures, the longevity and severity of any inflationary trends and the investment returns.

Financial Targets

Our strategic objectives are to capitalize on the expanding digital direct insurance market with Sonnet, leverage Vyne to increase our share of the broker channel, grow and diversify our commercial insurance business, maintain our pace of innovation, diversify and strengthen our growth through acquisitions and partnerships and attract and retain top talent to empower a high-performance culture that delivers on our brand. Our established market presence as a leading Canadian P&C insurer, focus on delivering a superior customer and broker experience, highly scalable digital platforms, growing and profitable commercial insurance capabilities, sophisticated pricing methodologies and disciplined underwriting, significant financial flexibility and seasoned management team and dynamic corporate culture provide us with confidence in our ability to achieve these objectives and inform our financial targets. The financial targets set out below are based on certain other factors and assumptions, including the key assumptions and factors set out below.

Over the next two to three years, our financial targets are to:

- **Grow GWP annually at an average rate of approximately 10%** supported by, among other things, continuing to scale Sonnet, leveraging our investments in the broker channel and expanding our core commercial insurance and specialty capabilities. This target compares to our GWP growth rates of 12.1% in 2020 (as compared to 2019) and 15.8% for the nine months ended September 30, 2021 (as compared to the nine months ended September 30, 2020);
- **Maintain an annual combined ratio in the mid-90s** as our strategic investments drive scale and we continue to generate operational improvements across all lines of business. This target compares to our combined ratios of 94.6% in 2020 and 92.6% for the nine months ended September 30, 2021, which were both positively impacted by the COVID-19 pandemic; and
- **Generate an annual Operating ROE in the upper single digit to below teens range** through underwriting profitability combined with investment performance and reflective of the capital levels generated by our business. This target compares to our Operating ROE of 11.0% in 2020 and 13.6% for the 12 months ended September 30, 2021, which were both positively impacted by the COVID-19 pandemic.

We expect to achieve further improvements on Operating ROE over time, targeting the low teens, through future balance sheet optimization. See “Our Business – Our Strengths – Significant Financial Flexibility to Support Value Creation”.

The above financial targets are based on management's current views and strategies, our assumptions and expectations concerning our growth opportunities, and our assessment of the opportunities for our business and the insurance industry.

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

- auto rate filings will be approved in regulated provinces at rates sufficient to maintain current levels of rate adequacy;
- firm market conditions across most commercial line and personal property segments continue in line with our industry outlook over the next 12 months, and will support continued moderate rate increases for these lines of business;
- catastrophe losses, as a percentage of net earned premiums, continue at similar levels to historical averages between 2016 and 2020;

- auto claims frequencies normalize in line with those experienced prior to COVID between 2016 and 2019 as customer driving patterns and behaviour returns to historical trends;
- there is no new customer rate relief action and no required extension of existing customer rate relief actions beyond current commitments;
- recorded claim liabilities are adequate with no significant prior year claims development or overall reserve strengthening required during the outlook period for the above financial targets;
- inflation continues in the future at levels generally consistent with 2018 to 2020 and significant variations are relatively short-lived or can be addressed by pricing changes;
- there are no significant changes in the P&C insurance regulatory environment, including with respect to capital requirements;
- there is no downgrade of the financial strength ratings of Economical Insurance;
- our operating environment is in line with our expectations for the P&C insurance industry over the next 12 months described above under “– Industry Outlook”; and
- unanticipated cost increases can be addressed during the outlook period by pricing changes.

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

- fixed income market yields remain at low levels throughout the outlook period;
- investment market returns and the capital appreciation generated in our investment portfolio normalize over the outlook period from the levels in 2020;
- taxation rates remain consistent with the current substantively enacted rates;
- the Underwriters do not exercise the Over-Allotment Option and there is no HOOPP Over-Allotment Private Placement, and we do not repurchase or issue a substantial amount of Common Shares or other equity over the outlook period (other than the Common Shares to be issued in connection with the Offering and the Cornerstone Private Placements); and
- retained earnings increase commensurate with expected net income.

Our expectation for further improvements in Operating ROE through future balance sheet optimization assumes that we receive regulatory approval for, and proceed with, the Continuance, and will be, in part, a function of whether we are successful in identifying and completing appropriate acquisition opportunities. As such, there is currently no definitive time frame for this balance sheet optimization.

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

The above financial targets have been calculated using accounting policies that we used to prepare the financial statements included in this prospectus or, in the case of operating ROE, in the manner described under “– Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”. In particular, the above financial targets have been prepared in accordance with current IFRS applicable to the insurance industry and do not reflect the adoption of IFRS 17 – Insurance Contracts or IFRS 9 – Financial Instruments, effective for annual reporting periods beginning on or after January 1, 2023, including any potential changes to tax treatment.

The above financial targets, and the assumptions and factors underlying those targets, constitute forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above or under the section “Corporate Strategy”. See “Forward-Looking Information” and “Risk Factors – Risks Relating to Our Business”.

Consolidated Balance Sheet

The following table sets forth information from our consolidated balance sheet as at September 30, 2021 and December 31, 2020, 2019 and 2018:

(in millions of dollars)	As at September 30,	As at December 31,		
	2021	2020	2019	2018
ASSETS				
Cash and cash equivalents	\$ 339.9	\$ 510.3	\$ 94.7	\$ 135.3
Investments	4,969.8	4,366.3	4,191.0	3,940.7
Accrued investment income	23.3	16.8	18.8	15.5
Premiums receivable	1,052.0	958.7	850.7	837.0
Income taxes receivable	0.9	2.1	3.0	13.0
Reinsurance receivable and recoverable	140.4	95.6	95.1	64.7
Deferred policy acquisition expenses	288.4	260.2	235.6	230.1
Property and equipment	54.8	56.9	61.1	38.9
Deferred income tax assets	42.5	40.2	89.8	105.0
Goodwill and intangible assets	213.6	211.6	210.9	225.6
Other assets	126.0	101.6	105.8	104.6
Total assets	<u>\$7,251.6</u>	<u>\$6,620.3</u>	<u>\$5,956.5</u>	<u>\$5,710.4</u>
LIABILITIES				
Unearned premiums	1,564.0	1,433.1	1,294.5	1,268.5
Claim liabilities	3,246.5	3,026.3	2,808.2	2,670.6
Accounts payable and other liabilities	363.8	324.2	240.6	204.0
Income taxes payable	47.5	18.7	2.2	—
Total liabilities	<u>\$5,221.8</u>	<u>\$4,802.3</u>	<u>\$4,345.5</u>	<u>\$4,143.1</u>
EQUITY				
Retained earnings	1,949.1	1,755.9	1,608.6	1,588.3
Accumulated other comprehensive income (loss)	80.7	62.1	2.4	(21.0)
Total equity	<u>\$2,029.8</u>	<u>\$1,818.0</u>	<u>\$1,611.0</u>	<u>\$1,567.3</u>
Total liabilities and equity	<u>\$7,251.6</u>	<u>\$6,620.3</u>	<u>\$5,956.5</u>	<u>\$5,710.4</u>

Cash and Investments

The composition of our cash and cash equivalents and investments as at September 30, 2021 and December 31, 2020 and 2019 is as follows:

(in millions of dollars, except as otherwise noted)	As at September 30, 2021		As at December 31, 2020		As at December 31, 2019	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Cash and cash equivalents	\$ 339.9	6.4%	\$ 510.3	10.5%	\$ 94.7	2.2%
Short-term investments	148.1	2.8%	218.2	4.5%	228.1	5.3%
Bonds	3,826.6	72.1%	3,400.7	69.6%	3,223.8	75.3%
Preferred stocks	404.1	7.6%	336.6	6.9%	345.1	8.1%
Common stocks	522.2	9.8%	329.8	6.8%	296.8	6.9%
Pooled funds	34.2	0.6%	43.4	0.9%	44.4	1.0%
Commercial loans	34.6	0.7%	37.6	0.8%	52.8	1.2%
Total investments	<u>\$4,969.8</u>	<u>93.6%</u>	<u>\$4,366.3</u>	<u>89.5%</u>	<u>\$4,191.0</u>	<u>97.8%</u>
Total cash and cash equivalents and investments	<u>\$5,309.7</u>	<u>100.0%</u>	<u>\$4,876.6</u>	<u>100.0%</u>	<u>\$4,285.7</u>	<u>100.0%</u>

Our investment strategy seeks to generate appropriate levels of income while preserving capital. The strategy focuses on maximizing our long-term capital strength, while seeking to optimize risk-adjusted returns. We have an established investment policy and strategy that is based on our risk appetite, the prudent person approach, regulatory guidelines, and reflects the expected settlement pattern of claim liabilities.

Total cash and cash equivalents and investments increased in the third quarter of 2021, due primarily to cash generated by our operations and an increase in the market values of the preferred stocks in our investment portfolio, partially offset by a decrease in the market values of the bonds in our investment portfolio due to an increase in bond yields, and purchases related to software and strategic projects. Our proportionate share of investments in fixed income securities, including cash and cash equivalents, decreased slightly to 81.3% of the total portfolio as at September 30, 2021 compared with 84.6% as at December 31, 2020. Since December 31, 2020, we have deployed some of our surplus cash into our investment portfolio and increased the proportional share of common stocks in our investment portfolio, which we had reduced in previous years. We maintained a relatively conservative portfolio positioning.

Total cash and investments increased in 2020, driven by strong cash inflows provided by operating activities and an increase in the market values of our investments, particularly in bonds due to a significant decrease in bond yields. These were partially offset by the volatility in global equity markets largely due to the COVID-19 pandemic, resulting in an impairment charge of \$17.6 million on common stocks in 2020. Our proportionate share of investments in fixed income securities, including cash and cash equivalents, increased to 84.6% of the total portfolio as at December 31, 2020 compared with 82.8% as at December 31, 2019.

For a summary of our significant accounting policies with respect to our financial instruments, see “– Accounting and Internal Controls – Summary of Significant Accounting Policies – Financial Instruments Including Investments”, which provides further details pertaining to the classification and measurement of our financial instruments.

Investment Sector Mix

Our investment sector mix demonstrates the secure and liquid nature of our overall investment portfolio with a significant concentration in the government and financials sectors. As at September 30, 2021 and December 31, 2020 and 2019, the breakdown of these investments is as follows:

	As at September 30, 2021					As at December 31, 2020	As at December 31, 2019
(in millions of dollars, except as otherwise noted)	Short-term investments and bonds	Preferred stocks	Common stocks	Pooled funds	Total	Total	Total
Government	62%	—	—	—	49%	49%	46%
Financials	24%	69%	30%	11%	28%	29%	32%
Energy	2%	16%	11%	3%	4%	4%	5%
Communication services	1%	4%	6%	11%	2%	2%	3%
Industrials	3%	—	11%	8%	4%	4%	4%
Utilities	5%	9%	3%	2%	5%	5%	4%
Consumer discretionary	1%	—	6%	12%	2%	2%	1%
Materials	—	—	8%	3%	1%	1%	1%
Consumer staples	1%	—	4%	6%	1%	1%	1%
Information technology	—	—	15%	28%	2%	1%	1%
Health care	—	—	5%	13%	1%	1%	1%
Real estate	1%	2%	1%	3%	1%	1%	1%
Total (%)	100%	100%	100%	100%	100%	100%	100%
Total (\$)	\$3,974.7	\$404.1	\$522.2	\$34.2	\$4,935.2	\$4,328.7	\$4,138.2

Investment Credit Quality

The tables below of credit ratings in our portfolio illustrate the credit quality of our fixed income securities and preferred stocks, respectively, as at September 30, 2021 and December 31, 2020 and 2019.

Credit rating⁽¹⁾ – bonds

	As at September 30, 2021		As at December 31, 2020		As at December 31, 2019	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
(in millions of dollars, except as otherwise noted)						
AAA	\$1,034.2	27.0%	\$1,102.9	32.5%	\$1,189.3	36.9%
AA	1,578.4	41.2%	1,170.3	34.4%	980.5	30.4%
A	974.9	25.5%	854.3	25.1%	767.8	23.8%
BBB	239.1	6.3%	273.2	8.0%	286.2	8.9%
Total bonds	<u>\$3,826.6</u>	<u>100.0%</u>	<u>\$3,400.7</u>	<u>100.0%</u>	<u>\$3,223.8</u>	<u>100.0%</u>

Notes:

(1) Using the lowest of Standard & Poor's and DBRS ratings.

Credit rating⁽¹⁾ – preferred stocks

	As at September 30, 2021		As at December 31, 2020		As at December 31, 2019	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
(in millions of dollars, except as otherwise noted)						
P1	\$ 12.3	3.0%	\$ —	—	\$ —	—
P2	304.4	75.4%	272.9	81.1%	288.5	83.6%
P3 or not rated	87.4	21.6%	63.7	18.9%	56.6	16.4%
Total preferred stocks	<u>\$404.1</u>	<u>100.0%</u>	<u>\$336.6</u>	<u>100.0%</u>	<u>\$345.1</u>	<u>100.0%</u>

Notes:

(1) Using the lowest of Standard & Poor's and DBRS ratings.

We continuously monitor the credit ratings of investments within our investment portfolio and take the necessary actions to ensure that a high level of quality is maintained. As at September 30, 2021, this resulted in 93.7% (December 31, 2020: 92.0%; December 31, 2019: 91.1%) of the bonds in the portfolio being rated “A-” or better and 78.4% (December 31, 2020: 81.1%; December 31, 2019: 83.6%) of the preferred stocks in the portfolio being rated “P2L” or better. “A-” and “P2L” represent the ratings provided by two recognized rating services for high-grade bonds and preferred stocks, respectively, where both asset and earnings protection are well-assured.

Investment Portfolio Region of Issuer

The geographic mix of our investment portfolio as at September 30, 2021 and December 31, 2020 and 2019 is as follows:

	As at September 30, 2021		As at December 31, 2020		As at December 31, 2019	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
(in millions of dollars, except as otherwise noted)						
Canada	\$4,729.3	95.8%	\$4,205.5	97.2%	\$4,034.2	97.5%
United States	145.0	2.9%	86.2	2.0%	69.0	1.7%
Europe	34.1	0.7%	25.2	0.6%	25.6	0.6%
Other	26.8	0.6%	11.8	0.2%	9.4	0.2%
Total	<u>\$4,935.2</u>	<u>100.0%</u>	<u>\$4,328.7</u>	<u>100.0%</u>	<u>\$4,138.2</u>	<u>100.0%</u>

Our investment portfolio is concentrated mainly in Canada. Our estimated exposure to foreign exchange is outlined in “– Risk Management”.

Unrealized Gains (Losses) on AFS Securities

The unrealized gains (losses) on AFS securities by type of security as at September 30, 2021 and December 31, 2020 and 2019 are as follows:

	As at September 30, 2021	As at December 31, 2020	As at December 31, 2019
(in millions of dollars, except as otherwise noted)			
Short-term investments	\$ 0.1	\$ 0.3	\$ 1.9
Bonds	12.3	54.8	(0.2)
Preferred stocks	14.6	(48.2)	(58.6)
Common stocks	77.8	71.9	53.7
Pooled funds	0.4	1.0	1.2
Unrealized gains (losses)	<u>\$105.2</u>	<u>\$ 79.8</u>	<u>\$ (2.0)</u>

The unrealized gains in our AFS investment portfolio increased as at September 30, 2021 due to gains on preferred stocks, primarily as a result of rising interest rate expectations increasing the value of the rate resets, and higher gains on common stocks despite the reclassification of previously unrealized gains on common stocks in the first quarter of 2021, which were sold as a result of a change in foreign equity managers. These were partially offset by lower gains on bonds driven by an increase in bond yields in 2021.

The unrealized gains in the portfolio in 2020 were due to gains on bonds driven by a significant decrease in bond yields, higher gains on common stocks, and lower losses on preferred stocks.

Premiums Receivable, Deferred Policy Acquisition Expenses and Unearned Premiums

The premiums receivable, deferred policy acquisition expenses, and unearned premiums balances increased as at September 30, 2021, driven primarily by higher levels of GWP growth in 2021 as compared to 2020.

The premiums receivable, deferred policy acquisition expenses, and unearned premiums balances increased in 2020, driven primarily by higher levels of GWP growth in 2020 as compared to the lower GWP growth in 2019.

Reinsurance Receivable and Recoverable

Reinsurance receivable and recoverable increased as at September 30, 2021 due primarily to the impact of our relationship with Uber and an increase in the impact of the external quota share arrangement.

Consistent with industry practice, our reinsurance receivables and amounts recoverable from licensed Canadian reinsurers (\$114.1 million as at September 30, 2021; \$95.0 million as at December 31, 2020; \$94.0 million as at December 31, 2019) are usually unsecured. Canadian regulatory requirements, as set out by OSFI, require these reinsurers to maintain adequate assets to meet their Canadian obligations. Claim liabilities take precedence over the reinsurers’ subordinated creditors. Amounts receivable and recoverable from unregistered reinsurers are secured by cash deposits and marketable securities.

Deferred Income Tax Assets

Deferred income tax assets decreased in 2020 due primarily to the generation of taxable income in 2020 which utilized all of the available income tax loss carryforwards.

Net Claim Liabilities

The change in our net unpaid claim liabilities as at September 30, 2021 and December 31, 2020 and 2019 is as follows:

	As at September 30, 2021	As at December 31, 2020	As at December 31, 2019
(in millions of dollars, except as otherwise noted)			
Net unpaid claim liabilities, beginning of period	\$ 2,957.1	\$ 2,742.9	\$ 2,615.2
Current year claims incurred	1,294.2	1,591.9	1,751.8
Prior year favourable claims development	(43.0)	(29.6)	(37.9)
Net claims and adjustment expenses	<u>\$ 1,251.2</u>	<u>\$ 1,562.3</u>	<u>\$ 1,713.9</u>
Impact of discounting (including PfAD)	(35.2)	114.0	29.0
Claims paid during the period	<u>(1,021.2)</u>	<u>(1,462.1)</u>	<u>(1,615.2)</u>
Net unpaid claim liabilities, end of period	<u>\$ 3,151.9</u>	<u>\$ 2,957.1</u>	<u>\$ 2,742.9</u>

The net unpaid claim liabilities (discounted) as at September 30, 2021 increased by 6.6% or \$194.8 million from December 31, 2020 due primarily to business growth and proactive reserving actions taken in 2021 in recognition of recent inflationary trends in our property lines, partially offset by lower claims frequency and improved underwriting performance, together with the impact of discounting. The main components of the discounted unpaid claim liabilities are case reserves, undiscounted IBNR, undiscounted internal claims expense, and the discounting impact thereon.

The net unpaid claim liabilities (discounted) as at December 31, 2020 increased by 7.8% or \$214.2 million from December 31, 2019 due primarily to increasing uncertainty in the current environment impacting our reserves, business growth, and the impact of discounting.

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

	For the nine months ended September 30,					For the year ended December 31,						
(in millions of dollars, except as otherwise noted)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	
Net unpaid claim liabilities, beginning of period, undiscounted	\$2,754.1	\$2,654.0	\$2,555.2	\$2,410.4	\$2,199.7	\$2,122.8	\$2,163.3	\$2,108.6	\$2,052.1	\$2,122.6	\$2,220.0	
(Favourable) adverse development on prior year claims, undiscounted	\$ (43.0)	\$ (29.6)	\$ (37.9)	\$ (18.8)	\$ 32.6	\$ (40.1)	\$ (73.1)	\$ (2.9)	\$ (63.0)	\$ (57.4)	\$ (128.9)	
(Favourable) adverse development on prior year closing claims, undiscounted	(1.6%)	(1.1%)	(1.5%)	(0.8%)	1.5%	(1.9%)	(3.4%)	(0.1%)	(3.1%)	(2.7%)	(5.8%)	
Impact on claims ratio	(2.1%)	(1.2%)	(1.6%)	(0.8%)	1.5%	(2.1%)	(3.8%)	(0.2%)	(3.6%)	(3.4%)	(8.0%)	

Accounts Payable and Other Liabilities

Accounts payable and other liabilities increased as at September 30, 2021 due primarily to an increase in profit commissions and regular commissions payable, an increase in collateral deposits related to surety policies and costs associated with our strategic initiatives.

Accounts payable and other liabilities increased in 2020 due primarily to an increase in accrued liabilities, a premium deposit relating to our new relationship with Uber, costs associated with our strategic initiatives, and an increase in profit commissions and regular commissions payable.

Summary of Quarterly Results

(in millions of dollars, except as otherwise noted)	For the three months ended							
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
GWP	\$851.5	\$874.6	\$658.7	\$755.9	\$753.9	\$728.7	\$576.2	\$667.0
NEP	\$725.1	\$697.2	\$666.3	\$665.5	\$645.0	\$607.7	\$590.5	\$585.5
Underwriting income (loss) ...	\$ 55.1	\$ 41.2	\$ 58.0	\$ 72.7	\$ 39.1	\$ 36.9	\$ (12.3)	\$ (20.9)
Net income (loss)	\$ 53.3	\$ 43.9	\$ 82.4	\$ 66.7	\$ 45.6	\$ 44.8	\$ (3.2)	\$ 6.8

The P&C insurance business is seasonal in nature. As such, underwriting income (loss) may vary significantly between quarters, particularly due to weather-related losses. Net income (loss) is further impacted by fluctuations in investment gains and losses. Results for 2020 and 2021 were further impacted by reduced auto claims frequency due primarily to the COVID-19 pandemic.

In the first quarter of 2020, we experienced relatively benign weather compared to prior years resulting in lower weather-related catastrophe claims which were offset by losses recorded on our investment portfolio. Throughout the balance of 2020, we experienced lower than normal claims volume due to COVID-19-related reductions in frequency.

In the first nine months of 2021, we experienced weather-related claims activity that was lower than expectations, as well as the continuation of COVID-19-related reductions in frequency of personal auto claims. Net income also benefitted from the recognition from other comprehensive income (loss) of unrealized gains on common stocks which were sold as a result of a change in foreign equity managers in the first quarter of 2021.

Liquidity and Capital Resources

Capital Management

We have adopted a capital management policy intended to maintain sufficient capital to protect us and our policyholders from adverse events. As a federally-regulated P&C insurance company, our capital position, along with those of our insurance subsidiaries, is monitored by OSFI. OSFI evaluates our financial strength primarily through the MCT, which measures available capital against required risk-weighted capital.

Available capital comprises total equity subject to adjustments prescribed by OSFI. Capital required is calculated by applying risk factors to certain assets and liabilities. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Capital Requirements”. As at September 30, 2021, our regulatory capital exceeded the supervisory minimum MCT requirement of 150% required by OSFI, as well as a higher and more stringent internal target established in our capital management policy. We also continue to be adequately capitalized from a solvency standpoint as of September 30, 2021.

We regularly monitor our MCT ratio, our ORSA, the results of our annual dynamic capital adequacy stress testing, and periodic stress testing, to seek to ensure that an adequate regulatory capital position is maintained and take corrective actions as deemed necessary. In particular, management determines the estimated impact on capital before entering into any significant transactions to ensure that policyholders are not put at unreasonable risk through the depletion of capital to unacceptable levels. The Economical Board reviews the MCT on, at least, a quarterly basis. Reinsurance is also used to protect our capital from large losses, including catastrophe losses, which could have a detrimental impact on capital. We have formal policies that specify tolerance for financial risk retention. Once the retention limits are reached, reinsurance is utilized to cover the excess risk.

We also have intercompany reinsurance agreements (the “**Reinsurance Agreements**”) in place, which results in Economical Insurance and each of the Insurance Subsidiaries, excluding Petline, reporting the same combined ratio. The Reinsurance Agreements are documented between each of the companies, and the cash flows resulting from the arrangement are settled on a monthly basis. The Reinsurance Agreements allow the impact of any insurance losses to

be spread across each of the companies, enabling each of them to maintain its capital position without the need to move capital via dividends or capital injections. Further supporting the Reinsurance Agreements, the participating insurance companies have pooled all of their invested assets into a partnership, TEIG Investment Partnership. The vast majority of invested assets of the companies are held in the partnership with each company owning an interest in the partnership generally approximating to its participation in the Reinsurance Agreements.

The liquidity requirements of our business are met primarily by funds generated by insurance operations and investment returns. Cash provided from these sources have typically exceeded cash requirements to meet claim payments and operating expenses when due. On July 22, 2021, we entered into a senior unsecured credit agreement with Royal Bank of Canada, as administrative agent, and a syndicate of lenders which establishes a revolving credit facility in our favour in an initial aggregate available amount of \$150 million (to be increased automatically to \$400 million on the effective date of the Continuance) to enhance our financial flexibility. The facility has a five-year term and contains certain financial covenants. On the date of this prospectus, we are in compliance with these covenants and no amounts are outstanding under this facility. See “Description of Material Indebtedness”.

MCT Ratio³⁰

The table below shows our consolidated regulatory capital position as at September 30, 2021 and December 31, 2020 and 2019. Capital available and capital required included in the table below are determined in the manner prescribed by OSFI.

	As at September 30, 2021	As at December 31, 2020	As at December 31, 2019
<i>(in millions of dollars, except as otherwise noted)</i>			
Capital available	\$1,711.4	\$1,477.8	\$1,217.3
Capital required	\$ 629.1	\$ 550.8	\$ 509.2
MCT%	272%	268%	239%
Excess capital at 175%	\$ 610.5	\$ 514.0	\$ 326.1
Excess capital at 200%	\$ 453.2	\$ 376.3	\$ 198.8

The MCT ratio as at September 30, 2021 increased from December 31, 2020 due mainly to an increase in capital available from the generation of net income and a decrease in the deduction from capital available for deferred tax assets. There was an increase in capital required due mainly to market risk, stemming from purchases of stocks and bonds.

The MCT ratio as at December 31, 2020 increased from December 31, 2019 due mainly to an increase in capital available from the generation of net income, unrealized investment gains, and the utilization of inadmissible tax loss carryforwards. There was an increase in capital required mainly on unpaid claim liabilities, premium liabilities, and investments. Capital required is based on discounted unpaid claim liabilities, which increased in 2020 due in part to the significant decline in the discount rate used in 2020 as compared to 2019. Premium liabilities increased due to higher premiums. The significant decline in yields also resulted in increased fair values for the bond portfolio which increased the capital required for interest rate risk. Capital required for market risk also increased due to higher fair values for common stocks from additional purchases and unrealized gains.

As a result of the heightened risk due to the COVID-19 pandemic and the ongoing volatility in capital markets, management continues to actively monitor the MCT, and has various strategies and tools in place in order to maintain sufficient capital levels.

Own Risk and Solvency Assessment

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

³⁰ Under the ICA, P&C Companies must maintain adequate capital and adequate and appropriate forms of liquidity. OSFI has published the MCT guideline which provides the framework within which OSFI assesses whether a P&C Company maintains adequate capital for purposes of the ICA. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Capital Requirements”.

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

We develop the ORSA by reviewing our key risks and identifying key risk indicators, then performing a range of quantitative risk sensitivity, stress testing, and other analyses, to relate our key risks to capital requirements. This process includes thoroughly assessing the methodology for relating risks to capital reflected in OSFI's MCT guidelines and determining the appropriateness to our risk profile. As that regulatory methodology has been developed with consideration to the entire industry, some capital factors are more suitable than others in addressing our risks. Depending on the risk, the regulatory approach may need to be modified to our circumstances, or we may determine that a different methodology is appropriate. We may also determine that the regulatory method is adequate and adopt it without modification. The output of this effort is the relation of risks to ORSA capital requirements using both quantitative and qualitative methods in a deterministic capital model. Stress testing is then utilized to assess the resiliency of our capital under a range of adverse conditions, including extreme scenarios. The ORSA is integrated into the budgeting and planning process to determine our ability to meet internal and regulatory capital targets in the future, and to identify contingency plans and procedures should capital levels threaten to fall below pre-determined early-warning levels, as specified in our capital management policy. Our ORSA capital level is higher than our internal targets established in our capital management policy.

Financial Strength Ratings

Economical Insurance maintains an individual financial strength rating from AM Best and DBRS Limited. Financial strength ratings provide industry participants and consumers with a means of assessing the financial strength and quality of insurers. These ratings are relevant to policyholders and are not directed towards the protection of shareholders. Accordingly, these ratings represent independent opinions of financial strength and ability to meet policyholder obligations and are neither a rating of nor directly applicable to the Common Shares being offered by this prospectus.

On October 28, 2021, AM Best affirmed our A- (Excellent) financial strength rating (FSR). According to AM Best's FSR scale, an "A- (Excellent)" FSR rating is assigned to insurance companies that have, in AM Best's opinion, an excellent ability to meet their ongoing insurance obligations. The rating of A- (Excellent) provides further reinforcement of our financial strength assessment. The outlook for this rating remains stable.

On August 26, 2021, Economical Insurance received a financial strength rating from DBRS Limited of A (low) with a Stable trend. According to DBRS Limited's FSR scale, an "A" FSR rating is assigned to insurers of good financial strength, where the insurer's capacity for the payment of policyholder and contract obligations is substantial, but of lesser financial strength than AA. The insurer may be vulnerable to adverse business and economic conditions, but qualifying negative factors are considered manageable. The rating of A (low) provides further reinforcement of our financial strength assessment.

Cash Flows

As at September 30, 2021, we had \$339.9 million (December 31, 2020: \$510.3 million; December 31, 2019: \$94.7 million) of cash and cash equivalents and \$148.1 million (December 31, 2020: \$218.2 million; December 31, 2019: \$228.1 million) of short-term investments. We also have a highly liquid investment portfolio comprised of actively-traded securities, including Canadian fixed income investments issued or guaranteed by domestic governments, investment-grade corporate bonds, publicly-traded Canadian and foreign equities and foreign equity pooled funds. We believe that our internal resources will provide sufficient funds to fulfill our operating cash requirements during the next 12 months. The liquidity policy seeks to ensure that we have sufficient cash and liquid resources to meet our financial obligations and to support our future growth initiatives, and that excess cash is appropriately invested.

A summary of cash flows for the three and nine months ended September 30, 2021 and 2020 and the years ended December 31, 2020, 2019 and 2018 is as follows:

(in millions of dollars, except as otherwise noted)	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,		
	2021	2020	2021	2020	2020	2019	2018
Operating activities							
Net cash provided by operating activities	\$ 256.2	\$ 186.0	\$ 478.5	\$ 332.0	\$490.2	\$ 138.5	\$ 44.6
Investing activities							
Investments purchased, net of investments sold	(152.7)	(101.2)	(608.8)	(158.1)	(47.0)	(204.5)	(38.9)
Commercial loans collected, net of commercial loans advanced	1.0	7.0	3.0	13.8	15.2	48.7	(5.3)
Other assets purchased	(22.0)	(12.1)	(43.1)	(31.1)	(42.8)	(23.3)	(49.5)
Business dispositions	—	—	—	—	—	—	18.0
Net cash used in investing activities	(173.7)	(106.3)	(648.9)	(175.4)	(74.6)	(179.1)	(75.7)
Net increase (decrease) in cash and cash equivalents	\$ 82.5	\$ 79.7	\$ (170.4)	\$ 156.6	\$415.6	\$ (40.6)	\$ (31.1)

Cash Provided by Operating Activities in the Three and Nine Months Ended September 30, 2021 and 2020

Cash provided by operating activities increased in the third quarter of 2021 compared to the third quarter of 2020, driven by an increase in premiums collected due to the strong growth in GWP which was partially offset by an increase in commissions and expenses paid. Year to date, cash provided by operating activities increased driven by an increase in premiums collected and a decrease in claims paid, which were partially offset by an increase in underwriting expenses and income taxes paid.

Cash Used in Investing Activities in the Three and Nine Months Ended September 30, 2021 and 2020

Cash used in investing activities increased in the third quarter of 2021 and year to date due to net investments purchased.

Cash Provided by Operating Activities in the Years Ended December 31, 2020 and 2019

We generated positive cash flows from operations in 2020 and 2019. Cash provided by operating activities increased significantly in 2020 due primarily to an increase in premiums collected and a decrease in claims paid.

Cash Used in Investing Activities in the Years Ended December 31, 2020 and 2019

Cash used in investing activities decreased in 2020 due primarily to a decrease in net investments purchased, partially offset by a decrease in commercial loans collected and an increase in other assets purchased.

Cash Provided by Operating Activities in the Years Ended December 31, 2019 and 2018

We generated positive cash flows from operations in 2019 and 2018. Cash provided by operating activities increased in 2019 due primarily to an increase in premiums collected, and a decrease in commissions and expenses paid due in part to reduced costs as a result of the completion of the Vyne deployment in 2018 and commissions received pursuant to the Quota Share Agreement. These were partially offset by an increase in claims paid and a decrease in income taxes recovered.

Cash Used in Investing Activities in the Years Ended December 31, 2019 and 2018

Cash used in investing activities increased in 2019 due primarily to an increase in net investments purchased, partially offset by commercial loans collected. The business disposition in 2018 pertained primarily to the sale of our shareholding in a brokerage in the first quarter of 2018.

Contractual Obligations

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

	As at December 31, 2020		
	Less than 1 year	Over 1 to 5 years	More than 5 years
(in millions of dollars, except as otherwise noted)			
Claim liabilities (undiscounted)	\$881.9	\$1,402.8	\$535.0
Leases (undiscounted) and other commitments	36.5	41.9	12.0
Total	<u>\$918.4</u>	<u>\$1,444.7</u>	<u>\$547.0</u>

During the first quarter of 2021, we signed contracts related to the ongoing modernization of our information technology infrastructure with future payments of \$40.2 million over the next five years. Our claim liabilities increased to \$3,246.5 million as at September 30, 2021 from \$3,026.3 million as at December 31, 2020. See “– Net Claim Liabilities” for a discussion of the changes in our net claim liabilities, and Note 7(e) to our audited consolidated financial statements for the year ended December 31, 2020 for a discussion of our claim liabilities (undiscounted) as at December 31, 2020.

Off-Balance Sheet Liabilities and Contingencies

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

We participate in a securities lending program managed by a major Canadian and U.S. financial institution, whereby we lend securities we own to borrowers to allow them to meet delivery commitments. The lending agents assume the risk of borrower default associated with the lending activity. As at September 30, 2021, securities with an estimated fair value of \$597.6 million (December 31, 2020: \$607.8 million; December 31, 2019: \$597.5 million) have been loaned and securities with an estimated fair value of \$618.8 million (December 31, 2020: \$628.4 million; December 31, 2019: \$617.4 million) have been received as collateral from the financial institutions. Lending collateral as at September 30, 2021 was 100.0% (December 31, 2020: 100.0%; December 31, 2019: 100.0%) held in cash and government-backed securities. The securities loaned under this program have not been removed from “Investments” in the consolidated balance sheet because we retain the risks and rewards of ownership.

The financial compensation we receive in exchange for securities lending is reflected in the consolidated statement of comprehensive income (loss) in “Net investment income”.

Related Party Transactions

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

As at September 30, 2021, commercial loans of \$10.1 million (December 31, 2020: \$10.9 million; December 31, 2019: \$11.8 million) were due from companies subject to significant influence. The loans are included in “Investments” in the consolidated balance sheet and are initially measured at the exchange amount. The loans are subsequently measured in accordance with the accounting policy for loans and receivables. See “– Accounting and Internal Controls – Summary of Significant Accounting Policies – Financial Instruments Including Investments – Loans and Receivables/Other Financial Liabilities”.

Post-Employment Benefit Plans

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

The contributory defined benefit pension plans provide pension benefits based on length of service and final average pensionable earnings. The most recent actuarial valuation was prepared as of January 1, 2020. The contribution to be paid by us is determined each year by our pension actuaries. Our funding policy is to make contributions in amounts that are required to discharge the benefit obligations over the life of the plan. Based on the latest actuarial valuations of all its plans, the total required contributions by us to the pension plans are expected to be \$1.6 million in 2021. The contributions are expected to be made in the form of cash. Discretionary pension contributions for the year ended December 31, 2020 were nil (2019: nil). Pension plan matters are regulated by the Financial Services Regulatory Authority.

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

Under the defined contribution component of the pension plan, we contribute a fixed percentage of an employee's pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan totalled \$11.5 million for the nine months ended September 30, 2021 and \$13.5 million in 2020 (2019: \$11.9 million).

In the third quarter of 2021, an actuarial gain of \$18.4 million was recognized in other comprehensive income (loss) related primarily to changes in the discount rate used to determine the benefit obligation.

Accounting and Internal Controls

Internal Controls and Procedures

The responsibilities of the Audit Committee include oversight of the Company's internal control systems including identifying, monitoring and mitigating business risks as well as compliance with legal and regulatory requirements related to financial reporting. See "Corporate Governance – Committees – Audit Committee" in this prospectus. Following completion of the Offering, Definity will be required to comply with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). See "Risk Factors – Risks Relating to Our Business – Failure to comply with requirements to design, implement and maintain effective control over financial reporting could have a material adverse effect on our business and the price of the Common Shares".

Critical Accounting Judgments, Estimates, and Assumptions

The preparation of our consolidated financial information in conformity with GAAP requires management to make judgments, estimates and assumptions that materially affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the period. Actual results could differ materially from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. For a summary of our significant accounting policies, see "– Accounting and Internal Controls – Summary of Significant Accounting Policies".

The most complex and significant judgments, estimates and assumptions used in preparing our consolidated financial information are discussed below.

Judgments

In the process of applying our accounting policies, management has applied judgment in its assessment of control or significant influence over investees, of the identification of objective evidence of impairment for financial instruments, the recoverability and recognition of deferred tax assets, the determination of cash-generating units ("CGUs"), the evaluation of current obligations requiring provisions and the identification of the indicators of impairment for property and equipment, goodwill and intangible assets.

Estimates and Assumptions

Management has made a variety of estimates that have had a significant impact in the determination of the carrying amounts of certain key assets and liabilities including, but not limited to, the following:

Valuation of Claim Liabilities

We are required by applicable insurance laws, regulations, and IFRS to establish liabilities for payment of claims and claims adjustment expenses that arise from our insurance products. These liabilities represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the reporting date. We establish our claim liabilities by geographic region, product line, type and extent of coverage, and year of occurrence.

Claim liabilities fall into two categories: reserves for reported claims and provision for IBNR losses. Additionally, liabilities are held for claims adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

Determining the provision for unpaid claims and adjustment expenses, and the related reinsurers' share involves an assessment of the future development of claims. The estimates are principally based on our historical experience. Methods of estimation have been used which we believe produce reasonable results given current information. This process takes into account the consistency of our claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting claims. Claim liabilities include estimates subject to variability, which could be material. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from past trends.

In general, the longer the term required for the settlement of a group of claims, the greater the potential for variability in the estimate. Any future changes in estimates would be reflected in the consolidated statement of comprehensive income in the year in which the change occurred.

The principal assumptions made in establishing claim liabilities are best estimates. Claim liabilities have been discounted to reflect estimated future investment income in accordance with Canadian accepted actuarial practice. The rate used to discount the claim liabilities is based on the fair value yield of the bond portfolio supporting the claim liabilities. To increase the likelihood that the claim liabilities are adequate to pay future benefits, margins for adverse deviation are required to be included for assumptions regarding future claims development, interest rates, and reinsurance recoverables. The Canadian Institute of Actuaries recommends a range of appropriate margins for each of these variables. The combined effect of all those margins produces the PfAD.

Reinsurance recoverables include amounts for expected recoveries from reinsurers related to claim liabilities. Amounts recoverable from reinsurers are evaluated in a manner consistent with the provisions of the reinsurance contracts. The failure of reinsurers to honour their obligations could result in losses to us, as the ceding of insurance does not relieve us of our primary liability to its insured parties.

Impairment of Long-Lived Assets

We determine whether long-lived assets are impaired on an annual basis or more frequently if there are indicators of potential impairment. Impairment testing of long-lived assets requires an estimation of the recoverable amount of the CGUs to which the assets are allocated.

Impairment of Financial Assets

We assess our AFS financial instruments for objective evidence of impairment at each reporting date. Objective evidence of impairment includes a significant or prolonged decline in the fair value or net asset value below cost, or when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. Significance of the decline is evaluated against the original cost of the investment and prolonged decline is measured against the period in which the fair value has been below its original cost. The determination of what is significant or prolonged requires judgment. In making this judgment, we evaluate, among other factors, a decline in current financial position, defaults on debt obligations, failure to meet debt covenants, significant downgrades in credit status, and severity and/or duration of the decline in value.

In 2020, given the significant volatility in the global equity markets due to the COVID-19 pandemic, we considered additional factors, including volatility, overall sector, and potential impacts from the COVID-19 pandemic, on each specific common stock in a loss position. For individual bonds and preferred stocks, we examined the potential impacts from the COVID-19 pandemic on each security in a loss position in addition to reviewing commentary and ratings from credit rating agencies.

Valuation of Post-Employment Benefits Obligation

The projected cost of defined benefit pension plans and other non-pension future benefits is determined using actuarial valuations performed by external pension actuaries. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rate, expected health care costs, inflation, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual experience that differs from the assumptions will affect the amounts of the benefit obligation recognized in the consolidated balance sheet, the expense recognized in net income, and actuarial gains or losses recognized in OCI in our consolidated statement of comprehensive income.

Measurement of Income Taxes

We are subject to income tax laws in various federal and provincial jurisdictions where we operate. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that our interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. We maintain provisions for uncertain tax positions that we believe appropriately reflect the risk of tax positions under discussion, audit dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty.

Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial information has been prepared on a historical cost basis, except for those financial instruments, including those held in the defined benefit pension plan, that have been measured at fair value, and claim liabilities and benefit plan obligations which are valued on a discounted basis in accordance with accepted actuarial practice.

The financial statements of the subsidiaries and material associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies of subsidiaries and associates in line with the Company. The consolidated financial statements include the accounts of Economical Mutual Insurance Company and its wholly-owned subsidiaries, Waterloo Insurance Company, Perth Insurance Company, The Missisquoi Insurance Company, Sonnet Insurance, Petline Insurance, Westmount Financial Inc., Family Insurance Solutions Inc., Definity and TEIG Investment Partnership (which holds the investment portfolio for all insurance companies in the group, except for Petline and Definity). Each of these subsidiaries operates and is incorporated or established in Canada.

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.

Basis of Consolidation

When the Company is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee, the investee is considered a subsidiary. Subsidiaries are fully consolidated from the date that control is obtained by the Company. Subsidiaries are deconsolidated from the date that control ceases.

When the Company has significant influence over an investee (i.e., the Company has the power to participate in the financial and operating decisions of the investee but does not have control or joint control over those decisions), the investee is considered to be an associate. Associates are accounted for under the equity method.

Business combinations are accounted for using the acquisition method. The acquisition method requires that the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the year incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest. Any contingent consideration is also measured at fair value at the acquisition date.

The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Insurance Contracts

Insurance contracts are those contracts which transfer significant insurance risk at inception. The Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified event (the insured event) with uncertain timing or amount adversely affects the policyholder. Similarly, by purchasing reinsurance, the Company transfers significant insurance risk to the reinsurers. As a general guideline, the Company determines whether significant insurance risk has been transferred for insurance and reinsurance contracts by comparing whether significantly more would be paid or received if the insured event occurs, versus if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Premiums and unearned premiums

Premiums are recognized in net earned premiums in the consolidated statement of comprehensive income on a pro-rata basis over the period of risk. Premiums on policies written are accounted for in full in gross written premiums in the year written. Premiums receivable include the premiums due for the remaining months of the contracts. Written premiums on multi-year policies are recognized in gross written premiums in the year written and are recognized in net earned premiums on a pro-rata basis over the period of risk. Unearned premiums (“UPR”) represent the portion of premiums written relating to periods of insurance coverage subsequent to the reporting date and are presented as a liability gross of amounts ceded to reinsurers. UPR ceded to reinsurers is included in “Reinsurance receivable and recoverable”.

Claim liabilities

Claim liabilities are calculated based on Canadian accepted actuarial practice. The claim liabilities consist of reserves for reported claims as determined on a case-by-case basis by claims adjusters and an actuarially determined provision for IBNR. The estimates include related investigation, settlement, and internal and external adjustment expenses. Measurement uncertainty in these estimates exists due to internal and external factors that can substantially impact the ultimate settlement costs. Consequently, we review and re-evaluate claims and reserves on a regular basis and any resulting adjustments are included in “Net claims and adjustment expenses” in the consolidated statement of comprehensive income in the period the adjustment is made. Claims and adjustment expenses are reported net of reinsurance. The claim liabilities are valued on a discounted basis using a rate that is derived from the fair value yield of the bonds that have been identified as supporting the claim liabilities. In addition, the claim liabilities include PfAD. The effect of discounting plus PfAD is included in “Impact of discounting” in the consolidated statement of comprehensive income. The claim liabilities are extinguished when the obligation to pay a claim expires, is discharged, or is cancelled.

Deferred policy acquisition expenses

The amount of deferred policy acquisition expenses (“DPAE”) represents the brokers’ commissions, premium taxes, and certain direct expenses in respect of the Company’s digital direct business, all of which are associated with the unearned portion of the premiums written during the year to the extent they are considered recoverable. The costs are expensed in the year in which the related premiums are recognized as income. To the extent deferred commissions and premium taxes are considered non-recoverable, they are expensed as incurred in the consolidated statement of comprehensive income. The maximum deferrable amount is calculated through the liability adequacy test.

Liability adequacy test

Quarterly, an assessment is made of whether the policy liabilities are adequate, which includes both claim liabilities and premium liabilities. Claim liabilities are assessed using current estimates of future cash flows of unpaid claims and adjustment expenses, discounted to reflect the time value of money. If that assessment shows that the carrying amount of the claim liabilities is insufficient in light of the current expected future cash flows, the deficiency is recognized in the consolidated statement of comprehensive income. Premium liabilities are assessed using current estimates of the discounted future claims and expenses associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of DPAE to the extent that the unearned premiums are not considered adequate to cover DPAE and premium liabilities. If the premium deficiency is greater than DPAE, a liability is accrued for the excess deficiency.

Industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured by Facility Association. In addition, entities can choose to cede certain risks to industry risk-sharing pools administered by Facility Association, or in Québec, to the Plan de Répartition des Risques administered by the Groupement des assureurs automobiles (collectively “the pools”). The related risks associated with Facility Association insurance policies and policies ceded by companies to the pools are aggregated and shared by the entities in the P&C insurance industry, generally in proportion to market share and volume of business ceded to the pools. In accordance with the OSFI guidelines, the Company applies the same accounting policies to FA and pool insurance it assumes and cedes as it does to insurance policies issued by the Company directly to policyholders. Our share of the pool assets backing policy liabilities is included in “Reinsurance receivable and recoverable”.

Reinsurance

Reinsurance receivable and recoverable includes reinsurers’ share of UPR and claim liabilities. We present third-party reinsurance balances in the consolidated balance sheet on a gross basis to indicate the extent of credit risk related to third-party reinsurance and its obligations to policyholders. The estimates for the reinsurers’ share of claim liabilities are determined on a basis consistent with the related claim liabilities. Reinsurance assets are reviewed at least quarterly for impairment.

Structured settlements

In the normal course of claims settlement, we enter into annuity agreements with various Canadian life insurance companies, that are required to have credit ratings of at least “A-” or higher, to provide for fixed and recurring payments to claimants in full satisfaction of the claim liability. Under such arrangements, we remove the liability from our consolidated balance sheet when the liability to its claimants is substantially discharged and legal release has also been obtained from the claimant, although we remain exposed to the credit risk that life insurers will fail to fulfil their obligations.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks, and term deposits having original maturities of ninety days or less. Fair values approximate carrying values for term deposits. The amount of cash not readily available for use by the Company is not significant.

Financial Instruments Including Investments

All of the Company's financial instruments are classified into one of the following four categories as defined below:

- AFS
- FVTPL
- loans and receivables
- other financial liabilities

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Instruments voluntarily designated as FVTPL to support the claim liabilities may never be reclassified and, except in very limited circumstances, the reclassification of other financial instruments is not permitted subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a settlement-date basis. Transaction costs are expensed as incurred for FVTPL financial instruments. For other financial instruments, transaction costs are capitalized on initial recognition. The effective interest rate method of amortization is used to account for any transaction costs capitalized on initial recognition and purchased premiums or discounts earned on bonds.

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

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

Available for Sale

All short-term investments, equities (including preferred stocks, common stocks, and pooled funds), and bonds, except those voluntarily designated as FVTPL, are designated as AFS. Short-term investments consist of term deposits having original maturities of greater than ninety days and less than one year. AFS financial instruments are carried at fair value. Changes in fair value are recorded, net of income taxes, in "Other comprehensive income (loss)" ("OCI") in the consolidated statement of comprehensive income until the disposal of the financial instrument, or when an impairment loss is recognized. When the financial instrument is disposed of, the gain or loss is reclassified from "Accumulated other comprehensive income (loss)" ("AOCI") to "Recognized gains on investments" in the consolidated statement of comprehensive income. Gains and losses on the sale of AFS financial instruments are calculated on an average cost basis.

The Company assesses its AFS financial instruments for objective evidence of impairment quarterly. Objective evidence of impairment exists for individual equities (including common stocks and pooled funds) when there has been a significant or prolonged decline in fair value or net asset value below cost. Objective evidence of impairment exists for individual bonds when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. Factors that are considered include, but are not limited to, a decline in current financial position, defaults on debt obligations, failure to meet debt covenants, significant downgrades in credit status, and severity and/or duration of the decline in value. For individual preferred stocks, the key features of the preferred stock are assessed to determine if the instrument is more characteristic of an equity instrument or a debt instrument and objective evidence of impairment is evaluated accordingly. Preferred stocks, or stock that is redeemable at the Company's option, and perpetual preferred stock purchased to produce dividend income for the long-term, are assessed using the same methodology as the bond impairment analysis.

When objective evidence of impairment exists for a financial instrument, the impairment loss is measured as the difference between carrying value and fair value. Impairment losses on AFS financial instruments are reclassified from

AOI to “Recognized gains on investments” in the consolidated statement of comprehensive income in the period such criteria are met. Subsequent fair value increases on previously impaired individual equities and pooled funds are recognized directly in OCI and not reversed through net income, while subsequent fair value decreases are recognized directly in net income. For individual bonds or preferred stocks, subsequent fair value increases that can be attributed to an observable positive development are recognized directly in net income, but otherwise, are recognized directly in OCI. Any subsequent reversal of an impairment loss on a bond or preferred stock is recognized in net income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Fair Value Through Profit or Loss

The Company has voluntarily designated a portion of its bonds as FVTPL. Changes in fair values as well as gains and losses on disposal of FVTPL financial instruments are recorded in “Recognized gains on investments” in the consolidated statement of comprehensive income with the related tax impact included in “Income tax expense”. Gains and losses on the sale of FVTPL financial instruments are calculated on an average cost basis. As changes in the fair value of FVTPL financial instruments are reflected directly within net income in the consolidated statement of comprehensive income, it is not necessary to record an impairment loss when there has been a significant or prolonged decline in the fair value of FVTPL financial instruments.

The designation of the FVTPL bond portfolio aims to reduce the accounting mismatch in net income that would otherwise be generated by the fluctuations in fair values of underlying claim liabilities due to changes in interest rates. In compliance with OSFI guidelines, the Company manages the FVTPL portfolio’s quantum and duration so that the impact of changes in interest rates on claim liabilities and on the FVTPL portfolio reasonably offset each other.

Derivative Financial Instruments

Derivatives are financial instruments that have value derived from underlying interest rates or other financial instrument prices or indices. Derivatives are classified as FVTPL. There are currently no derivatives designated as a hedge for accounting purposes. Derivatives are initially measured at fair value at the settlement date and subsequently remeasured at fair value at the end of each reporting date. The gains and losses arising from remeasuring the derivatives at fair value are recognized in “Recognized gains on investments” in the consolidated statement of comprehensive income with the related tax impact included in “Income tax expense”.

Loans and Receivables/Other Financial Liabilities

Financial instruments classified as loans and receivables, including commercial loans, and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value through “Recognized gains on investments” in the consolidated statement of comprehensive income.

Evidence of impairment exists for individual commercial loans when there is a deterioration in the counterparties’ financial performance to the extent that we no longer have reasonable assurance of timely collection of the full amount of principal and interest.

Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes amounts directly attributable to the acquisition of the items of property and equipment. Subsequent costs are added to the cost of the asset only when it is probable that economic benefits will flow to the Company in the future and the cost can be reliably measured.

Property and equipment are depreciated over their expected useful lives on a straight-line basis to their residual value. Each component of property and equipment with a cost that is significant in relation to the total cost of the asset is depreciated separately. Residual values, depreciation rates and useful lives are reviewed at least annually and adjusted, if appropriate, at the reporting date. Land is not subject to depreciation and is carried at cost.

Leases

The Company recognizes a right-of-use asset and a corresponding lease liability in the consolidated balance sheet with respect to all lease arrangements in which it is the lessee, except for short-term leases (leases with a lease term of 12 months or less) and leases of low value assets. For short-term and low value leases, the Company recognizes the lease payments in “Operating expenses” in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease unless another systemic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities are initially measured at the present value of the lease payments, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses an estimate of its incremental borrowing rate at the commencement of the lease. Lease payments are allocated between interest expense and a reduction of the outstanding lease liability. Lease liabilities are recognized in “Accounts payable and other liabilities” in the consolidated balance sheet.

At the commencement date of the lease, the cost of right-of-use assets comprise the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. These assets are depreciated over the shorter of the lease term or their useful life. Right-of-use assets are recognized in “Property and equipment” in the consolidated balance sheet. Incentives received from the lessor, such as rent-free periods, are recognized as part of the measurement of the right-of-use assets and lease liabilities.

Interest expense and depreciation expense are recognized in “Operating expenses” in the consolidated statement of comprehensive income.

Intangible Assets

Intangible assets include capitalized software costs, where the software is not integral to the hardware on which it operates. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition, and include assets such as brand, distribution network, and customer relationships. Costs that are directly attributable to the development and testing of identifiable and unique software products controlled by the Company are recognized in software when the criteria specified in International Accounting Standard (“IAS”) 38 — Intangible Assets (“IAS 38”) are met. Capitalized costs include employee costs for staff directly involved in software development and other direct expenditures related to the project. Other development expenditures that do not meet the capitalization criteria under IAS 38 are recognized as an expense as incurred. Following the initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful economic life. Amortization is recorded in “Operating expenses” in the consolidated statement of comprehensive income. The useful life for intangible assets with a finite useful life are reviewed at least annually. Intangible assets with indefinite lives and intangible assets which are under development are not amortized but are tested at least annually for impairment.

Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that its non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company compares the asset’s recoverable amount to the asset’s carrying value. An asset’s recoverable amount is calculated based on its value-in-use using a discounted cash flow model. For the purposes of testing, assets are grouped into the lowest level in which cash inflows are largely independent of those from other assets or groups of assets. The recoverable amount is determined for the CGU to which the asset belongs.

Income Taxes

Income tax expense is comprised of current and deferred income tax. Income tax is recognized in net income except to the extent that it relates to items recognized in OCI or directly to retained earnings.

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Interest income or expenses arising on tax assessments, if any, are included in “Other expenses” in the consolidated statement of comprehensive income.

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their respective carrying amounts for financial reporting purposes at the reporting date. Deferred income tax is calculated using income tax laws and rates enacted or substantively enacted as at the reporting date, which are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.

Pensions, Other Post-Employment Benefits and Other Employee Benefits

The Company provides certain pension and other post-employment benefits to eligible participants upon retirement.

Pension benefits

The Company operates a defined benefit pension plan primarily for certain employees hired prior to January 1, 2002, together with Rowan Saunders, the Company’s Chief Executive Officer, who was added to the plan in November 2016 as part of the terms of his employment, which requires contributions to be made to a separately administered fund. Economical Insurance closed the defined benefit pension plan to new entrants in 2003.

The benefit is based on the employee’s length of service and final average pensionable earnings. The cost of the defined benefits is actuarially determined and accrued using the projected unit credit valuation method pro-rated on service. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate, and management’s best estimates concerning such factors as salary escalation and retirement ages of employees. Costs recognized in the consolidated statement of comprehensive income include the cost of pension benefits provided in exchange for employees’ services rendered during the year, and the net interest cost calculated by applying a discount rate to the net defined benefit obligation. Actuarial gains and losses are recognized in full in OCI in the year in which they occur and then immediately in retained earnings. They are not reclassified to net income in subsequent years. Past service costs, which are a result of a plan amendment or curtailment, are recognized in “Other expenses” in the consolidated statement of comprehensive income when the amendment or curtailment has occurred.

The defined benefit asset or liability comprises the fair value of plan assets less the defined benefit obligation out of which the obligations are to be settled directly. This is recorded in the consolidated balance sheet in “Other assets” if the balance is in an asset position, and is recorded in “Accounts payable and other liabilities” if in a liability position. Plan assets are held by a long-term employee benefit fund and are not available to creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published closing price. The value of any defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company also has a defined contribution pension plan for certain employees, for which Company contributions are expensed in the year. The Company has no further payment obligations once the Company contributions and applicable administration fees have been paid.

Non-pension benefits

The Company provides other post-employment benefits for eligible employees hired prior to July 3, 2012. The Company accounts for the cost of all non-pension post-employment benefits, including medical benefits, dental care

and life insurance for eligible retirees, their spouses, and qualified dependants, on an accrual basis. These costs are recognized in “Operating expenses” in the consolidated statement of comprehensive income in the year during which services are rendered and are actuarially determined using the projected unit credit valuation method pro-rated on service. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate, and management’s best estimates concerning such factors as salary escalation, retirement ages of employees and expected health care costs. The impact of a plan curtailment is recognized in “Other expenses” in the consolidated statement of comprehensive income when an event giving rise to a curtailment has occurred.

Actuarial gains and losses, except for long-term disability benefits, are recognized in full in OCI in the year in which they occur and then immediately in retained earnings. They are not reclassified to net income in subsequent years. Actuarial gains and losses for long-term disability benefits are recognized in “Operating expenses” in the consolidated statement of comprehensive income.

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

Termination benefits

Termination benefits are payable when employment is terminated, without cause, by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* (“**IAS 37**”) and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Short-term incentive plan

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration various financial metrics and qualitative performance criteria. The Company recognizes a provision when contractually obliged or where there is a past practice that has created a reasonable expectation of a constructive obligation.

Medium-term incentive plan

Under the Medium-Term Incentive Plan (“**MTIP**”), notional units (hereinafter referred to as Restricted Units (“**RUs**”) or Performance Units (“**PU**s”)) are granted annually to certain members of management, with a unit value based on the book value of Economical Insurance. Prior to the completion of the Offering, the value of the RUs will fluctuate based solely on the book value of the Company and the value of the PUs will fluctuate based on the book value of the Company and the Company’s performance measured against certain performance criteria. Following the completion of the Offering, no further awards will be granted under the MTIP. Outstanding awards will be adjusted in accordance with the MTIP in connection with the completion of the Offering and will appreciate and depreciate on the basis of the Company’s share price. RUs and PUs vest over one to three years after the grant date, depending on the specific grant, and are then settled in cash.

The cost of the awards is recognized as an expense over the vesting period based on the estimated payout under the MTIP at the end of the vesting period, with a corresponding financial liability recorded in “Accounts payable and other liabilities”. The Company re-estimates the value of awards that are expected to vest at each reporting period. The ultimate liability for any payment of RUs and PUs is dependent on the book value of the Company at the vesting date. For PUs, the liability is also dependent on the Company’s performance relative to the performance criteria.

Provisions

Provisions are recognized when the Company determines that there is a present legal or constructive obligation as a result of a past event or decision, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Foreign Currency Translation

Assets and liabilities of the Company's foreign subsidiaries are translated from their functional currencies into Canadian dollars at the exchange rate in effect at the reporting date, except for goodwill acquired prior to the IFRS transition date of January 1, 2010 ("**transition date**").

Any goodwill arising on the acquisition of a foreign operation subsequent to the transition date and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenues and expenses are translated at the monthly weighted average rate prevailing during the year. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recorded in OCI. On the disposal of a foreign operation, the cumulative amount of exchange differences relating to that operation is recognized in net income.

Transactions incurred in currencies other than the functional currency of the reporting entity are converted to the functional currency at the rate in effect on the transaction date. Monetary assets and liabilities denominated in a currency other than the functional currency are converted to the functional currency at the exchange rate in effect at the reporting date. Unrealized foreign currency gains and losses on AFS financial instruments are included in OCI. All other foreign currency gains and losses are included in net income.

Embedded Derivatives

At least annually, the Company conducts a search for embedded derivatives within its significant contracts. No material embedded derivatives were identified that required bifurcation in any of the periods presented.

Future Accounting and Reporting Changes

The following IFRS standards have been issued but are not yet effective.

Insurance Contracts

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4 – *Insurance Contracts* ("**IFRS 4**"). IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. There are two measurement methodologies under IFRS 17, the general model and the premium allocation approach. The general model requires insurance contracts to be measured using current estimates of discounted future cash flows, an adjustment for risk, and a contractual service margin representing the profit expected from fulfilling the contracts. The premium allocation approach is a simplified model that can be applied to insurance contracts with coverage periods of one year or less (which is the coverage period of many P&C insurance contracts), or where the premium allocation approach approximates the general model. Presentation changes in the consolidated balance sheet and the consolidated statement of comprehensive income are required in addition to new disclosures.

In June 2020, the IASB approved amendments to IFRS 17. The amendments, among other items, included deferring the effective date of IFRS 17 to be effective for annual reporting periods beginning on or after January 1, 2023; early adoption is permitted. Retrospective application is required unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The Company plans to adopt the new standard on the required effective date together with IFRS 9 – *Financial Instruments* ("**IFRS 9**"). The Company expects to apply the premium allocation approach to its insurance contracts. The disclosure and measurement differences on adoption are expected to be significant. The Company is currently analyzing the impact these standards, including the most recent amendments to IFRS 17, will have on its consolidated financial statements. The system, process, internal control and reporting changes required to implement these standards are significant and may negatively impact other initiatives, operational processes and internal controls and financial performance. See "Note 3 – "Standards Issued But Not Yet Effective" to our audited consolidated financial statements included in this prospectus.

We have established a program management office with respect to the adoption of IFRS 17. We have various workstreams, which include accounting, actuarial, and IT resources, as well as functional leaders from across the organization. We are active in industry working groups, and participate in discussions with other stakeholders. While we have made preliminary accounting and actuarial assessments, they are subject to change with the release of industry guidance and are not yet reliable estimates of the impact of IFRS 17. Significant modelling activities continue with respect to these accounting and actuarial assessments to determine their impacts. Additionally, we are implementing an IFRS 17 systems solution with completion of user acceptance testing and implementation sprints expected in 2022.

Financial Instruments: Classification and Measurement

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* (“**IAS 39**”) and all previous versions of IFRS 9. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This single, principle-based approach replaces existing rule-based requirements and is intended to improve and simplify the reporting for financial instruments.

Debt instruments are classified as amortized cost, fair value through other comprehensive income (“**FVOCI**”), or FVTPL 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 FVOCI. Gains or losses on equity instruments classified as FVOCI are not reclassified to profit and loss and are therefore not required to be reviewed for impairment. Impairment requirements for debt instruments classified as amortized cost or FVOCI are based on the expected credit loss model which is intended to recognize credit losses earlier compared to IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions.

An entity whose activities are predominantly connected with insurance at its annual reporting date that immediately precedes April 1, 2016 is eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. The Company has chosen to apply the temporary exemption from IFRS 9 to defer the application of IFRS 9 until the effective date of IFRS 17.

See “Risk Factors – Risks Relating to Our Business – Changes in accounting standards or interpretations could adversely affect our financial results”.

Risk Management

Overview

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

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

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

The Economical Board, directly or through its Risk Review Committee, oversees the effective implementation of the enterprise risk management framework providing challenge, advice and guidance to senior management to confirm

appropriate risk management policies are in place, the effectiveness and outcomes of risk management processes and the decisions and actions of senior management are consistent with the Board-approved business plans, strategy and risk appetite. Regular reports on our risk profile, including significant risks, risk appetite exposures and significant exceptions to risk management policies and controls, are provided to senior management, the Economical Board and its committees.

Alignment

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

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

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

Risk Governance and Accountability

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

Risk management occurs at all levels of the organization. The Economical Board approves and oversees, among other things, our risk appetite, our internal control framework, our Code of Conduct and significant policies, plans and strategic initiatives related to the management of, or that materially impact, capital and liquidity. It also provides challenge, advice, and guidance to senior management on the ORSA, our business performance, and the effectiveness and outcomes of risk management practices, as well as significant capital, operational, business, risk and crisis management policies. To assist the Economical Board in confirming that the key risks are appropriately identified, critically assessed, and adequately managed, certain risk management accountabilities have been delegated to the following Board committees:

- Audit Committee
- Corporate Governance Committee
- Human Resources and Compensation Committee
- Risk Review Committee

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

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

See “Corporate Governance – Committees” in this prospectus.

Three Line of Defence Risk Governance Model

We have implemented a three line of defence risk governance model, consisting of front-line business operations (first line), enterprise risk management and compliance functions and executive management committees (second line)

and internal audit (third line). Each line of defence has internal quality assurance and validation practices to oversee and confirm compliance with established policies and practices. Primary accountability for enterprise risk management resides with our CEO, who further delegates responsibilities throughout the Company under a framework of management authorities and responsibilities. Key components of that framework include the following:

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

Management of Key Risks

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

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

Insurance Risk

Underwriting Risk

Underwriting and Pricing

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

In particular, a financial loss occurs when the liabilities assumed exceed the expectation reflected in the pricing of an insurance product. We price our products by taking into account numerous factors including product design and features, claim frequency and severity trends, product line expense ratios, special risk factors, capital requirements, regulatory requirements, competitive forces and expected investment returns. These factors are reviewed and adjusted on an ongoing basis to ensure they are reflective of current trends and market conditions. We endeavour to maintain pricing levels that produce an acceptable return by appropriately measuring and incorporating these factors into our pricing decisions. New products and material product changes are subject to a detailed review by management, including our actuarial specialists, prior to their launch in order to mitigate the risk that they are priced at an inadequate level. Pricing segmentation and risk selection are used together with a view to attracting and retaining risks at acceptable return rates. The process of calculating pricing involves the use of models, which exposes us to the risk that actual results differ from those modelled (model risk), due to model limitations, data issues, human error, or other factors.

The performance and pricing of all of our products are regularly monitored, and corrective action is taken as considered necessary, including modification of product pricing, terms, conditions, or eligibility requirements; modification of the level of capacity provided; the use of reinsurance or risk-sharing pool, as applicable; and eliminating the offering of some products or product features.

To reduce the risk arising from underwriting, we have policies that set out our underwriting risk appetite and criteria, as well as specified tolerances for maximum financial risk retention and management processes to monitor compliance with these limits. We utilize reinsurance and risk-sharing pools, where available, in order to manage our exposure to insured risks (refer to “Accounting and Internal Controls – Summary of Significant Accounting Policies – Insurance Contracts – Industry Pools” above for more detail).

Claims Settlement

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

Legal and Regulatory Implications

In the normal course of our business, we are, from time to time, subject to a variety of legal and regulatory actions relating to our business operations. In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative and regulatory activity may increase our exposure to these types of legal claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. To mitigate our exposure to these types of legal claims, we promptly respond to new insurance and legal claims and actively manage existing insurance and legal claims. When necessary, claims reserves are adjusted to reflect potential legal defence costs and potential settlements. We also monitor legal and regulatory developments and their impact to our business.

Quality Review Procedures

Quality review procedures seek to ensure that our underwriting and claim activities fall within established guidelines, expected practices and pricing structures. Centralized and field level reviews are conducted on a test basis. The results of these quality reviews are shared with the appropriate management and staff with the intention that any issues identified can be promptly addressed.

Reinsurance

We use reinsurance to manage our exposure to insurance risks. Reinsurance coverage risk arises because reinsurance terms, conditions, availability and pricing may change on renewal, particularly following domestic, foreign, or global catastrophe events, or as a result of higher-than-expected claims activity on non-catastrophe reinsurance treaties. In addition, reinsurers may seek to impose terms that are inconsistent with corresponding terms in the policies written by us. Ceding risk to reinsurers does not relieve us of the obligation to our policyholders for claims; therefore, we manage the level of credit risk associated with our reinsurers and our recoverable balances. Management reviews our reinsurance program with the intention of ensuring its cost effectiveness and the adequacy of coverage obtained, which reflects our risk tolerances, underwriting practices and financial strength, while at the same time complying with our reinsurance and capital risk management policies.

Reserve Estimate Risk

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

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

Through a series of algorithms, real-time analytics, and integration of third-party services, each claim submission is assessed for validity, and costing (including salvage, subrogation, reserving, etc.). After the triage stage is complete, we leverage artificial intelligence (AI) tools to assign the claim to an appropriate claims adjuster. Individual claims estimates are determined by claims adjusters on a case-by-case basis in accordance with documented policies and

procedures. These specialists apply their experience, knowledge and expertise, after taking into account available information regarding the circumstances of the claim to set individual case reserve estimates. Uncertainty exists on reported claims in that all information may not be available at the valuation date. Uncertainty also exists regarding the number and size of claims not yet reported as well as the timing of when the claims will be reported. Accordingly, the IBNR provision is intended to cover future additional costs emerging on both reported claims and claims that have occurred but have not yet been reported.

The valuation of claim liabilities is based on estimates derived by geographical region and line of business using generally accepted actuarial techniques. Numerous individual assumptions that impact average claim costs or frequency of late reported claims are made for each line of business. The main assumption in the majority of actuarial techniques employed is that future claims development will follow a pattern similar to recent historical experience. However, there are times where historical experience is deemed inappropriate for evaluating future development because there is insufficient credible data, or because changes in claims handling practices, climate patterns, recent judicial decisions, changes to legislation or major shifts in a book of business indicate a departure from historical trends. Such instances can require significant actuarial judgment, often supported by industry benchmarks and studies, in establishing an adequate provision for claim liabilities.

Establishing an adequate provision for claim liabilities is an inherently uncertain process and is closely monitored by our corporate actuarial department. Claim liabilities, including the provision for IBNR as established by our corporate actuaries, are subject to an internal and external peer review process to assess the adequacy of the provision for claim liabilities and compliance with professional standards.

As the outstanding claim liabilities are intended to represent payments that will be made in the future, they are discounted to reflect the time value of money. The discount rate used to discount the actuarial value of claim liabilities is based on the fair value yield of our bond investments that support the claim liabilities. In assessing the risks associated with investment income and therefore the discount rate, we consider the nature of the bond portfolio and the timing of claim payments, and the extent to which they match, to expected investment cash flows. Future changes in the bond portfolio could change the value of claim liabilities by impacting the fair value yield.

The following table presents the interest rate sensitivity analysis for a one percentage point change in interest rates on the net claim liabilities:

(in millions of dollars, except as otherwise noted)	As at December 31,			
	2020		2019	
Impact on:	+1%	-1%	+1%	-1%
Net claim liabilities	\$(83.6)	\$89.6	\$(75.1)	\$80.4

Catastrophe Risk

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

We manage our catastrophe events exposure by monitoring exposure to concentrations of insured risks, considering the potential impact on capital position and overall risk tolerances, and through the deductibles charged to policyholders, by limitations on policy terms, by limiting underwriting of particular risks or geographies, and by purchasing reinsurance.

Financial Risk

Our financial instruments, including investments, are exposed to interest rate risk (including the impact of credit spreads), equity market price risk and preferred stock price risk, credit risk, foreign exchange risk and liquidity risk. Due to low utilization, derivatives are not considered a material source of risk at this time.

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

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of assets and liabilities as they either mature or are contractually repriced. Changes in interest rates can occur from both changes in the Government of Canada yield curve and changes in relevant market credit spreads. Typically, interest income will be reduced during sustained periods of declining interest rates, but this will also generally increase the fair value of the bond portfolio. The opposite is true during a sustained period of increasing interest rates.

Interest rate risk is a significant risk to us due to the nature of our investments and claim liabilities. Accordingly, a portion of our bond portfolio has been voluntarily designated as FVTPL financial assets which, together with a portion of AFS bonds, is managed to offset the effect that interest rate changes have on our claim liabilities.

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

(in millions of dollars, except as otherwise noted)	As at December 31,			
	2020		2019	
Impact on:	+1%	-1%	+1%	-1%
Fair value of FVTPL bonds and income before income taxes	\$(77.0)	\$85.5	\$(72.7)	\$82.8
Fair value of AFS bonds and OCI before income taxes	\$(60.8)	\$69.8	\$(52.8)	\$59.8

As discussed above under “Insurance Risk – Reserve estimate risk”, as at December 31, 2020, an immediate hypothetical one percentage point increase in the discount rate would have reduced net claim liabilities, and increased income before income taxes, by \$83.6 million (2019: \$75.1 million). This would have offset a corresponding decrease in income before income taxes on the FVTPL bond portfolio discussed above of \$77.0 million as at December 31, 2020 (2019: \$72.7 million).

Common Equity Market Price Risk and Preferred Stock Price Risk

A portion of our investment portfolio is held in Canadian and foreign equities. General economic conditions, stock market conditions, investor sentiment and many other factors can positively or adversely impact the equity markets and, consequently, the value of equity investments we hold. Our AFS portfolio includes Canadian common stocks with fair value movements that are benchmarked against movements in the Toronto Stock Exchange 60 Index, and foreign stocks and pooled funds with fair values that are benchmarked against movements in the MSCI World Index. Also included in the AFS portfolio are our holdings of preferred stocks. Economic trends, interest rates, credit conditions, regulatory changes and other factors can positively or adversely impact the value of preferred stocks that we hold. The fair value sensitivity of our preferred stocks is assessed against movements in the S&P Preferred Share Index.

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

(in millions of dollars, except as otherwise noted)	As at December 31,			
	2020		2019	
Impact on:	10%	-10%	10%	-10%
Fair value of Canadian stocks and OCI before income taxes	\$26.6	\$(26.6)	\$23.0	\$(23.0)
Fair value of foreign stocks, pooled funds and OCI before income taxes	\$11.0	\$(11.0)	\$10.0	\$(10.0)
Fair value of preferred stocks and OCI before income taxes	\$36.5	\$(36.5)	\$31.7	\$(31.7)

Credit Risk

Credit risk is the risk of financial loss caused by our counterparties not being able to meet payment obligations as they become due. Our credit risk arises primarily in the bond, preferred stock and commercial loan portfolios, the securities lending program, premiums receivable, amounts owing from reinsurers and structured settlements. Unless otherwise stated, our credit exposure is limited to the carrying amount of these assets. Our principal approach to mitigate credit risk is to maintain high credit quality standards and to diversify credit exposures by limiting single name concentrations. Concentration risk also exists where multiple counterparties may be financially affected by changing economic conditions in a similar manner. We have a concentration of investments in Canada and within the financial sector. These risk concentrations are regularly monitored and adjusted as deemed necessary.

Bonds and Preferred Stocks

We manage our credit risk by investing in bonds and preferred stocks that are primarily of high credit quality, and limit exposure with respect to any one issuer. On a regular basis, we also monitor publicly available information referencing the investments held in the investment portfolio to determine whether there are investments which require closer monitoring of the credit risk. Refer to “– Consolidated Balance Sheet – Investment Sector Mix” and “– Investment Credit Quality” for further details pertaining to our investment mix and investment portfolio credit ratings.

Securities Lending

We manage credit risk associated with our securities lending program by obtaining indemnification against security borrower counterparty default from a major financial institution and by obtaining collateral with a fair value in excess of the value of the securities loaned under the program. Refer to “– Liquidity and Capital Resources – Off-Balance Sheet Liabilities and Contingencies” for further discussion.

Premiums Receivable

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

Commercial Loans

We periodically issue commercial loans to brokers. Collateral, principally in the form of security over a borrowing brokerage’s operating assets, is held to protect us against loss in the event of a default of any of these loans. Annually, and where required more frequently, financial reviews are undertaken to determine if the broker is expected to be able to make the payments required by the loan as and when due. Our gross credit exposure on these commercial loans is limited to their carrying value, which amounted to \$37.6 million as at December 31, 2020 (2019: \$52.8 million). Management does not consider any of these current commercial loans to be impaired as at December 31, 2020.

Reinsurance Receivable and Recoverable

Credit exposures on our reinsurance receivable and recoverable balances exist to the extent that any reinsurer may not be willing or able to reimburse us under the terms of the relevant reinsurance arrangements. We have policies

which limit the exposure to individual reinsurers and a regular review process to assess the creditworthiness of reinsurers from whom we purchase coverage. Our reinsurance risk management policy generally precludes the use of reinsurers with credit ratings less than “A-”. As at December 31, 2020, 97.3% of our reinsurers had a credit rating of “A-” or better as determined by independent rating agencies. Where appropriate, we obtain collateral for outstanding balances in the form of cash, letters of credit, offsetting balances payable, guarantees, or assets held under reinsurance security agreements.

Structured Settlements

We have purchased annuities from life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, we are exposed to credit risk to the extent to which any of the life insurers fail to fulfil their obligations. This risk is managed by acquiring annuities from multiple life insurers with proven financial stability, all of which are rated “A-” or better by independent rating agencies. As at December 31, 2020, no information has come to our attention that would suggest any weakness or failure in life insurers from which we have purchased annuities. Consequently, no provision for credit risk was recorded in 2020 (2019: nil). The original purchase price of the outstanding annuities was \$318.4 million as at December 31, 2020 (2019: \$313.3 million).

Foreign Exchange Risk

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

Our largest foreign currency exposure is to the US dollar. The impact on the fair value of US dollar foreign stocks, pooled funds, and OCI before income taxes from a 10% change in the US dollar relative to the Canadian dollar is \$7.0 million (2019: \$6.3 million). Under this same scenario, the impact on the fair value of non-US dollar foreign stocks, pooled funds, and OCI before income taxes is \$1.5 million (2019: \$1.3 million), assuming historical correlations between currency pairs remain intact.

Liquidity Risk

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations, particularly those related to claim payments. Currently, the liquidity requirements of our business are met primarily by funds generated from operations, asset maturities and investment returns. Liquidity risk arises in relation to each of those funding sources. To mitigate this risk and to satisfy our operational requirements, we have invested a portion of our assets in short-term (less than one year) highly-liquid money market securities, and we have access to the Revolving Credit Facility. A large portion of invested assets are held in highly-liquid federal and provincial government debt to protect against any unanticipated large cash requirements. Refer to Note 7 – “Financial risk management” included in our audited consolidated financial statements, for a summary of the Company’s financial assets and financial liabilities maturity profile.

Operational Risk

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

People Risk

Successful implementation of our strategy depends, among other matters, on our ability to attract, develop, motivate, and retain employees with the necessary skills, capabilities and knowledge (refer to “Strategic Risk –

Strategic Execution Risk” below for more detail). The inability to attract, motivate, or retain an appropriate staffing level and/or key employees with specialized skills, capabilities, or knowledge could adversely impact our ability to execute on strategic initiatives, our financial performance or our compliance with applicable legal requirements, or result in an increased risk of operational errors. To mitigate this risk, we focus on the delivery of critical talent management and performance enhancement programs seeking to ensure we identify, attract, develop, motivate and retain an adequate number of employees with the appropriate skill set. In addition, we continue to strengthen our senior management and Board of Directors so that the necessary competencies are represented at the leadership level and so that we have adequate succession plans in place.

Fraud Risk

As a P&C insurer, we may be subject to internal or external fraud. Potential exposures include: our insureds may exaggerate claims for personal gain; our insureds or brokers may submit inaccurate underwriting information in an attempt to reduce premium costs; service providers may exaggerate invoice values or charge for unnecessary or uncompleted work; employees may misappropriate assets or submit inadmissible expenses for reimbursement; or external parties may impersonate employees, insureds or vendors to misappropriate assets or gain access to systems. To mitigate the risk of fraud and abuse, we have implemented governance processes and internal controls to prevent and detect potential internal or external fraud. These internal controls include fraud detection processes within our underwriting and claims functions to detect potential fraud and flag cases for further investigation. All of our directors, officers and employees have a responsibility to conduct their activities in accordance with our Code of Conduct. Under our ethics reporting program, employees or other stakeholders are able to contact an independent service provider on a confidential and anonymous basis to communicate any concerns regarding compliance with our Code of Conduct.

Information Security Risk

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

Information Technology Risk

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

regularly monitors the service levels provided by key third-party service providers, the stability of key systems and the quantity and root cause of critical technology incidents.

Our business depends on the successful and uninterrupted functioning of our computer and data processing systems. We need to maintain and upgrade our computer and data processing systems and information technology infrastructure. Such projects can require substantial capital investment and coordination of significant resources, and often necessitate trade-offs to balance risk management with execution speed and an appropriate return on investment. The implementation of significant new or revised systems and the adaption of processes have the potential to introduce additional complexity and operational risk until full transition is completed. To address increased operational risk during a transition period change, additional management oversight considerations are integrated into the implementation process, and additional manual and monitoring controls and reporting are implemented. Significant technology projects are managed and governed as corporate initiatives (refer to “Strategic execution risk” below for more detail).

Cyber Security Risk

Cyber security risk is the risk of unauthorized information access, or the loss of system integrity or availability, as a result of an attack delivered electronically or by direct access to our systems or systems provided by third-party service providers. There is an increasing prevalence of cyber-attacks affecting a variety of businesses with increasing financial, operational, and reputational impact. We have a cyber security program which includes employee cyber security awareness training and reminders to reduce the risk of employee action inadvertently resulting in an exposure. Through our cyber security program, we regularly enhance systems, networks, processes, and data protection measures to detect and reduce the risk of unauthorized access, increase system resilience and minimize the impact of a cyber-attack if it were to occur. To identify, triage and respond to cyber incidents in a timely manner, we have specific cyber incident response plans and processes in place, which are routinely maintained and tested. In addition, we also carry cyber incident insurance to mitigate exposure to significant losses arising from a cyber incident, subject to applicable policy limits.

Regulatory and Legal Risks

Regulatory Risk

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

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

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

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

Legal and Regulatory Action Risk

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

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

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

Business Interruption Risk

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

To mitigate business interruption risk, we have established a specialized Enterprise Business Continuity Management (“EBCM”) function headed by the Chief Risk and Actuarial Officer. The EBCM function proactively assesses potential risks to the Company and ensures resilient planning and continuity arrangements are in place. Resiliency plans are developed and tested to ensure critical functions can continue despite a disruptive event. For example, resiliency plans exist to support emergency response, incident management, crisis management, crisis communication, disaster recovery, facilities recovery, regional incident response, business continuity and a pandemic. We have deployed a response structure that provides rapid response to events and have created teams at all levels to ensure quick and effective decisions can be made at an appropriate level and are executed efficiently. We also conduct exercises to test the effectiveness of our resiliency plans. In addition, we also carry business interruption insurance to mitigate exposure to significant losses arising from business interruption events, subject to applicable

policy terms and limits; however, such insurance may not adequately compensate us for material losses that may occur due to such business interruption.

Strategic Risk

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

Strategy Adequacy Risk

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

Strategic Execution Risk

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

From time to time, we may undertake strategic initiatives to implement our business strategies. Such initiatives require the investment and coordination of resources, and often necessitate trade-offs to balance risk management with execution speed and an appropriate return on investment. Changes to a strategic initiative's scope, costs, or timing may impact the magnitude or timing of benefits to be achieved from the initiative or the investment required to implement the initiative and may negatively impact other initiatives and financial performance. To address strategic execution risk, we dedicate resources to execute and manage these strategic initiatives. Where a strategic initiative requires specialized skills or additional personnel not available among our employees, we may engage third-party service providers to support strategic initiatives. We exercise careful oversight of third-party service providers with a view to ensuring that deliverables comply with contractual terms and expected timeliness, quality and cost criteria, and to approve changes to scope, costs or timing. We manage risks associated with strategic initiatives through specified management committees prioritizing and overseeing specific strategic initiatives. Our executive leadership team as a whole regularly assesses initiative progress, as well as the adequacy of enterprise capabilities and capacity. The Board also provides oversight to strategic initiatives directly and through its committees.

Climate Change Risks

The impact of changing weather patterns arising from climate change and implications of policies and commitments to mitigate climate change have significant risks for property and casualty insurers, including Economical. Climate change has implications for all aspects of our business: underwriting, claims, investments, and our own operations. Climate change risks are identified in the top risks for the organization monitored by the Board's Risk Review Committee. Climate change risks are interdependent and interact with many of the other risks we face, which adds further uncertainty, and complexity and have the ability to exacerbate, existing risks. We have categorized climate change risks into three key categories:

- *Physical*: relates to impacts of increasing frequency and severity of extreme weather events arising from changing weather patterns. Chronic changes in weather patterns and events also contribute to more quickly degrading and /or overwhelming infrastructure.
- *Transition*: relates to changes associated with transitioning to a low-carbon economy.
- *Reputational*: results from stakeholders' assessment of our climate change response.

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

We are enhancing our modeling capabilities to better understand changes in key climate risk exposures, such as flood and wildfire, to ensure pricing, coverage options and risk accumulations remain appropriate. We are also assessing other climate change hazards or reputational risks present in our insurance offerings. See “Insurance Risk – Underwriting Risk”.

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

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

Investment values and returns may also be impacted by climate change risks. Weather-related loss or the transition to a low-carbon economy may impact the profit and prospects of an investee, and this, along with investor sentiment, could adversely impact the value of our investments. We seek to manage these risks by investing in a highly-liquid investment portfolio which is diversified across industries and geographies. We are also assessing sustainable investment opportunities and targets. See “Financial Risk” above for more detail.

Government policy can both impact climate change and be impacted by climate change. Introduction of carbon pricing or limits could have adverse implications on claims and operational costs. Consumer concerns about costs and availability of insurance for particular coverages, geographies or industries, may result in additional regulations which impact the viability of our existing products or services. Mandated climate change disclosures could result in increases in our compliance costs. To monitor, and respond to government policy development, we engaged with regulators directly and through participation in industry associations. See “Operational Risk – Regulatory and Legal Risks” above for more detail.

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

Business, Economic and Political Environment Risks

Our business and profitability can be affected significantly by changes in the business, economic and political environment. Depressed economic conditions may cause changes in the level of demand for insurance or reductions in policy coverages and correlate with increases in claims fraud.

Increased political and governmental involvement in the insurance industry may otherwise change the business and economic environment in which we operate. Such changes could cause us to make unplanned modifications to our products or services, or revise our strategy, or result in other industry participants altering their strategies in a manner that changes the level of competition in our target markets. To mitigate this risk, we will assess the impact of such scenarios and associated mitigations as we prepare our business, capital and strategic plans.

Competition Risk

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

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

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

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

Distribution Risk

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

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

To address distribution risk, we maintain close relationships with brokers through our business development staff, who provide training and guidance to enhance the brokers’ understanding and marketing of our products, and we invest on an ongoing basis in maintaining a strong value proposition for our brokers. We periodically issue commercial loans

to, or make equity investments in, certain brokers to, among other things, maintain broker loyalty. We mitigate potential exposure to financial risk or relationship issues arising from commercial loans and equity investments in brokers by conducting annual, or more frequent, financial reviews, and by obtaining appropriate terms for oversight and collateral security.

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

Capital Management Risk

Capital management risk refers to the risk of not being able to fully execute on our business strategy as a result of insufficient, or ineffective use of, capital. We are required by federal regulators and our capital management policy to maintain sufficient capital in order to ensure our continued solvency and protect us and our policyholders from adverse events (refer to “Regulatory risk” above). A reduction in capital levels below our internal or regulatory targets could trigger corrective actions as specified in the capital management policy and subject us to regulatory intervention. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Capital Requirements”.

If a rating agency downgraded our financial strength rating below minimum acceptable levels, it could result in a loss of business, particularly in our commercial lines business where certain customers may require that we maintain minimum ratings to enter into or renew business with us.

To ensure sufficient capital levels are maintained, we actively monitor the MCT ratio and the ORSA, and the effect that external and internal forces and actions have on the capital base through our capital management program. Senior management determines the potential impact on capital when establishing the annual business plan and setting strategy, and before entering into any acquisitions or significant investments, to confirm that acceptable levels of capital are maintained.

Reputational Risk

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

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

Conduct Risk

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

Under our ethics reporting program, employees or other stakeholders are able to contact an independent service provider on a confidential and anonymous basis to communicate any concerns regarding compliance with our Code of

Conduct, including questionable accounting or auditing matters, internal controls over financial reporting, and our disclosure controls and procedures. All concerns raised are forwarded to designated individuals for investigation and follow-up. Complaint handling and ombudsperson mechanisms also represent a conduit for identifying and escalating conduct issues.

Pandemic Risk

The COVID-19 pandemic has resulted in significant disruption and uncertainty in the economic environment globally and across various industries, including insurance. Proactive capital and risk management practices, including continuity arrangements developed in recent years, have enabled us to react rapidly to the changing environment resulting from the COVID-19 pandemic; however, the future economic impacts are uncertain. The uncertainty and volatility in the current business environment has heightened some of the risks inherent in our business. These include, but are not limited to: insurance risk including uncertainty regarding possible future reserve development, COVID-19-related claim exposures and customer relief measures; legal and regulatory action risk due to possible changes to laws or regulations that may restrict prices we are able to charge, require forms of customer relief or increase the scope and amount of claim payments; reserve estimation risk due to uncertainty of changes in claim exposures, claimant behaviours and claims reporting / settlement patterns; financial risk to our investment portfolio arising from interest rate risk as interest rates fall, and equity market and preferred stock price risk due to volatility in equity markets; credit risk caused by our counterparties not being able to meet obligations as they become due as a result of the economic downturn; and operational risk as the operating environment, risk exposures or mitigation actions may be impacted. If any of these or any other risks or uncertainties occur, persist or worsen, it is possible that our business could be materially affected in an adverse manner.

During the COVID-19 pandemic, in an effort to minimize the risk of the spread of the virus to our employees, partners and customers, and in the communities in which we participate, we enabled many of our employees to work remotely. If the network and infrastructure of Internet providers becomes overburdened by increased usage or is otherwise unreliable or unavailable, access to the Internet to conduct business could be negatively impacted and the productivity of our workforce could be negatively impacted. In addition, our technology platforms and other systems or networks used in our business may experience an increase in attempted cyberattacks, ransomware and phishing campaigns seeking to take advantage of shifts to employees working remotely using their household or personal Internet networks. The success of any of these unauthorized attempts could impact the security of our technology platforms and the proprietary and other confidential data contained therein and could ultimately impact our business. Further, as the COVID-19 pandemic continues to evolve, the ongoing impact could lead to employee fatigue and mental health issues, as well as loss of staff through extended leaves and turnover that could negatively impact our business.

Along with many other P&C insurers in Canada, we have been named as a defendant in class proceedings that together purport to be on behalf of all policyholders with business interruption coverage. The class actions seek damages for business interruption losses relating to the COVID-19 pandemic and other allegedly related damages. The Company denies liability and intends to vigorously defend these proceedings. We individually assess each claim based on the loss details and available coverage and we have accepted and paid on COVID-19 claims where we determined there was coverage. The vast majority of the Company's policies providing customers with business interruption coverage have business interruption wordings that, with some variation, require some sort of tangible physical harm to property. It is our position that COVID-19 on its own is not physical harm to property. While the Company intends to vigorously defend such litigation, it cannot predict with certainty the cost of defence and ultimate outcome of such litigation, including potential settlements, damage awards and/or cost consequences.

DIVIDEND POLICY

Initially, we anticipate paying quarterly cash dividends estimated to be \$0.125 per Common Share. Our first cash dividend, which will be for the period from and including the Closing Date to December 31, 2021 and for the full first quarter ending March 31, 2022, is expected to be paid on or about March 31, 2022 to Shareholders of record on March 15, 2022 and is estimated to be \$0.175 per Common Share (\$0.05 in respect of the period from and including the Closing Date to December 31, 2021 and \$0.125 in respect of the full first quarter ending March 31, 2022).

The amount and timing of the payment of any dividends are not guaranteed and any determination to pay dividends in the future will be at the discretion of our Board and will depend on many factors and conditions existing from time to time that the Board may deem relevant, including the financial condition of the Company, general business conditions, restrictions regarding the payment of dividends to the Company by its subsidiaries and regulatory requirements. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Requirements – Capital Requirements” and “– Regulation of Definity and Impact of Continuance”.

As a holding company, our ability to meet our cash requirements and pay dividends on the Common Shares will depend in large part upon the receipt of dividends and other payments from our subsidiaries. The payment of dividends to us by our subsidiaries may be limited by applicable corporate and insurance law restrictions. See “Canadian P&C Insurance Regulatory Environment”, “Risk Factors – Risks Relating to the Offering and Ownership of Common Shares – Our payment of future cash dividends will be subject to the discretion of the Board and may vary from time to time or be suspended entirely” and “– As a holding company, we depend on our subsidiaries to meet our obligations, including future dividend payments”.

DESCRIPTION OF MATERIAL INDEBTEDNESS

Economical Insurance is party to a senior unsecured credit agreement (the “**Credit Agreement**”) dated as of July 22, 2021 (the “**Revolving Facility Closing Date**”) with Royal Bank of Canada, as administrative agent (the “**Agent**”), RBC Capital Markets and TD Securities Inc., as co-lead arrangers and joint bookrunners, Bank of Montreal and The Bank of Nova Scotia, as co-syndication agents and co-documentation agents, and the financial institutions from time to time party thereto, as lenders (the “**Lenders**”), pursuant to which the Lenders have established a revolving credit facility in an initial available amount of \$150 million in favour of Economical Insurance, to be increased automatically to \$400 million on the date that Definity is continued under the CBCA (the “**Revolving Credit Facility**”). The Credit Agreement contains an accordion feature which allows the Revolving Credit Facility to be increased in accordance with the terms of the Credit Agreement by a further \$200 million on an uncommitted basis. The Revolving Credit Facility contains a \$25 million letter of credit sub-limit and a swingline facility in the amount of \$25 million, to be increased automatically to \$50 million on the date that Definity is continued under the CBCA. The Revolving Credit Facility will mature on the date that is five years from the Revolving Facility Closing Date. On the date of this prospectus, no amounts are outstanding under the Revolving Credit Facility.

Upon completion of the Demutualization, Economical Insurance may, at its option, assign its rights under the Credit Agreement to Definity or Definity may become a co-borrower under the Credit Agreement that is jointly and severally liable with Economical Insurance, provided that Definity must enter into an amendment to the Credit Agreement or an amendment and restatement of the Credit Agreement with the Agent and the Lenders on substantially the same terms of the Credit Agreement with such changes as may be reasonably required to reflect the change in structure and to reflect that all representations and warranties, covenants and events of default apply to Definity and its material subsidiaries. Economical Insurance, the Agent and the Lenders have agreed in the Credit Agreement to negotiate such amendment and restatement of the Credit Agreement in good faith and on a timely basis and to enter into such amendment and restatement to the Credit Agreement forthwith after the Demutualization.

The proceeds of the Revolving Credit Facility, if drawn, are to be used by Economical Insurance for general corporate and working capital purposes, acquisitions, investments, and the issuance of letters of credit in support of Economical Insurance’s obligations relating to its reinsurance obligations and other general corporate purposes. Under the Revolving Credit Facility, Economical Insurance may borrow in Canadian dollars by way of bankers’ acceptances and prime rate loans and in U.S. dollars by way of LIBOR based loans and base rate (Canada) loans, in each case, plus the applicable margin in effect from time to time. Economical Insurance has the ability to prepay the loans under the

Revolving Credit Facility upon notice and certain other conditions without premium or penalty (other than payment of any applicable breakage costs).

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default in addition to other customary provisions for credit agreements negotiated in the context of comparable transactions. In particular, under the terms thereof, Economical Insurance will be able to make cash distributions to Definity provided no default or event of default then exists or would result therefrom. Economical Insurance will also be able to consummate certain permitted acquisitions provided no default or event of default then exists or would result therefrom.

DESCRIPTION OF SHARE CAPITAL

Immediately following the completion of the Demutualization, the authorized share capital of Definity will consist of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series (the “**Preferred Shares**”). Immediately following the closing of the Offering and the Cornerstone Private Placements, an aggregate of 103,975,778 Common Shares and no Preferred Shares will be issued and outstanding.

Common Shares

Holders of Common Shares will, except where otherwise provided by law, be entitled to vote at all meetings of Shareholders and will be entitled to one vote per Common Share. Holders of Common Shares are entitled, subject to the rights of holders of Preferred Shares and any other shares ranking senior to the Common Shares, to receive dividends as and when declared by the Board and, upon the voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of Common Shares are entitled to receive the remaining property and assets of the Company available for distribution, after payment of liabilities. For a description of the Company’s dividend policy, see “Dividend Policy”.

Preferred Shares

The Preferred Shares will be issuable from time to time in one or more series. The Board will be authorized to fix before issue the number of, the consideration per share of, the designation of and the provisions attaching to the Preferred Shares of each series, which may include voting rights. The Preferred Shares of each series will rank on par with the Preferred Shares of every other series and will be entitled to preference over the Common Shares with respect to payment of dividends and distribution of any assets in the event of Definity’s liquidation, dissolution or winding-up. If any cumulative dividends (whether or not declared), non-cumulative dividends declared or amounts payable on a return of capital are not paid in full, the Preferred Shares of all series will participate rateably in accordance with the amounts that would be payable on such shares if all such dividends were declared and paid in full or the sums that would be payable on such shares on the return of capital if all amounts so payable were paid in full, as the case may be.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization as at September 30, 2021 (i) of Economical Insurance on an actual basis and (ii) of Definity on a *pro forma* basis to give effect to the Demutualization and as further adjusted to give effect to the Offering (assuming no exercise of the Over-Allotment Option) and the Cornerstone Private Placements. This table should be read in conjunction with our consolidated financial statements and *pro forma* financial statements and the respective notes thereto included elsewhere in this prospectus and with the information set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Use of Proceeds”, “Demutualization” and “Description of Share Capital”.

(in millions of dollars)	September 30, 2021	
	Actual	<i>Pro forma and as adjusted</i> ⁽¹⁾
Total indebtedness	\$ —	\$ —
Equity		
Retained earnings	\$1,949	\$ —
Accumulated other comprehensive income (loss)	81	—
Shareholders’ Equity		
Common shares	—	2,050
Retained earnings	—	(83)
Accumulated other comprehensive income (loss)	—	81
Total equity/Total shareholders’ equity ⁽²⁾	<u>\$2,030</u>	<u>\$2,048</u>
Total capitalization	<u>\$2,030</u>	<u>\$2,048</u>

Notes:

- (1) *Pro forma* for the Demutualization and as further adjusted to give effect to the Offering (without giving effect to any exercise of the Over-Allotment Option) and the Cornerstone Private Placements.
- (2) Total equity applies only to Economical Insurance on an actual basis; shareholders’ equity applies only to Definity on a *pro forma* basis and as adjusted. See note 3(f) to our *pro forma* financial statements included in this prospectus.

OPTIONS TO PURCHASE SECURITIES

There will be no options to purchase Common Shares outstanding on closing of the Offering.

In connection with the completion of the Offering and our transition to being a public company, we intend to adopt the Stock Option Plan and the LTIP. No grants will be made under the Stock Option Plan, and no Common Shares will be issued from treasury in settlement of RSUs or PSUs granted under the LTIP, respectively, until the expiry of the one year restricted period under the Demutualization Regulations. The terms of the Stock Option Plan and the LTIP are described under “Executive Compensation – Stock Option Plan” and “– LTIP”. See “Canadian P&C Insurance Regulatory Environment – Regulation of Definity and Impact of Continuance – Restriction on the Issuance of Shares Post-Listing on TSX”.

We also intend to establish an employee share ownership plan (the “**Employee Share Ownership Plan**”) following the Demutualization to provide an opportunity for employees to invest in Common Shares through voluntary personal contributions and employer contributions. Eligible employees of the Company and its subsidiaries will be permitted to invest in Common Shares through payroll deductions up to a maximum percentage of their base salary and the Company or the relevant subsidiary, as applicable, will match such contributions up to an annual maximum amount. All purchases of Common Shares under the Employee Share Ownership Plan, whether through personal or employer contributions, will be made in the open market.

PRIOR SALES

During the 12-month period prior to the date of this prospectus, the only issuance of Common Shares, or securities convertible into Common Shares, was the issuance of one Common Share to Economical Insurance in connection with the incorporation of the Company.

PRINCIPAL SECURITYHOLDERS

Prior to the completion of the Demutualization, the Company will be a wholly-owned subsidiary of Economical Insurance. Following the completion of the Demutualization and the closing of the Offering and the Cornerstone Private Placements, other than as set out below, there are no persons that will, to our knowledge, beneficially own, control or direct, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to any class of our voting securities.

Name of Shareholder	Shares beneficially owned prior to the Offering and the Cornerstone Private Placements		Shares beneficially owned immediately following the completion of the Offering and the Cornerstone Private Placements ⁽¹⁾	
	Number of Common Shares	% of Total Outstanding Shares	Number of Common Shares	% of Total Outstanding Shares
HealthCare of Ontario Pension Plan	—	—	20,691,179	19.9%
Swiss Re Investments Holding Company Ltd.	—	—	11,450,000	11.0%

Notes:

(1) Assuming that the Over-Allotment Option is not exercised.

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Our Board consists of John Bowey, Rowan Saunders, Elizabeth DelBianco, Dan Fortin, Barbara Fraser, Richard (Dick) Freeborough, Micheál Kelly, Robert McFarlane, Susan Monteith and Michael Stramaglia, each of whom is also a member of the Economical Board and a member of the board of directors of each of our Insurance Subsidiaries. Following the closing of the Offering, it is expected that up to two individuals designated by HOOPP and one individual nominated by Swiss Re will be appointed to the Board pursuant to the terms of the HOOPP Governance Agreement and the Swiss Re Governance Agreement, respectively, and the committees of the Board will be reconstituted. See “The Cornerstone Private Placements – Governance Agreements”, “Corporate Governance – Committees” and “Director Compensation – General”.

The following table sets forth the name, residence, age and principal occupation for each of the members of the Board as of the date hereof, together with the committee membership of each director. See “Corporate Governance – Committees”. Additional biographical information for each individual is provided following the table.

Name and Place of Residence	Age	Director of Economical Insurance Since ⁽⁵⁾	Principal Occupation
John Bowey ^{(2), (3)} Ontario, Canada	74	2011	Chairman of the Board
Rowan Saunders Ontario, Canada	56	2016	President and Chief Executive Officer of the Company
Elizabeth DelBianco ^{(2), (3)} Ontario, Canada	62	2013	Corporate director
Dan Fortin ^{(3), (4)} Ontario, Canada	65	2014	Corporate director
Barbara Fraser ⁽³⁾ Ontario, Canada	72	2013	Corporate director
Richard (Dick) Freeborough ^{(1), (2), (4)} Ontario, Canada	79	2012	Corporate director
Micheál Kelly ^{(1), (2)} Ontario, Canada	73	2015	Dean, Lazaridis School of Business and Economics at Wilfrid Laurier University
Robert McFarlane ^{(1), (4)} British Columbia, Canada	61	2019	Corporate director
Susan Monteith ⁽⁴⁾ Ontario, Canada	65	2018	Corporate director
Michael Stramaglia ^{(1), (4)} Ontario, Canada	62	2010	Corporate director

Notes:

- (1) Member of the Audit Committee (Chair – Dick Freeborough).
- (2) Member of the Corporate Governance Committee (Chair – Micheál Kelly).
- (3) Member the Human Resources and Compensation Committee (Chair – Elizabeth DelBianco).
- (4) Member of the Risk Review Committee (Chair – Michael Stramaglia).
- (5) Each of the current members of the Board joined the Board in connection with the incorporation of Definity.

Director Biographies

The following are brief profiles of the directors of Definity, including a description of each individual's principal occupation within the past five years.

John Bowey

Mr. Bowey joined the Economical Board in May 2011. He was appointed Chair of the Economical Board in January 2016 and previously held the position of Vice-Chair. Mr. Bowey is a retired partner of Deloitte LLP, where he held a number of leadership roles including Managing Partner of Deloitte in Southwestern Ontario and Chairman of the board of Deloitte Canada. He was also a member of Deloitte's global board of directors. He currently serves on the boards of Waterloo Brewing Ltd. and Kognitiv Corporation. He is Chair of the audit committee of both boards. He is also a past Chair of the board of directors of The Princess Margaret Cancer Foundation and a past Chair of the board of Governors of Wilfrid Laurier University. Mr. Bowey has a BA in Economics from Colby College in Waterville, Maine and an MBA from the Ivey Business School at Western University. He is a Fellow of the Chartered Professional Accountants of Ontario, holds the ICD.D designation, and is a recipient of the Distinguished Governor Award from Wilfrid Laurier University.

Rowan Saunders

Mr. Saunders is the President and Chief Executive Officer of Economical Insurance, effective November 1, 2016, and he joined the Economical Board in November 2016. His extensive background includes over 30 years of

international P&C insurance industry experience, holding progressive positions in the areas of underwriting, marketing, sales, group insurance, broker networks and finance, including most recently 12 years as the President and CEO of the Canadian subsidiary of RSA Insurance Group, a P&C insurer, as well as CEO of its affiliates Johnson Insurance, an insurance intermediary focused on affinity group insurance programs in Canada (for 12 years), and Noraxis Capital Corporation, a network of Canadian insurance brokers (for 10 years). He is the past Chairman, a current member of the board of directors, and Chair of the audit committee of the Insurance Bureau of Canada, and a member of the boards of Equitable Group Inc. and its related Canadian bank. Mr. Saunders is a past member of the Financial Services Commission of Ontario's CEO Advisory Committee, the board of directors of the Institute for Catastrophic Loss Reduction, and the board of directors of Facility Association. Mr. Saunders holds a BA from York University, as well as a Canadian Risk Management designation, and is a Fellow of the Insurance Institute of Canada.

Elizabeth DelBianco

Ms. DelBianco joined the Economical Board in March 2013. Ms. DelBianco is a corporate director and is the former Chief Legal and Administrative Officer at Celestica Inc., a NYSE-listed and S&P/TSX Composite Index company, where she held senior leadership roles from 1998 to 2020. As Chief Legal and Administrative Officer, her portfolio included the legal, human resources, communications, compliance and sustainability functions. Ms. DelBianco is a member of the board of MindBeacon Holdings Inc., a member of Canada's Most Powerful Women: Top 100 Hall of Fame and an Emeritus Member of the Dean's Advisory Council at Queen's Law School. She is the 2020 recipient of the Law Alumni Award of Distinction from Queen's University. Ms. DelBianco holds a BA from the University of Toronto, an LL.B. from Queen's University, and an MBA from the Ivey Business School at Western University. She also holds the ICD.D designation and is called to the bar in Ontario and New York.

Dan Fortin

Mr. Fortin joined the Economical Board in October 2014. Mr. Fortin is the former President of IBM Canada with more than 35 years of experience in the technology industry, and 15 years of leadership experience globally. He guided IBM in helping Canadian organizations transform their businesses to better compete in today's global markets. During his time at IBM, he also held a number of senior executive positions at the North American and global levels. Mr. Fortin is Board Chair of Foresters Financial and Evok Innovations, respectively. Throughout his career, Mr. Fortin has been active on a number of non-profit boards and associations, including The Conference Board of Canada, World Vision Canada, United Way Toronto, and Urban Promise. He currently serves as Chair of Carleton University's board of governors. Mr. Fortin holds a Bachelor of Civil Engineering and an honorary doctorate from Carleton University in Ottawa. He also holds the ICD.D designation.

Barbara Fraser

Ms. Fraser joined the Economical Board in December 2013. Ms. Fraser is a corporate director with extensive C-suite experience in marketing and general management at leading global companies in the financial services sector, including American Express and Citi, and in the consumer products industry with Procter & Gamble. At American Express, Ms. Fraser was a member of the Global Management Team, based in New York, New York, where she held several leadership positions, including Global President, Travelers Cheques & Prepaid Services; EVP, Products and CMO of American Express Financial Advisors (now Ameriprise); CEO of IDS Life Insurance and SVP, Global Brand Strategy – American Express. She has served on the boards of Manitoba Telecom Services Inc. and the Canadian life insurance company subsidiary of MD Financial Holdings Inc. In addition, she is an Emeritus member of the advisory board of the Ivey Business School at Western University. She also previously served on the boards of ten other companies, as both an inside and outside director. Ms. Fraser is an HBA graduate from the Ivey Business School at Western University and holds Series 7 & 24 designations from the National Association of Securities Dealers, U.S.A. Ms. Fraser's achievements have been recognized with numerous awards, including the Ivey Distinguished Service Award and the Academy of Women Achievers of New York City.

Richard (Dick) Freeborough

Mr. Freeborough joined the Economical Board in February 2012. Mr. Freeborough is a corporate director who brings considerable insurance industry experience, financial expertise, and more than a decade of board leadership. He retired from KPMG LLP in 2004, after 39 years of financial services practice, during which time he was the KPMG

Canadian Practice Lead for insurance business. He served on the board of KPMG Canada for six years, including three as Deputy Chair. Mr. Freeborough is a director for a Canadian life reinsurance company and the Toronto Mendelssohn Choir. Mr. Freeborough is a Fellow of the Chartered Professional Accountants of Ontario and holds the ICD.D designation.

Michéal Kelly

Dr. Kelly joined the Economical Board in April 2015. Dr. Kelly is Dean of the Lazaridis School of Business and Economics at Wilfrid Laurier University, and was previously professor of strategy and international business and also Dean (from 2000 to 2010) of the Telfer School of Management at the University of Ottawa. Dr. Kelly is a former Chairman of the Six Countries Programme, one of Europe's first innovation networks. He has also served on the advisory board of the Silicon Valley Roundtable. He is a past Chair of the Canadian Federation of Business School Deans, a past member of le conseil d'administration of ESC Reims Management School in France, the ADGA Strategic Advisory Council and the Board of Governors of Beta Gamma Sigma, the international business school honour society, and was on the board of the Canada-Israel Industrial Research and Development Foundation. He serves as Chair of Waterloo North Hydro and serves on the board of the Canadian Advanced Technology Alliance (CATA). Dr. Kelly was educated at Assumption College, the University of Ottawa, and Carleton University. Dr. Kelly is a recipient of both the Queen Elizabeth II Golden Jubilee and Diamond Jubilee medals.

Robert McFarlane

Mr. McFarlane joined the Economical Board in November 2019. Mr. McFarlane is a seasoned financial executive and corporate director. From 1994 to 2000, Mr. McFarlane served as EVP, CFO and Secretary-Treasurer of Clearnet Communications Inc., a former publicly-traded telecommunications company. He then served as EVP and CFO of TELUS Corporation until 2012. Since leaving TELUS, Mr. McFarlane has been active on various corporate and not-for-profit boards. Mr. McFarlane is currently a director and Chair of the Audit, Risk and Conduct Review Committee at a Canadian subsidiary bank of HSBC Holdings plc, a publicly-traded, multinational financial institution. He also chairs the Information Technology Advisory Council of the University of British Columbia and serves on the Board of Trustees of Queen's University. Mr. McFarlane previously served as a director, Deputy Chair of the Board, and Chair of the Audit and Risk Committee for the Canadian subsidiary of RSA Insurance Group, a P&C insurer, as a director and Chair of the Audit Committee for Ascalade Communications, a former publicly-traded telecommunications company, as a director, Chair of the Audit and Risk Committee, and Chair of the Special Committee at InnVest Real Estate Investment Trust, a former publicly-traded real estate entity, and as a director and Chair of the Audit Committee at Entertainment One Ltd., a former publicly-traded global entertainment studio. Mr. McFarlane holds a B.Com. from the Smith School of Business at Queen's University, an MBA from the Ivey Business School at Western University and the ICD.D designation.

Susan Monteith

Ms. Monteith joined the Economical Board in January 2018. Ms. Monteith is a retired senior executive with more than thirty years of experience in roles with leading Canadian financial institutions including CIBC World Markets and National Bank Financial Inc. and has been an advisor to many boards and senior executives of public and private companies over her career. Most recently at National Bank Financial Inc., she was Executive Vice President & Managing Director of Client Strategy and People Development, and a member of the Management Committee. Ms. Monteith is a member of the board of Women's College Hospital, as well as the board of trustees of Flagship Communities Real Estate Investment Trust, a TSX-listed real estate investment trust. She was a past member of cabinet for the United Way of Toronto & York Region, where she co-chaired fundraising for the Women Gaining Ground initiative and was a founding board member and part of the advisory council for Women in Capital Markets. Ms. Monteith holds an LL.B from Osgoode Hall Law School at York University and an MSc in business from London Business School. She also holds the ICD.D designation and was a member of the bar in Ontario.

Michael Stramaglia

Mr. Stramaglia joined the Economical Board in April 2010. Mr. Stramaglia is a professional corporate director and is the President and founder of Matrisc Advisory Group Inc., a risk management consulting firm. Mr. Stramaglia sits on the boards of Foresters Financial, Equitable Group Inc. and its related Canadian bank, and the Canadian P&C

insurance company subsidiaries of Munich RE (a major international publicly-traded reinsurance company). He also holds the position of Executive in Residence at the Global Risk Institute in Financial Services, and Program Director for the Schulich Executive Education Centre of Excellence in Governance, Risk Management and Control. He is also Chair of the Ontario Internal Audit Committee, an independent advisory committee focused on the governance, risk management, and internal control practices of the Ontario government. Mr. Stramaglia brings many years of experience in executive management positions, including Chief Risk Officer and Executive Vice-President of Investments of a major international publicly-traded life insurance company, and Chief Investment Officer and Executive Vice-President of Reinsurance at a Canadian life insurance company, President and CEO of the Canadian life insurance subsidiary of Zurich Insurance Group, and President and Chief Operating Officer of the Canadian insurance operations of Zurich Insurance Group. Mr. Stramaglia is a qualified actuary and a Chartered Enterprise Risk Analyst. He holds an Honours Bachelor of Mathematics from the University of Waterloo and the ICD.D designation from the Institute of Corporate Directors.

Outside Directorships

Each of the following members of our Board is currently a director of other issuers that are reporting issuers (or the equivalent):

<u>Director</u>	<u>Other Reporting Issuer</u>
John Bowey	Waterloo Brewing Ltd.
Elizabeth DelBianco	MindBeacon Holdings Inc.
Robert McFarlane	HSBC Bank Canada
Susan Monteith	Flagship Communities Real Estate Investment Trust
Rowan Saunders	Equitable Group Inc.
Michael Stramaglia	Equitable Group Inc.

Executive Officers

The following table sets forth information regarding the age, residence and position of each of our executive officers. Each of our executive officers was appointed to their respective positions in connection with the incorporation of Definity. Additional biographical information for each individual is provided following the table.

<u>Name and Place of Residence</u>	<u>Age</u>	<u>Position/Title</u>
Rowan Saunders Ontario, Canada	56	President and Chief Executive Officer
Philip Mather Ontario, Canada	47	Executive Vice-President and Chief Financial Officer
Fabian Richenberger Ontario, Canada	55	Executive Vice-President, Commercial Insurance
Paul MacDonald Ontario, Canada	48	Executive Vice-President, Personal Insurance
Innes Dey Ontario, Canada	53	Senior Vice-President, Legal and Strategy
Roger Dunbar Ontario, Canada	59	Senior Vice-President of Sonnet
Tatjana Lalkovic Ontario, Canada	54	Senior Vice-President and Chief Information Officer
Liam McFarlane Ontario, Canada	59	Chief Risk and Actuarial Officer
Brigid Pelino Ontario, Canada	57	Senior Vice-President and Chief Human Resources Officer
Hans Reidl Ontario, Canada	47	Senior Vice-President, Claims
Tom Reikman Ontario, Canada	55	Senior Vice-President and Chief Distribution Officer

Executive Officer Biographies

The following are brief profiles of the executive officers of Definity, including a description of each individual's principal occupation within the past five years.

Rowan Saunders

See “– Directors”.

Philip Mather

Mr. Mather's extensive background includes almost 20 years of P&C insurance industry experience. He has been Executive Vice-President and Chief Financial Officer of Economical Insurance since April 2017 and is the President of Westmount. He was Senior Vice-President and Chief Financial Officer of Economical Insurance from October 2011 to April 2017 and is a former partner of PricewaterhouseCoopers LLP's Audit and Assurance group, specializing in financial services (primarily P&C insurance).

Fabian Richenberger

Mr. Richenberger has been Executive Vice-President, Commercial Insurance of Economical Insurance since May 2017. He was the Head of Financial Services for CarProof Corp. (the Canadian automobile data subsidiary of an international publicly-traded data analytics company) from January 2015 to April 2017, and President of the Canadian P&C insurance operations of Northbridge Financial Corporation from January 2010 to August 2014.

Paul MacDonald

Mr. MacDonald has been Executive Vice-President, Personal Insurance of Economical Insurance since January 2018. He was the Senior Vice-President and Chief Claims Officer of the Canadian subsidiary of RSA Insurance Group, a major international publicly-traded P&C insurance company, from October 2015 to December 2017, and Vice-President, Operations (Canada) of SGI Canada (a Canadian P&C insurance company) from February 2013 to October 2015. Mr. MacDonald is also a director of Bahamas First Holdings Limited, a financial services firm listed on the Bahamas International Securities Exchange, in which we have a minority interest.

Innes Dey

Mr. Dey has been Senior Vice-President, Legal and Strategy of Economical Insurance since February 2018. He joined Economical Insurance in November 2011, serving in various senior executive roles, including as Chief Strategy Officer, Chief Risk Officer and Chief Legal Officer.

Roger Dunbar

Mr. Dunbar has been Senior Vice-President of Sonnet since August 2017. He was Vice-President, Marketing and Consumer Experience at TRADER Corporation (a digital marketing company) from April 2012 to April 2017.

Tatjana Lalkovic

Ms. Lalkovic has been Senior Vice-President and Chief Information Officer of Economical Insurance since September 2020 and has been Chief Information Officer of Economical Insurance since February 2020. She was the Vice-President Digital, Frontline, Innovation and Mobile at Rogers Communications from September 2018 to February 2020, and held a number of senior roles at a Canadian Schedule 1 bank from July 2010 to April 2018, including Vice-President, Omni-Channel Strategy and Digital Shared Services and Vice-President, Fraud Technology Strategy and Enterprise Transformation.

Liam McFarlane

Mr. McFarlane has been Chief Risk and Actuarial Officer of Economical Insurance since October 2019. He was a partner and actuarial practice leader at Ernst & Young LLP from 2009 to 2019, and the Casualty Actuarial Leader at Dion Durrell + Associates Inc. from 1996 to 2008. Mr. McFarlane is also a director of Bahamas First Holdings Limited, a financial services firm listed on the Bahamas International Securities Exchange, in which we have a minority interest.

Brigid Pelino

Ms. Pelino has been Senior Vice-President and Chief Human Resources Officer of Economical Insurance since October 2018. She was the Chief Human Resources Officer for High Liner Foods (a publicly-traded seafood company) from November 2017 to October 2018; Executive Vice-President, People and Culture for WestJet Airlines (a former publicly-traded airline) from June 2013 to June 2015; and Executive Vice-President Human Resources and Senior Vice-President Human Resources, for the TDL Group Corp. (Tim Hortons) from March 2001 to May 2013 (a former publicly-traded restaurant company).

Hans Reidl

Mr. Reidl has been Senior Vice-President, Claims of Economical Insurance since November 2018. He was Vice-President, Finance of Economical Insurance from June 2014 to November 2018, and the Vice-President, Finance at ATS Automation Tooling Systems Inc. (a publicly-traded automated machinery and equipment company) from March 2009 to June 2014.

Tom Reikman

Mr. Reikman has been Senior Vice-President and Chief Distribution Officer of Economical Insurance since May 2017, with responsibility for leading the broker sales and distribution strategies across Canada. He has also been accountable for corporate communications, public relations and corporate marketing since November 2017. He was Senior Vice-President and Chief Operating Officer of Economical Insurance from January 2014 to April 2017.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer is, as at the date of this prospectus, or was within 10 years before the date of this prospectus, a director, chief executive officer or chief financial officer of any company (including Economical Insurance) that, while such person was acting in that capacity (or after such person ceased to act in that capacity but resulting from an event that occurred while that person was acting in such capacity), was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

No director or executive officer: (a) is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, a director or executive officer of any company (including Economical Insurance) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer, as applicable.

No director or executive officer has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Indemnification and Insurance

Our directors and officers participate in our director and officer insurance program. In addition, we have entered into indemnification agreements with our directors and officers. The indemnification agreements will generally require that the Company indemnify and hold the indemnitees harmless for liabilities arising out of the indemnitees' service to the Company as directors and officers, if the indemnitees acted honestly and in good faith and in a manner the indemnitee reasonably believed to be in or not opposed to the Company's best interests and, with respect to criminal and administrative actions or proceedings that are enforced by monetary penalty, if the indemnitees had no reasonable grounds to believe that their conduct was unlawful. The indemnification agreements will also provide for the advancement of defence expenses to the indemnitees by the Company.

CORPORATE GOVERNANCE

Statement of Corporate Governance Practices

The Company's corporate governance disclosure obligations are primarily set out in the Canadian Securities Administrators' NI 52-110, NI 58-101 and NP 58-201. These instruments set out a series of guidelines and requirements for effective corporate governance (collectively, the "**Guidelines**"). The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members. NI 58-101 requires the disclosure by each listed corporation of its approach to corporate governance with reference to the Guidelines. The Company is also subject to the guidelines issued by OSFI for effective corporate governance in federally regulated financial institutions.

In anticipation of the Demutualization and the transition to becoming a public company, we have undertaken an extensive, multi-year public company readiness program, which has included, among other things, the implementation of corporate governance frameworks, practices and reporting which is similar to that of public companies in the Canadian P&C insurance industry. We recognize that good corporate governance plays an important role in the Company's success and in enhancing shareholder value. Unless the context otherwise requires, descriptions of our existing corporate governance policies and practices set out below refer to the corporate governance policies and practices of Economical Insurance, which have been, or will be upon completion of the Offering, adopted at Definity.

Board of Directors

Board Size

Our by-laws will be amended and restated in connection with the completion of the Demutualization. Our amended and restated by-laws will provide that our Board will consist of a minimum of seven and a maximum of 21 directors. Upon completion of the Offering, our Board will consist of 10 directors. Following the closing of the Offering, it is expected that up to two individuals designated by HOOPP and one individual nominated by Swiss Re will be appointed to the Board pursuant to the terms of the HOOPP Governance Agreement and the Swiss Re Governance Agreement, respectively. See “The Cornerstone Private Placements – Governance Agreements”.

Our Board and the Corporate Governance Committee will assess the overall size of the Board, having regard to the results of the annual Board, committee, and director evaluation processes and relevant information concerning prevailing Canadian corporate governance practices, with a view to maintaining a board that is large enough to include the requisite expertise and resources but small enough to promote effective decision-making. See “– Board and Director Evaluation”.

Our directors will hold office for a term expiring at the close of the next annual meeting or until their respective successors are elected or appointed. The nominees for election by Shareholders as directors of the Company will be determined by our Corporate Governance Committee in accordance with applicable corporate law, the mandate of our Board, the mandate of the Corporate Governance Committee and the Governance Agreements.

Mandate of our Board

The Board is responsible for supervising the management of the business and affairs of the Company and, in doing so, will be required to act in our best interests. The Board has adopted a written mandate to confirm and formalize the Board’s duties and responsibilities for the stewardship of the Company in the form set forth in Appendix A to this prospectus.

The Board will discharge its responsibilities either directly or through its committees. Specific responsibilities set out in the Board’s mandate include:

- Appointing and Supervising Management – including final approval of all officer appointments, their compensation and the oversight of succession planning;
- Strategic Planning – including oversight over our business, financial and strategic plans and annual operating budget;
- Monitoring Financial Performance – including the review of our ongoing financial performance and results of operations and review and approval of our public financial disclosure and certain regulatory filings;
- Risk Management – including the identification of principal business risks and the implementation of appropriate systems to effectively monitor and manage such risks;
- Establishing Policies and Procedures – including the approval and monitoring of policies and procedures related to corporate governance, internal controls and ethical business practices;
- Communication and Reporting – including the oversight of the timely and accurate disclosure of financial reports and other material corporate developments; and
- Other Responsibilities – including those related to position descriptions, orientation and continuing education, nomination of directors and Board evaluations.

Board Composition

As shown below, we believe that our Board is comprised of individuals with a broad range of expertise, experience and perspectives, which will support strong and effective oversight of the Company as it pursues its

strategic goals.³¹ All of our directors have extensive experience and skills acquired from senior-level involvement in major organizations.



Consistent with the practices of the Economical Board, the Board will conduct a formal assessment process every other year focused on Board, committee and director effectiveness, which will involve the circulation of self-assessment questionnaires and individual director interviews with the Board Chair and Chair of our Corporate Governance Committee. In the intervening years, the Board Chair and Chair of our Corporate Governance Committee will conduct interviews with individual directors and report on key insights and observations to the Corporate Governance Committee and the Board as a whole. See “Board and Director Evaluation”. The Board will also maintain a skills matrix to help identify the competencies and experience it regards as key to the long-term strategic success of the Company. These processes will assist the Corporate Governance Committee and the Board in considering the existing and anticipated needs of the Board and its committees in light of the opportunities and risks facing the Company, its strategy, and its succession planning needs.

Board Renewal

The Economical Board has experienced significant renewal and increased diversity since 2010, driven by the complexity of Economical Insurance’s operations, the competitive dynamics of the P&C insurance industry, the broad range of operational and corporate initiatives that Economical Insurance has undertaken and Economical Insurance’s preparations to become a public company. New directors have been added with expertise in marketing, technology, operational transformation, law, risk management, accounting, capital markets, mergers and acquisitions, and corporate governance. Board renewal will remain a key focus for our Board and the Corporate Governance Committee.

Director Term Limits and Other Mechanisms of Board Renewal

We do not intend to adopt fixed term limits or a mandatory retirement age for directors on the basis that imposing an arbitrary term limit or retirement age would unnecessarily expose the Company to losing the contribution of directors who have valuable business experience and insight into the Company’s operations, and who could continue to make significant contributions to the Board and the Company. Given our Board’s current composition, average director tenure in respect of Economical Insurance of approximately six years, and regular evaluation process (see “Board and Director Evaluation” below), we believe that term limits or a mandatory retirement age are not necessary to achieve the objective of bringing fresh ideas and viewpoints to the Board. Instead, the Corporate Governance Committee will rely on its annual assessment of Board effectiveness as a board renewal mechanism to determine if changes to Board composition are appropriate.

Majority Voting Policy

In accordance with the requirements of the TSX, the Board will adopt a “Majority Voting Policy” to the effect that a nominee for election as a director of the Company who does not receive a greater number of votes “for” than votes “withheld” with respect to the election of directors by shareholders will be expected to offer to tender their resignation to the Chair of the Board immediately following the meeting of Shareholders at which the director was elected. The Corporate Governance Committee will consider any such resignation tendered and make a recommendation to the Board whether to accept it or not. The Board will accept the resignation unless it determines, in consultation with the

³¹ Board composition as of the date of this prospectus; tenure based on membership on Economical Board; competencies based on self-assessment.

Corporate Governance Committee, that there are exceptional circumstances that should delay the acceptance of the resignation or justify rejecting it. The Board will make its decision and announce it in a press release within 90 days following the meeting of Shareholders. A director who tenders a resignation pursuant to the Majority Voting Policy will not participate in any meeting of the Board or the Corporate Governance Committee at which the resignation is considered.

Diversity

Board Diversity

We believe that a board of directors made up of strong directors with the right skill sets, who also represent diverse personal experiences and backgrounds, promotes better corporate governance.

Our Board has adopted a written board diversity policy relating to multiple dimensions of diversity, over and above the identification and nomination of women directors. The objective of the policy is to promote better corporate governance by enabling the Board to deliberate with broader perspectives and deeper insight. Under the policy, when identifying candidates to recommend for election to the Board, the Corporate Governance Committee will give consideration to diversity factors, along with business experience, functional expertise, personal skills, and integrity, taking into account the level of diversity on the Board and representation of women, members of visible minorities, Indigenous Peoples, persons with disabilities and LGBTQ+, provided women and men shall each represent at least 30% of all independent directors. In addition, the Corporate Governance Committee may engage a qualified independent external advisor to conduct a search for candidates that meet our diversity factors.

Every year, the Corporate Governance Committee will assess the effectiveness of the board diversity policy by considering the extent to which its objectives have been met and making such recommendations to the Board as it deems necessary or appropriate. The board diversity policy will require the Corporate Governance Committee to consider the level of representation of women, members of visible minorities, Indigenous Peoples, persons with disabilities and LGBTQ+, when identifying candidates to recommend for election to the Board. Further, to reflect the Board's continued commitment to diversity, the policy will have a target to have at least one director that identifies as a member of a visible minority or an Indigenous People, a person with a disability, or LGBTQ+ by its annual meeting in 2026, and we aspire to have at least two directors who each identify as a member of these communities by that time and maintain at least that level thereafter.

Management Diversity

Our HRC Committee will oversee the diversity programs we have in place for employees at all levels of the Company, including our executives.

We believe that diversity, inclusion, equity, and accessibility are key drivers in contributing to our success. We actively promote a culture that recognizes the importance of having employees who bring diverse perspectives and experiences that reflect the customers and communities that we serve.

We have a strategic commitment to sourcing and developing diverse talent. When making decisions on executive officer appointments, we will consider the leadership capability, business experience, functional expertise and diverse backgrounds and experiences of candidates, as well as the level of representation of women in executive officer positions. As of September 30, 2021, women represented 59% of the overall workforce of Economical Insurance and its subsidiaries and comprised 17% (two individuals) of our executive officers (as defined in applicable securities laws in Canada) and 44% of our other leadership roles (manager and above). Given the broad range of diversity dimensions and our active promotion of a culture of inclusion and collaboration, we have not established diversity targets concerning executive positions.

We have established a committee on diversity and inclusion which plays a critical role in developing our diversity and inclusion strategy including its plans and measures. We have four employee groups in place: Anti-Racism; Multiculture EG; LGBTQ+; and Women's Leadership Impact. These employee groups are connected to our diversity and inclusion committee and advocate for diversity awareness, identify barriers and opportunities for inclusion, and champion the advancement of underrepresented groups into leadership roles.

We have also established a Management role that has responsibility for facilitating inclusion across our organization through partnership with our leaders and employees, and by contributing financial support to charitable organizations that help create inclusive communities. In 2021, as part of our diversity and inclusion strategy, we also embedded diversity goals into our succession planning to further promote a culture of inclusion.

Independence of Directors

Under NI 58-101, a director is considered to be independent if they are independent within the meaning of NI 52-110. Pursuant to NI 52-110, a director is considered to be independent provided the director is free from any direct or indirect relationship which could, in the view of our Board, be reasonably expected to interfere with a director's independent judgment. Our Board will annually determine whether each director is an independent director within the meaning of NI 58-101 by analyzing the director's conduct and relationships with the Company, its affiliates, and others.

Our Board has determined that all of the current members of the Board are independent within the meaning of NI 58-101, other than Rowan Saunders, the Company's Chief Executive Officer. It is a requirement under the terms of the HOOPP Governance Agreement that any director of the Company designated on the direction of HOOPP for election or appointment to the Board, as applicable, will be an independent director within the meaning of NI 58-101. See "The Cornerstone Private Placements – Governance Agreements – HOOPP Governance Agreement".

We recognize the importance of independent leadership on the Board and the Board has appointed John Bowey, an independent director, as Chair of the Board. See "– Position Descriptions". We do not intend to hold regularly scheduled meetings attended only by our independent directors; however, Board and committee meetings will often include one or more in camera sessions during which directors will meet without management present and any director may request additional time for this purpose.

Certain proposed directors serve on the boards of other public companies in Canada. See "Directors and Executive Officers – Outside Directorships". The Board intends to adopt guidelines regarding the maximum number of non-Definity boards our directors should serve on, which will include (i) a limit of no more than two of our directors serving on an external board together, (ii) directors holding a maximum of three public company directorships, in addition to their membership on our Board (except our CEO, who may hold a maximum of one public company directorship, in addition to membership on our Board) and (iii) members of the Audit Committee not serving on the audit committees of more than two public companies (in addition to our Audit Committee).

Position Descriptions

We have adopted written position descriptions for our Chair of the Board, Committee Chairs, individual directors and CEO. In accordance with its mandate, the Corporate Governance Committee will meet periodically to review each of those position descriptions and recommend changes to the Board where necessary.

The Chair of the Board will be responsible for the management, development and effective performance of the Board, and for providing leadership to the Board in carrying out its duties. The Chair's specific responsibilities include:

- guiding the conduct of the Board;
- acting as a liaison between the Board and management; and
- ensuring that appropriate procedures are in place to allow the Board and its committees to function effectively, efficiently and independently of management.

Chairs of Board committees will be responsible for, among other things, scheduling, setting agendas for and presiding over committee meetings and acting as a liaison between the committee and the Board.

Orientation and Continuing Education

Consistent with the practices of the Corporate Governance Committee of the Economical Board, the Corporate Governance Committee has established an orientation program for new directors, which includes information on the

role of the Board, its committees, and individual directors, as well as relevant Company and industry information. Each new director will be provided access to up-to-date information on our corporate and organizational structure, recent public disclosure documents and financial information, our corporate documents (including our letters patent and by-laws), Board and committee mandates, key corporate policies, including our Code of Conduct, and details regarding directors' and officers' indemnification and insurance coverage. Each new director will attend orientation presentations by our senior management. As well, new directors will have regular and ready access to fellow directors and to senior management.

Presentations will be made regularly to the Board and committees to educate and keep them informed of industry trends and changes within the Company and in legal, regulatory and industry requirements and standards. The Corporate Governance Committee will review information on available external education opportunities and will ensure that directors are aware of relevant opportunities. We will provide our directors with an annual budget of \$3,000 each to fund participation in external education and development opportunities, and we will also provide them with membership in the Institute of Corporate Directors.

Ethical Business Conduct

Code of Conduct

We have adopted a code of business conduct (our “**Code of Conduct**”) that governs the behaviour of our directors, officers and employees and the directors, officers and employees of certain of our subsidiaries, respectively, and describes expected business conduct grounded in our belief that trust and integrity are the foundation of our business. A copy of our Code of Conduct will be available on the Company's website at www.definityfinancial.com and on SEDAR at www.sedar.com.

We are committed to the highest level of legal and ethical standards in business conduct. Each person covered by our Code of Conduct is required to act responsibly, ethically and professionally. The Code of Conduct sets out procedures for monitoring compliance and describes other steps taken to encourage and promote a culture of ethical business conduct. Covered persons are required to avoid actual and potential conflicts of interest and are subject to obligations regarding, among other things, the protection and proper use of corporate assets and opportunities, confidentiality of corporate information, and compliance with applicable laws.

Covered persons are required to acknowledge their obligations and confirm their compliance under our Code of Conduct annually and to disclose, at that time and throughout the year, any known or potential conflicts of interest that arise. Every new employee is required to review the Code of Conduct upon beginning work. Every year, each director, officer and employee is required to provide written confirmation that they have read, and will comply with, the Code of Conduct. We also have a mandatory online learning program to enhance understanding throughout our organization of the values and principles outlined in our Code of Conduct.

As part of its commitment to support ethical decision-making, our Board will ensure that effective mechanisms are in place for employees to raise ethical concerns. Our ethics reporting program provides for a toll-free hotline and website that are maintained by an independent third party. Employees can use any of those channels to anonymously and confidentially report any accounting or auditing concern, suspected fraudulent activity or breach of our Code of Conduct. If employees prefer, they can refer concerns to their leader or departmental manager. Our ethics reporting program has processes in place to protect employees who report an incident in good faith or participate in the investigation of a report.

Compliance with our Code of Conduct will be monitored by management and reported to Board committees. Significant concerns regarding questionable accounting, controls or auditing matters will be automatically communicated to the Chair of the Audit Committee. Alleged breaches of the Code of Conduct will be investigated promptly. If, after an investigation, it has been determined that a breach of the Code of Conduct has occurred, a decision will be made as to the appropriate corrective and/or disciplinary action that will be taken.

The Board will monitor compliance with the Code of Conduct primarily through our Corporate Governance Committee, which will receive regular reports from management on the attestation process and compliance status, including notices of any material deviation from the Code of Conduct and any corrective action taken. The Board may

grant a specific, limited waiver under our Code of Conduct if it determines that the waiver is appropriate under the circumstances. Each situation will be considered separately on its merits and a decision in one case has no bearing on any other.

In addition, the Audit Committee is responsible for monitoring compliance with the Code of Conduct in relation to concerns or complaints relating to questionable accounting, or auditing matters, internal controls with respect to financial reporting and disclosure controls and procedures, and for ensuring all such issues are resolved in a satisfactory manner.

Conflicts of Interest

Our directors and executive officers are required by law to act honestly and in good faith with a view to the best interests of the Company, to disclose any personal interest which they may have in any material contract or transaction which is proposed to be entered into with the Company and, in the case of directors, to abstain from voting as a director for the approval of any such contract or transaction. Pursuant to the terms of the HOOPP Governance Agreement and the Swiss Re Governance Agreement, respectively, any director of the Company nominated on the direction of HOOPP or Swiss Re, respectively, will not be entitled to observe or participate in, and will upon the good faith request of the Board or any committee thereof, as applicable, recuse himself or herself from, any meeting or portion thereof at which the Board or any committee thereof, as applicable, is evaluating and/or taking action with respect to (or receive copies of materials or written resolutions in connection with) the exercise of any of our rights or enforcement of any of the obligations of HOOPP and Swiss Re, as applicable, under the HOOPP Governance Agreement or the Swiss Re Governance Agreement, as applicable, or the HOOPP Subscription Agreement or the Swiss Re Subscription Agreement, as applicable. There are no known existing or potential material conflicts of interest between the Company and its proposed directors or executive officers as a result of their outside business interests. However, Michael Stramaglia, one of our independent directors, sits on the boards of the Canadian P&C insurance company subsidiaries of Munich RE, which may participate as reinsurers in our reinsurance program from time to time.

We will use onboarding and annual directors' questionnaires, in which directors are asked to identify relevant outside business dealings and other companies or entities with which they have relationships, to assist the Board and management in identifying actual or potential conflict of interest situations in advance. If a director's business or personal relationships present a material personal interest in a business matter or relationship that conflicts, or appears to conflict, with the interests of the Company or its subsidiaries, the issue will be referred to the Chair of the Board. Appropriate steps will then be taken to determine whether an actual or apparent conflict exists and to determine whether it is necessary for the director to be excused from discussions relating to the issue.

All material related party transactions, including those in which a director or executive officer has a material interest, require the approval of our Corporate Governance Committee which may subsequently refer the matter to the full Board for its consideration.

Nomination and Assessment of Directors

The responsibilities of the Corporate Governance Committee include serving as our nominating committee. It will recommend nominees for election at our annual meeting to the Board and also new candidates for Board membership as the need arises. See "– Committees – Corporate Governance Committee".

Candidates for nomination as director may come to the attention of the Corporate Governance Committee from time to time through incumbent directors, management or third parties and may be considered at meetings of the committee at any point during the year. If the committee believes at any time that the Board requires additional candidates for nomination, it may poll directors and management for suggestions or conduct research to identify possible qualified candidates either directly or through an external search firm.

At a minimum, candidates will be required to have demonstrated: the highest personal and professional integrity; significant achievement in their field; experience and expertise relevant to our business; a reputation for sound and mature business judgment; the commitment to devote the necessary time and effort in order to fulfil their duties effectively; and, where required, financial literacy. Candidates will also be screened for conflicts of interest and material relationships that could impact their independence. A skills matrix will be prepared to support each search to

reflect the prevailing context at the time of the search, taking into account the current and anticipated needs of the Board and its committees in light of the opportunities and risks facing the Company, its strategy and its succession planning needs. In addition, the composition of the Board must meet statutory residence requirements.

The Corporate Governance Committee's process for identifying and evaluating director nominees will generally involve (with or without the assistance of an external search firm) compiling names of potentially eligible candidates, vetting those candidates against the factors described above and a relevant skills matrix, conducting background and reference checks, conducting interviews with candidates and/or others, meeting to consider and approve final candidates and, as appropriate, preparing and presenting to the Board the committee's recommendations.

Pursuant to the terms of the HOOPP Governance Agreement, HOOPP will have the right to designate for nomination up to two directors for election to the Board. Pursuant to the terms of the Swiss Re Governance Agreement, Swiss Re will have the right to designate for nomination one director for election to the Board. The Company has agreed to, among other things, use reasonable commercial efforts to solicit and obtain proxies in favour of and otherwise support the election of the nominees of each of HOOPP and Swiss Re to the Board. See "The Cornerstone Private Placements – Governance Agreements".

Board and Director Evaluation

The Corporate Governance Committee will be responsible for annually assessing the effectiveness and contribution of the Board as a whole, of each Board committee and of individual directors. A formal assessment process will be conducted every other year, involving the circulation of self-assessment questionnaires to the full Board (in the case of Board and director evaluations) and to each committee member (for the relevant committee evaluation). The results of the assessment questionnaires will be compiled and forwarded to the Chair of the Corporate Governance Committee. Evaluation results will be reported to the Corporate Governance Committee and each committee (in relation to its own performance) and the Board after the assessment is complete.

Every year, the Chair of the Board and the Chair of the Corporate Governance Committee will together interview each director to obtain their feedback and to discuss any aspect of the Company's corporate governance that the director may wish to discuss. The Chair of the Corporate Governance Committee will also meet with each director to discuss the performance of the Chair of the Board. The Chair of the Corporate Governance Committee will evaluate the performance of the Chair of the Board in that role based on feedback and evaluation results and will meet privately with the Chair of the Board to share the results of that evaluation. Interview insights will be reported to the Corporate Governance Committee and the Board after the interviews are complete.

All assessment questionnaires and interviews will be strictly confidential to encourage full and frank commentary from our directors.

Compensation

The Board will set the level of compensation for directors, based on the recommendations of the Corporate Governance Committee. Directors who are also employees of the Company or of any of our subsidiaries will not receive any additional compensation for acting as a director of the Company or of any of our subsidiaries. From time to time, the Corporate Governance Committee will review the amount and form of compensation paid to directors, taking into account the workload, responsibilities, and risks involved in being an effective director. The committee's review may be conducted with the assistance of outside consultants. For additional information regarding the compensation of our directors, see "– Compensation".

The HRC Committee will be responsible for making recommendations to the Board regarding the employment terms of our CEO, and for reviewing and approving the recommendations of our CEO regarding the compensation of our other executive officers. The HRC Committee will also be responsible for reviewing and making recommendations to the Board regarding awards under our incentive plans. The HRC Committee meets in camera to discuss the base salary, annual incentives, and other compensation awarded to our CEO. See "– Committees – HRC Committee".

Board and Committee Meetings

The Board will meet regularly to review our business operations and financial results. In addition to meeting in relation to annual and quarterly financial results, the Board will meet to approve non-financial disclosure documents

(such as our management proxy circular) and as part of our business and strategic planning process. Special meetings will be called as necessary, the frequency and nature of which will depend on the circumstances and the particular opportunities or risks that we face.

The Chair of any committee may, at any time but with appropriate notice, call a meeting of the Board to consider any matter of concern to it. In addition, meetings of the Audit Committee or the Risk Review Committee may be called at any time at the request of the external auditors, the appointed actuary, the Chief Risk and Actuarial Officer, or the Chief Financial Officer.

Board and committee meetings will include management reports to review and discuss specific aspects of our operations. We do not hold regularly scheduled meetings attended only by our independent directors; however, Board and committee meetings will often include one or more in camera sessions during which directors meet without management present and any director may request additional time for this purpose. Any independent director may call for a meeting of our independent directors at any time. See “ – Independence of Directors”.

Committees

Our Board has four standing committees: the Audit Committee, the HRC Committee, the Corporate Governance Committee and the Risk Review Committee. Each committee has a written mandate, which it will be required to reassess at least once every three years. The results of those assessments will be reported to the full Board.

Audit Committee

Composition of the Audit Committee

The Audit Committee consists of Dick Freeborough (Chair), Micheál Kelly, Robert McFarlane, and Michael Stramaglia, each of whom is a current member of the Audit Committee of Economical Insurance. Our Board has determined that each of Mr. Freeborough, Dr. Kelly, Mr. McFarlane and Mr. Stramaglia is an independent director and financially literate, in each case within the meaning of NI 52-110.

Pursuant to the HOOPP Governance Agreement, for so long as a nominee designated by HOOPP serves as a member of the Board, we have agreed that our Board will designate one of HOOPP’s nominee directors to serve as a member of the Audit Committee. Pursuant to the Swiss Re Governance Agreement, for so long as a nominee designated by Swiss Re serves as a member of the Board and is independent within the meaning of NI 52-110, we have agreed that our Board will designate Swiss Re’s nominee director to serve as a member of the Audit Committee. See “The Cornerstone Private Placements – Governance Agreements”.

For additional information regarding the relevant education and experience of each member of the Audit Committee, see “Directors and Executive Officers – Executive Officer Biographies”.

Audit Committee Mandate

The Board has adopted a written mandate of the Audit Committee in the form set forth in Appendix B to this prospectus, setting forth the committee’s purpose and responsibilities, consistent with NI 52-110. The Audit Committee mandate outlines the Audit Committee’s responsibility for, among other things:

- overseeing the integrity of our financial statements, financial reporting process and control environment;
- reviewing our annual and interim financial statements, MD&A and related public disclosure prior to their release to the public;
- recommending to the Board the external auditors to be appointed for the purpose of preparing or issuing an auditors’ report or performing other audit, review or attest services for us;
- approving annual internal and external audit plans and overseeing the Board’s relationship with internal and external auditors including their independence, performance and compensation;
- pre-approving permitted non-audit services provided to us by our internal or external auditors and its affiliates;

- establishing policies and procedures for the receipt, retention, and treatment of complaints regarding questionable accounting or auditing matters, internal controls with respect to financial reporting and disclosure controls and procedures, and the confidential, anonymous submission by our employees of concerns regarding any of the foregoing; and
- reviewing and approving our hiring policies regarding past and present partners and employees of our external auditors.

Pre-Approval Policy for Non-Audit Services

Our Audit Committee has adopted a policy regarding the engagement of audit and non-audit services (the “**Pre-Approval Policy**”) for the purpose of identifying, mitigating or eliminating potential threats to the independence of the external auditor. The Pre-Approval Policy will be reviewed and approved by the Audit Committee on an annual basis.

The Pre-Approval Policy will prohibit the Company or any of its subsidiary entities from engaging the external auditor to provide certain specified non-audit services. Pursuant to the Pre-Approval Policy, all non-audit services that are not specifically prohibited may be provided to the Company or any of its subsidiary entities by the external auditor if such services have been pre-approved by the Audit Committee.

Independent Auditor’s Fees

Ernst & Young LLP is the Company’s auditor and has historically served as Economical Insurance’s auditor. In the years ended December 31, 2020 and December 31, 2019, Economical Insurance incurred fees of approximately \$1.3 and \$1.7 million, respectively, by Ernst & Young LLP, as detailed below.

	Year ended December 31, 2020	Year ended December 31, 2019
Audit fees ⁽¹⁾	\$ 899,000	\$ 922,747
Audit-related fees ⁽²⁾	\$ 156,200	\$ 335,865
Tax fees ⁽³⁾	\$ 283,298	\$ 315,734
All other fees ⁽⁴⁾	\$ —	\$ 77,640
Total	\$1,338,498	\$1,651,986

Notes:

- (1) Fees for professional services rendered for the audit and review of the financial statements of Economical Insurance.
- (2) Fees for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported under audit fees listed above.
- (3) Fees for review of tax returns, assistance with questions on tax audits, and tax planning.
- (4) Fees for assistance with Economical Insurance’s conversion to IFRS.

HRC Committee

The HRC Committee consists of John Bowey, Elizabeth DelBianco, Dan Fortin and Barbara Fraser, each of whom is a current member of the HRC Committee of Economical Insurance. Elizabeth DelBianco is the chair of the HRC Committee. Our Board has determined that each of Mr. Bowey, Ms. DelBianco, Mr. Fortin and Ms. Fraser are independent directors within the meaning of NI 52-110.

For additional information regarding the relevant education and experience of each proposed member of the HRC Committee, see “Directors and Executive Officers – Executive Officer Biographies”.

The Board has adopted a written mandate which outlines the responsibilities of the HRC Committee with respect to, among other things:

- recommending to the Board the compensation paid to our CEO and, after obtaining the recommendation of our CEO, approving the compensation paid to other members of senior management;
- reviewing retention, development, and succession plans for senior management;

- reviewing the Company’s culture, including matters relating to employee equity, diversity, accessibility and inclusion as well as employee engagement and the results of the Company’s employee engagement surveys;
- approving the adoption of, or amendments to, incentive compensation plans and grants or awards under such plans, subject to Board approval, as appropriate; and
- approving the “Executive Compensation” section of our annual proxy circular.

Corporate Governance Committee

The Corporate Governance Committee consists of Micheál Kelly, John Bowey, Elizabeth DelBianco and Dick Freeborough, each of whom is a current member of the Corporate Governance Committee of Economical Insurance. Micheál Kelly is the Chair of the Corporate Governance Committee. Our Board has determined that each of Dr. Kelly, Mr. Bowey, Ms. DelBianco and Mr. Freeborough is an independent director within the meaning of NI 52-110.

Pursuant to the HOOPP Governance Agreement, for so long as a nominee designated by HOOPP serves as a member of the Board, we have agreed that our Board will designate one of HOOPP’s nominee directors to serve as a member of the Corporate Governance Committee. Pursuant to the Swiss Re Governance Agreement, for so long as a nominee designated by Swiss Re serves as a member of the Board, we have agreed that our Board will designate Swiss Re’s nominee director to serve as a member of the Corporate Governance Committee. See “The Cornerstone Private Placements – Governance Agreements”.

For additional information regarding the relevant education and experience of each proposed member of the Corporate Governance Committee, see “Directors and Executive Officers – Executive Officer Biographies”.

The Board has adopted a written mandate which outlines the responsibilities of the Corporate Governance Committee with respect to, among other things:

- reviewing the overall size, composition and independence of the Board;
- recommending to the Board candidates for Board membership;
- recommending to the Board candidates qualified for appointment or reappointment to Board committees;
- supervising the annual Board, committee and director evaluation process;
- overseeing director orientation and continuing education;
- acting as our Conduct Review Committee, and fulfilling the Board’s statutory obligations with respect to related party transaction oversight;
- approving the “Statement of Corporate Governance Practices” and “Director Compensation” sections of our annual proxy circular; and
- periodically reviewing and making recommendations to the Board regarding the adequacy and form of directors’ compensation.

Risk Review Committee

The Risk Review Committee consists of Michael Stramaglia, Dan Fortin, Dick Freeborough, Robert McFarlane and Susan Monteith, each of whom is a current member of the Risk Review Committee of Economical Insurance. Mr. Stramaglia is the Chair of the Risk Review Committee. Our Board has determined that each of Mr. Stramaglia, Mr. Fortin, Mr. Freeborough, Mr. McFarlane and Ms. Monteith is an independent director within the meaning of NI 52-110.

For additional information regarding the relevant education and experience of each proposed member of the Risk Review Committee, see “Directors and Executive Officers – Executive Officer Biographies”.

The Board has adopted a written mandate which outlines the responsibilities of the Risk Review Committee with respect to, among other things, assisting the Board in fulfilling its oversight responsibilities with respect to the

management of the enterprise risk management framework with a view to promoting the achievement of agreed upon risk-adjusted returns and allocating capital accordingly. Specific responsibilities will include overseeing:

- the initial identification of major risks facing the Company and the development of strategies to manage and mitigate those risks;
- the review of management's assessment of compliance with approved risk management policies, practices and controls related to the Company's capital structure;
- the review of the annual report on the Company's financial condition and periodic stress testing;
- the review of the Company's own risk solvency assessment;
- the effectiveness of the Company's enterprise-wide regulatory compliance management program and framework; and
- the review and monitoring of the Company's capital management plan to support continued solvency based upon both regulatory requirements and its own assessment of the Company's risk profile.

EXECUTIVE COMPENSATION

The following section describes the significant elements of our executive compensation program, with particular emphasis on the process for determining compensation payable to the Chief Executive Officer, the Chief Financial Officer and the other three most highly compensated executive officers (collectively, the “NEOs”). Our executive compensation program is consistent with the existing executive compensation program of Economical Insurance, with certain changes that would be implemented in connection with, and are contingent upon, the completion of the Offering, which are reflected in the discussion below. The anticipated NEOs for the fiscal year ending December 31, 2022 (“**Fiscal 2022**”), our first full fiscal year as a public company, are:

- Rowan Saunders, President and Chief Executive Officer;
- Philip Mather, Executive Vice-President and Chief Financial Officer;
- Fabian Richenberger, Executive Vice-President, Commercial Insurance;
- Paul MacDonald, Executive Vice-President, Personal Insurance; and
- Innes Dey, Senior Vice-President, Legal and Strategy.

Compensation Objectives and Philosophy

We believe in aligning compensation with performance relative to our business plan and strategy. While overall target compensation opportunities are established at competitive levels to attract and retain the executive talent we need, the majority of our executives’ potential compensation will be incentive-based and dependent on key measures of short- and longer-term performance.

Our compensation strategy is to provide a compensation program that focuses executives on the successful execution of our business strategy, in alignment with our risk appetite and company values. The program is guided by the following three principles:

1. Provide competitive total compensation to attract, retain, and motivate talented executives
2. Pay-for-performance that is consistent with our strategy, risk appetite, and Company values
3. Align executive and shareholder interests by rewarding long-term value creation through strong performance

Our incentive programs include performance measures directly linked to our business strategy. Following the completion of the Offering, the corporate component of our short-term incentives will be tied to the following performance measures:

Performance measure	Why it matters
Combined ratio	A foundational insurance indicator of how efficiently our core business has performed. Measures claims incurred and operating expenses as a percentage of our net earned premiums.
Gross written premiums	Year-over-year growth in our core revenues is a key indicator of our progress towards our profitable growth goals.
Net operating income /Common Share	A key indicator to measure and evaluate the ongoing operational performance of the Company’s business.

Following the completion of the Offering, our PSUs (as defined below) issued under our LTIP (as defined below) will be tied to the following performance measures:

Performance measure	Why it matters
Operating ROE	A commonly used measure in the P&C insurance industry to measure and evaluate the periodic return that our operational performance is providing relative to the equity position of the Company.
Relative Total Shareholder Return	A measurement of the Company’s total shareholder return relative to the total shareholder returns of an index of companies, aligning performance with shareholder outcome

Elements of Compensation

Our compensation program balances fixed and variable pay and short- and long-term performance criteria with overlapping performance periods. The compensation of the Company's executive officers as of January 1, 2022 includes four major elements: (i) base salary; (ii) short-term incentives; (iii) long-term incentives; and (iv) benefits, as described in further detail in the table below.

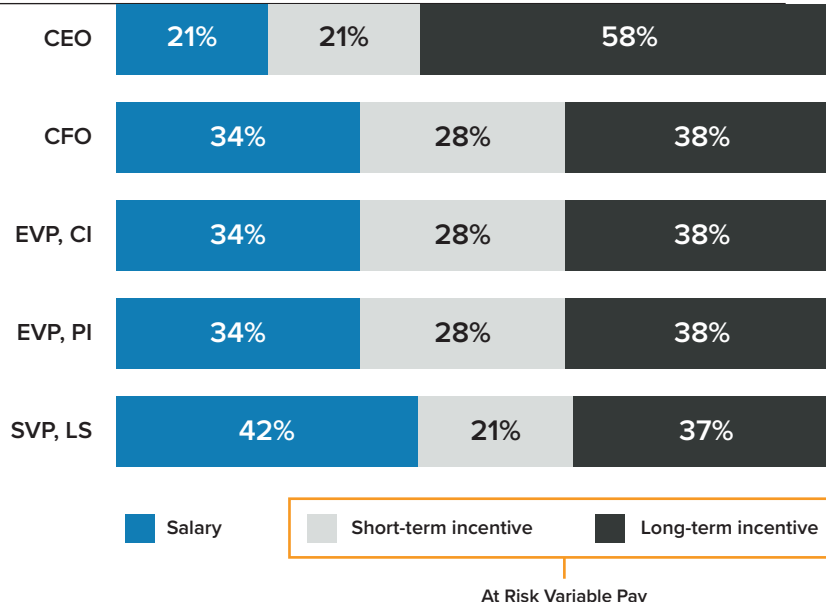
Component and purpose	Description		
Base Salary To compensate executives competitively for their role at the Company	- Fixed amount earned and paid during the year - Typically reviewed, but not necessarily adjusted, annually - Normally set around the market median - Levels determined based on individual performance, experience, competencies, accountabilities, and competitive market data		
Short-term incentive To drive and reward the achievement of corporate, strategic, and individual priorities during the year	- Target value determined based on the role and expressed as a percentage of salary - Final award contingent on performance against pre-determined goals and paid in cash (with opportunity to elect to receive a percentage in the form of DSUs) 75% corporate; 25% individual	Target value (% of salary): Rowan Saunders 100% President and Chief Executive Officer Philip Mather 80% EVP and Chief Financial Officer Fabian Richenberger 80% EVP, Commercial Insurance Paul MacDonald 80% EVP, Personal Insurance Innes Dey 50% SVP, Legal and Strategy <i>Maximum value is capped at 200% of target</i>	
Long-term incentive To provide a strong link to long-term corporate performance and the creation of shareholder value	- Stock Option Plan - Long-Term Incentive Plan - Executives' DSU Plan	Target value (% of salary): Rowan Saunders 275% President and Chief Executive Officer Philip Mather 110% EVP and Chief Financial Officer Fabian Richenberger 110% EVP, Commercial Insurance Paul MacDonald 110% EVP, Personal Insurance Innes Dey 90% SVP, Legal and Strategy	
Benefits To provide executives with market-typical benefits	Includes pension (see " – Retirement Benefits"), group life and health insurance, and annual cash allowance (in lieu of perquisites).		

Component and purpose

Description

Pay mix⁽¹⁾

A significant portion of every executive's compensation is variable and linked to our corporate goals and objectives



Notes:

(1) Percentages represent short- and long-term incentives if paid out at target value.

Base Salary

Base salaries for NEOs are established based on the scope of their responsibilities, competencies and their prior relevant experience, taking into account compensation paid in the market for similar positions and the market demand for such NEOs.

Base salaries will be reviewed annually and may be adjusted as warranted to reflect promotions or other changes in the scope or breadth of an executive's role or responsibilities, to reflect growing capabilities, as well as for market competitiveness.

Short-Term Incentives

Our compensation program for NEOs and other executive officers includes eligibility for annual cash bonuses under our Short-Term Incentive Plan ("STIP"). STIP awards are considered annually based on a combination of corporate and individual performance. These annual bonuses are designed to motivate our executive officers to meet our business and financial objectives generally and our annual financial performance targets in particular.

For Fiscal 2022, the NEOs will be eligible to earn an annual bonus based on a target percentage of base salary, 75% of which is based on the achievement of certain business and financial objectives, and 25% of which is based upon the achievement, by the NEO, of personalized goals and objectives. Corporate performance has the largest weighing in determining short-term incentive awards for each executive, including metrics to ensure alignment with our corporate priorities and areas of strategic focus. Each year performance measures will be identified, and threshold, target and maximum performance goals will be set based on our business plan.

The Board will have the discretion at all times to grant discretionary bonuses, including, for example, in the context of acquisitions, to modify, amend or terminate short term incentive plans at all times, and to deviate from the plans or grant individual exceptions.

Long-Term Incentives

Equity-based awards are an element of compensation that allows the Company to incentivize and retain the Company's executive officers for their sustained contributions to the Company. Equity awards reward performance by an executive officer, with associated benefits to the Company of attracting and retaining employees. We believe that equity awards provide executive officers with a strong link to long-term corporate performance and the creation of shareholder value. To help achieve the Company's objectives with respect to long-term incentive compensation, in connection with the completion of the Offering, the Company will adopt the Stock Option Plan, the LTIP and the Executives' DSU Plan to provide the Company with flexibility in respect of the structure of its long-term incentive compensation arrangements, both in terms of quantum and instrument mix. See "– Long-Term Incentive Plans".

No grants will be made under the Stock Option Plan, and no RSUs or PSUs granted under the LTIP will be settled through the issuance from treasury of Common Shares, respectively, until the expiry of the one year restricted period under the Demutualization Regulations. See "Options to Purchase Securities" and "Canadian P&C Insurance Regulatory Environment – Regulation of Definitive and Impact of Continuance – Restriction on the Issuance of Shares Post-TSX Listing".

Benefits and Perquisites

The Company will offer certain benefits to its employees, including pension, group life and health insurance. All executives participate in a group benefits plan that provides health, dental, and out-of-country benefits coverage on a cost-sharing basis and receive an annual cash allowance (in lieu of perquisites).

Our retirement benefits include registered pension plans and a supplementary pension plan. Rowan Saunders participates in the defined benefit pension plan and the supplementary pension plan and Philip Mather, Fabian Richenberger, Paul MacDonald and Innes Dey participate in the defined contribution pension plan and the supplementary pension plan. See "– Retirement Benefits".

Historical Elements of Compensation

Medium-Term Incentives

Historically, a significant component of Economical Insurance's compensation program was the annual grant of RUs and PUs under the MTIP. RUs and PUs are awards that appreciate and depreciate with Economical Insurance's book value and pay out at the end of a one to three year vesting period. RUs vest solely based on time. The vesting and final value of PUs is contingent on performance as measured against pre-determined performance metrics (e.g., year-over-year improvement in Combined Ratio, GWP targets and specified strategic initiatives in a particular year). Outstanding awards under the MTIP may be settled in cash or in Common Shares purchased in the open market.

Grants of RUs and PUs are made by reference to a target value set as a percentage of base salary. For 2021, the target values for each of the NEOs were as follows:

Medium-term incentive target value (% of salary):

Rowan Saunders	220%
President and Chief Executive Officer	
Philip Mather	110%
EVP and Chief Financial Officer	
Fabian Richenberger	110%
EVP, Commercial Insurance	
Paul MacDonald	110%
EVP, Personal Insurance	
Innes Dey	90%
SVP, Legal and Strategy	

Following the completion of the Offering, no further awards will be granted under the MTIP. Existing awards granted in 2019, 2020 and 2021 will be settled in 2022, 2023 and 2024, respectively, and adjustments will be made to such awards in accordance with the MTIP in connection with the completion of the Offering so that such awards appreciate and depreciate on the basis of the Company’s share price, rather than with Economical Insurance’s book value. See “Incentive Plan Awards – Outstanding Share-based Awards and Option-based Awards” and “ – Incentive Plan Awards – Value Vested or Earned During the Year”.

CEO’s Award Program

In early 2019, the Economical Board approved a special program intended to help assure continuity of management, strategy and execution of Economical Insurance’s business plan. Under this program, one-time deferred cash awards were awarded to recognize and reward a small number of key individuals, including each of the NEOs. Awards for participants range up to \$1,250,000, and payments of the awards are subject to certain conditions. One-third of a participant’s award was paid in mid-2020 and the remainder will be paid (subject to certain conditions) in December 2022. See “Summary Compensation Table”.

Compensation Governance

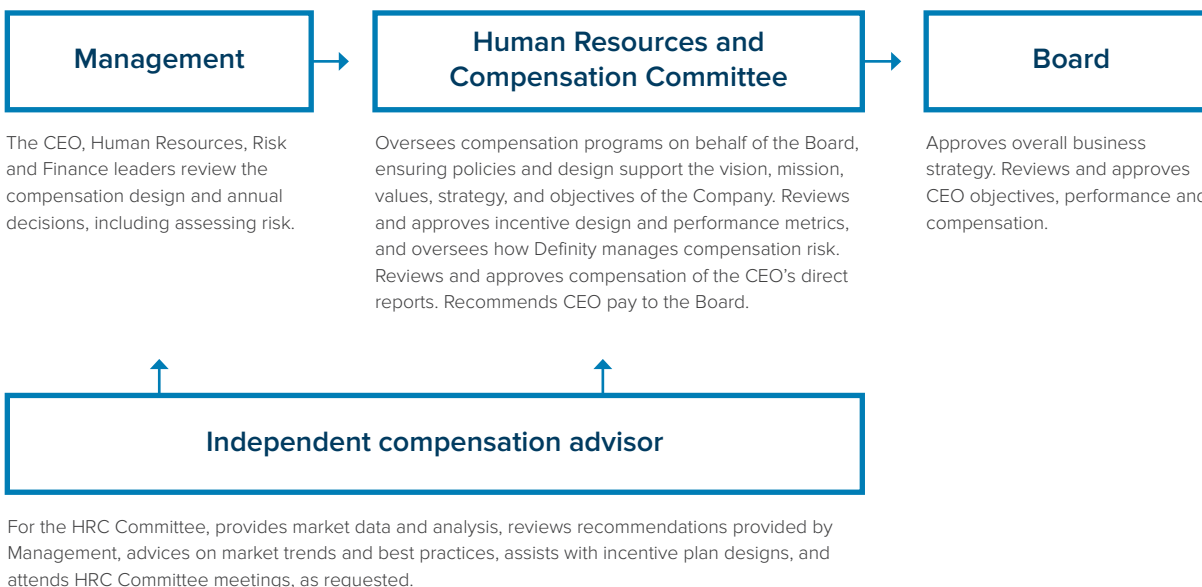
The Chief Executive Officer and Human Resources, Risk, and Finance leaders review the Company’s compensation design and annual decisions, including assessing risk.

The HRC Committee is responsible for assisting the Board in fulfilling its governance and supervisory responsibilities, and overseeing the Company’s human resources and compensation policies, processes and practices.

The HRC Committee considers many factors in setting total compensation, including competitive market conditions, internal equity, scope of the role, current business challenges, short- and longer-term performance, and strategic objectives.

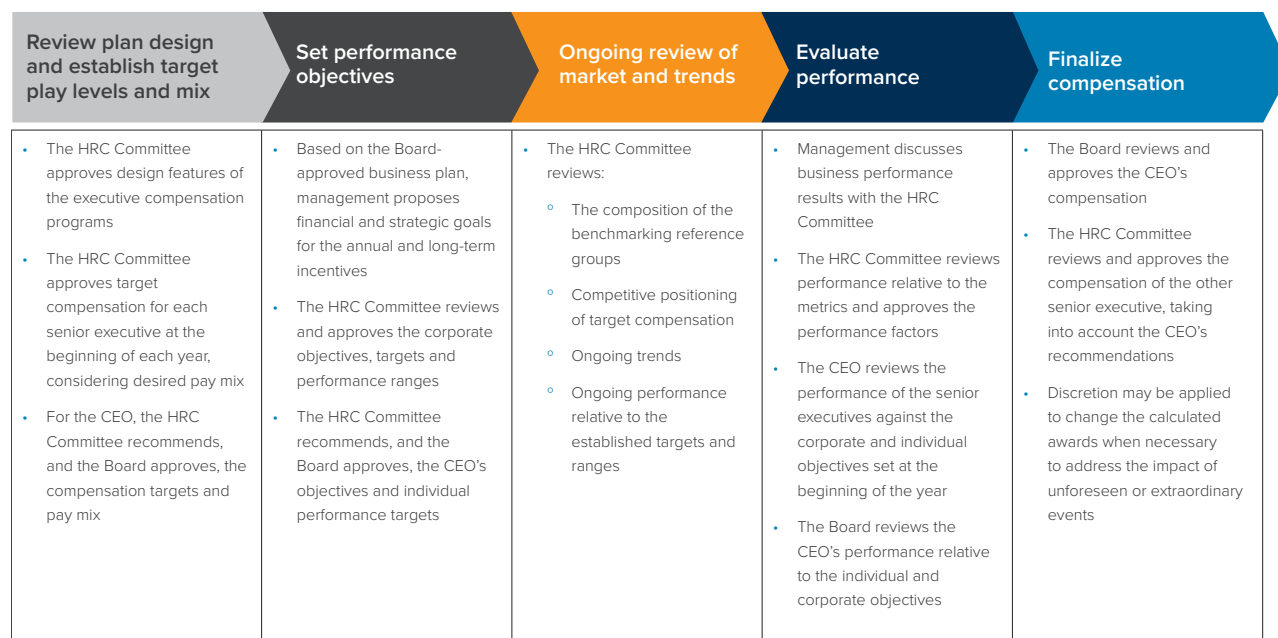
The performance metrics in our incentive programs are designed to ensure continued focus on successfully positioning the Company for the future. By linking incentive compensation to both current strategic imperatives and future value creation, we believe we are aligning our executive team’s interests with those of our Shareholders.

Since 2013, the HRC Committee of the Economical Board has retained Willis Towers Watson (“WTW”) as an outside advisor to provide independent guidance and advice on compensation decisions, and we expect that WTW will continue to provide guidance and advice to the HRC Committee following the completion of the Offering. The HRC Committee will meet with WTW, without management present, to maintain direct channels of communication, and to obtain independent and objective advice. While WTW’s information and advice may inform the decision-making process, the HRC Committee relies on its own judgment to make final decisions. See “— Compensation Consultant”.



Compensation Design and Decision-Making

The Board, the HRC Committee, and senior management are all involved in compensation decision-making. All decisions about compensation design and executive pay are made with reference to our strategy, our risk appetite, and our principle of pay-for-performance.



Benchmarking

The competitive market for our executive talent is drawn from businesses within financial services, the insurance industry, and broader general industry. There are very few companies in Canada that are similar to the Company in size and industry focus. Therefore, it is challenging to determine one specific comparator group for purposes of benchmarking senior executive compensation. As such, two reference groups were considered when reviewing compensation levels and design: 1) similarly-sized publicly-traded organizations in Canada, across industries; and 2) insurance organizations in Canada of a similar size to Economical Insurance.

Reference organization criteria	How we use the reference data
Publicly-traded organizations - General industry organizations, excluding oil and gas, natural resources and utilities - Comparable size based on factors such as revenue, market capitalization and number of business units - National operations	- As an input into setting base salary, annual incentive, and long-term incentive target levels - To assess the competitiveness of total direct compensation awarded to senior executives - To understand annual and long-term incentive designs in the market
Insurers - Comparable in size based on GWP and assets (generally from 1/3 to 3 times the size of Economical Insurance and its subsidiaries) - All organization structures (e.g., mutual, subsidiary, and publicly-traded)	

Compensation Risk Management

Our compensation program is designed with the understanding that we are in the business of taking risk to achieve an appropriate return. The HRC Committee regularly monitors and evaluates our compensation policies to help ensure they align with good governance practices. The HRC Committee believes that our compensation policies, plans, and practices do not encourage inappropriate or excessive risk-taking, and that there are no compensation-related risks or practices that are reasonably likely to have a material adverse effect on the Company.

What we do

Consider the balance between fixed and variable pay, short- and longer-term time horizons

- ✓ Our compensation program balances fixed and variable pay and short- and long-term performance criteria with overlapping performance periods. The weighting for the long-term incentive increases by role, responsibility, and the ability to affect our longer-term strategy, risk, and results.

Test our compensation program design

- ✓ Any significant changes considered in the structure of our incentive plans, including the performance targets and ranges, are tested against various performance scenarios. The CEO, CFO, and Chief Risk and Actuarial Officer review the results before management presents the findings to the HRC Committee along with the proposed changes.

Cap variable pay

- ✓ The short-term incentive payout is capped at 200% of target. The PSU performance factor is capped at 2x.

Pay-for-performance

- ✓ Annual and long-term incentive awards are linked to performance on our corporate goals, strategic objectives and individual goals and focusing executives on carrying out our strategy, sustaining performance, and growing value over the longer term.

Compensate senior executives based on overall Company and individual performance

- ✓ Compensation for our most senior leaders (the CEO and his direct reports), and all executives in control functions (risk management, actuarial, legal, and finance), is based solely on Company and individual performance and does not include specific performance metrics for business segments.

Compensation Recoupment Policy

- ✓ We have established a policy that allows us to recover incentive compensation paid to senior executives when their misconduct⁽¹⁾ causes a material restatement or correction of financial statements that results in overcompensation, based on the restated or corrected results. See “– Executive Incentive Compensation Recoupment Policy”.

Discretion

- ✓ The Board and HRC Committee will be able to use their discretion to adjust the mathematically determined awards up or down to address the impact of unforeseen or extraordinary events, including reducing them to zero if performance is not in line with expectations for performance, risk management, or conduct.

What we don't do

- X Single measure plans
- X Single trigger change of control provisions
- X Grant or extend loans to employees
- X Pay incentives if unwarranted by financial, strategic, risk management or individual performance

⁽¹⁾ “Misconduct” means (i) fraud, (ii) wilful breach of the material provisions of the Company’s Code of Conduct, (iii) wilful failure to perform the senior executive’s most important duties and responsibilities, (iv) certain types of criminal convictions, (v) failure to report or intervene when the senior executive knows, or should have known, that another employee was engaged in serious misconduct, or (vi) any other circumstances that would allow for termination with cause.

Our goal is to reward executives for sustainable, profitable growth, and other established desirable strategic business outcomes, that fall within our risk appetite. The risk management features of our compensation program are aligned with the Financial Stability Board’s Principles for Sound Compensation Practices and with OSFI guidelines. Management and the HRC Committee intend to continue to help ensure our compensation program aligns with governance best practices, including through the implementation of guidelines with respect to securities trading, executive incentive compensation recoupment and share ownership.

Securities Trading Policy

In connection with the completion of the Offering, the Company will establish a securities trading policy (“**Securities Trading Policy**”). All of the Company’s executive officers, including the NEOs, directors and employees will be subject to the Securities Trading Policy, which will prohibit trading in the Company’s securities, including the exercise of options, while in possession of material undisclosed information regarding the Company or during internal blackout periods. Under this policy, such individuals will also be prohibited from entering into certain types of hedging or derivative transactions involving, directly or indirectly, the securities of the Company, such as short sales, puts and calls.

Executive Incentive Compensation Recoupment Policy

The Company has established an executive incentive compensation recoupment policy which allows the Company to recoup certain incentive compensation paid to the CEO and each officer of the Company who reports directly to the CEO in the event the Company is required to prepare a material accounting restatement of the Company’s financial statements arising or resulting from misconduct on the part of such executive and such executive received additional compensation as a result. Pursuant to the policy, the Company will be entitled to recover any overcompensation amount from such executive that was received within three years preceding the date of any such material accounting restatement.

Share Ownership Guidelines

The Board will adopt share ownership guidelines (“**Share Ownership Guidelines**”) effective as of the Closing in order to encourage the Company’s senior leaders and directors to obtain a significant ownership interest in the Company to better align their interests with those of the Shareholders.

The Share Ownership Guidelines will apply to our CEO, each executive vice-president and senior vice-president and each vice-president of the Company, as well as directors (see “Director Compensation – Director Share Ownership Guidelines”).

Executives are expected to acquire and continue to hold during the term of their employment with the Company in an executive role, an amount of Eligible Units (as defined below) having a value equal to at least the multiple of their annual base salary indicated in the table below, based upon title. In the event of a promotion, the executive’s annual base salary and corresponding share ownership requirement will be recalibrated consistent with the executive’s new role.

<u>Position</u>	<u>Salary Multiple</u>
President and Chief Executive Officer	3x
Executive Vice-President and Senior Vice-President	2x
Vice-President	0.5x

For purposes of the Share Ownership Guidelines, “Eligible Units” include: (i) Common Shares which are beneficially owned by the executive (whether directly, indirectly and/or controlled); (ii) RSUs, whether vested or unvested; (iii) DSUs; and (iv) such other Eligible Units as may be approved by the Board. Stock Options, PSUs and other similar instruments granted to an executive by the Company are excluded for purposes of calculating the executive’s level of share ownership.

An executive is required to achieve compliance with the requirements set out in the Share Ownership Guidelines by the fifth anniversary from the later of (i) the Closing Date, (ii) the date of promotion (or other transition) to the executive position, or (iii) the start of employment with the Company.

If, as of the fifth anniversary (or any subsequent anniversary) in which the executive is required to achieve compliance, the executive has failed to achieve compliance with the Share Ownership Guidelines, the Corporate Governance Committee shall have discretion to undertake corrective measures to achieve compliance including, among other things, requiring the executive to participate in the Executives' DSU Plan and receive DSUs in lieu of up to 100% of such executive's annual bonus award under the STIP.

Long-Term Incentive Plans

Stock Option Plan

In connection with the completion of the Offering, the Company will adopt a stock option plan (the "**Stock Option Plan**"), which will be a component of the Company's long-term incentive compensation arrangements available to eligible employees. The purpose of the Stock Option Plan is to assist the Company in attracting, retaining and motivating eligible employees and to advance the interests of the Company by providing such persons with the opportunity to acquire a proprietary interest in the Company.

Administration

The Stock Option Plan will authorize the HRC Committee to issue stock options ("**Options**") to employees of the Company or any affiliate.

Share Reserve and Limits on Issuance

The aggregate number of Common Shares that may be issued pursuant to the Stock Option Plan at any time shall not exceed 5,500,000 (the "**Equity Award Pool Limit**"). No Options may be granted on terms requiring settlement in newly issued Common Shares if such grant would have the effect of causing the total number of Common Shares subject to the Stock Option Plan (together with those Common Shares which may be issued pursuant to any other security based compensation arrangement provided by the Company) to exceed the Equity Award Pool Limit.

In addition, (a) the maximum number of Common Shares issued to insiders within any one year period pursuant to the Stock Option Plan, together with Common Shares issued to insiders under all other security based compensation arrangements of the Company, shall not exceed 10% of the issued and outstanding Common Shares, and (b) the maximum number of Common Shares issuable to insiders, at any time, pursuant to the Stock Option Plan, together with Common Shares issuable to insiders under all other security based compensation arrangements provided by the Company, shall not exceed 10% of the issued and outstanding Common Shares.

Terms and Conditions of Option Grants

Under the Stock Option Plan:

- subject to the rules of any stock exchange upon which the Common Shares may be listed or other securities regulatory authority, the HRC Committee may, (a) by resolution, accelerate the date on which any unvested Option may be exercised or extend the expiration date of any Option; or (b) subsequent to the time of granting Options hereunder, permit a participant to exercise any or all of the unvested options then outstanding and granted to the participant under this Stock Option Plan;
- subject to any adjustments pursuant to the provisions of the Stock Option Plan, the exercise price of any Option shall in no circumstances be lower than the Market Price (as defined in the Stock Option Plan) on the date of grant of the Option;
- the term of an Option shall not exceed ten (10) years from the date of the grant of the Option;
- Options will be personal to the grantee and will be non-assignable, except in certain limited circumstances; and
- notwithstanding anything else contained in the Stock Option Plan, if the expiration date for an Option occurs during a period of time during which the person granted Options cannot exercise an Option, or sell Optioned Shares, due to applicable policies of the Company in respect of insider trading (a "Blackout Period") applicable to the relevant participant, or within ten business days after the expiry of a Blackout Period

applicable to the relevant participant, then the expiration date for that Option shall be the date that is the tenth (10th) business day after the expiry date of the Blackout Period.

Adjustments and Change in Control

The Stock Option Plan contains provisions for the treatment of Options in relation to capital changes and with regard to any stock dividend, stock split, combination or exchange of shares, capital reorganization, consolidation, spin-off, dividends (other than cash dividends in the ordinary course) or other distribution of the Company's assets to shareholders, or any other similar changes affecting the Common Shares.

In the event of a change in control of the Company prior to the vesting of an Option, and subject to the terms of a participant's employment agreement and the applicable option agreement, the HRC Committee shall have full authority to determine in its sole discretion the effect, if any, of the change in control on the vesting, exercisability, settlement, payment or lapse of restrictions applicable to an Option. In the absence of any action by the HRC Committee, upon a change in control: (i) to the extent the successor to or acquiror of the Company assumes all obligations under the Option, with appropriate adjustments to preserve the value of the Option, or provides a substitute award for the Option on substantially the same terms and conditions with substantially the same value, in either case as determined by the HRC Committee, in its sole discretion, the existing vesting schedule of such Option will continue to apply; (ii) to the extent the successor to or acquiror of the Company does not assume all obligations under or provide a substitute for the Options held by a participant at the time of the change in control on substantially the same terms and conditions with substantially the same value as of the effective date of the change in control, then (x) all vested Options shall be exercisable until the consummation of the change in control, (y) all unvested Options shall be exercisable immediately prior to the consummation of the change in control and (z) any Options that are not exercised on or prior to the consummation of the change in control shall be cancelled for no consideration. Notwithstanding the foregoing, if a participant is terminated without cause or resigns with good reason during the 18 month period following a change in control, then any unvested Options (or substitute awards, as applicable) shall vest immediately and be exercisable for a period of 90 days following the effective day of termination or, if earlier, until the expiry date of the Options (or in the case of a substitute award, the expiry date of the Option for which the award has been substituted).

Termination of Options

The Stock Option Plan provides that, except with certain limitations, an Option and all rights to purchase Common Shares pursuant thereto shall expire and terminate immediately upon the participant who holds such Option ceasing to be an eligible person.

Where a participant ceases to be employed by the Company or any affiliate for any reason (other than retirement, death and long-term disability), the participant's unvested Options shall be immediately forfeited and the participant's vested options may be exercised for a period of 90 days after the date of resignation or termination.

Subject to the terms and conditions of the applicable Option agreement, where a participant retires from the Company, the participant's unvested Options then held by the participant shall remain outstanding and continue to vest and become exercisable as if the participant had been actively employed by Definity until the earlier of the expiry date of the Options or five years following the participant's retirement. All of the participant's vested Options then held by the participant remain eligible to be exercised until the earlier of the expiration date of the Options or five years following the participant's retirement.

In the event that a participant experiences a permanent disability while employed or dies, all unexercised Options held by such participant at the time of death immediately vest, and such participant's personal representatives may exercise all Options within one year after the date of such disability or death.

The HRC Committee may in certain circumstances decide that any of the provisions concerning the effect of termination of the participant's employment shall not apply to the participant for any reason acceptable to the HRC Committee.

Amendment or Discontinuance of the Plan

The Board may amend, modify or terminate the Stock Option Plan or any Option granted pursuant to the Stock Option Plan at any time without shareholder approval, provided that no amendment to the Stock Option Plan adversely affects the rights of any participant under any previously granted Option, except with the consent of such participant.

The Stock Option Plan may not be amended without shareholder approval to allow any of the following: (a) amendment for which shareholder approval is required under law; (b) increase to the maximum number or percentage of Common Shares issuable under the Stock Option Plan; (c) reduction of the option price, or cancellation and reissuance of Options or other entitlements, of Options granted under the Stock Option Plan; (d) extension of terms of Options beyond the original expiry date; (e) removal of or increase to the insider participation limits under the Stock Option Plan; (f) change in eligible persons that may permit the introduction or reintroduction of non-employee directors on a discretionary basis; (g) amendment that would allow Options granted under the Stock Option Plan to be transferable or assignable other than for estate settlement purposes; or (h) amendment to the Stock Option Plan's amendment provisions.

Shareholder approval is not required for the following amendments: (a) amendments of a "housekeeping" nature; (b) a change to the vesting provisions of any Options; (c) a change to the termination provisions of any Option that does not entail an extension beyond the original term of the Option; or (d) amendments to the provisions relating to a change in control.

LTIP

In connection with the completion of the Offering, the Company will adopt a long-term incentive plan (the "LTIP"). The purposes of the LTIP are (i) to promote further alignment of interests between employees of the Company and shareholders, (ii) to associate a portion of the compensation payable to employees of the Company with the returns achieved by shareholders; and (iii) to attract and retain employees with the knowledge, experience and expertise required by the Company.

Administration

The LTIP will be administered by the HRC Committee.

Eligibility and Award Determination

Any individual employed by the Company or any affiliate of the Company is eligible to receive grants of RSUs and PSUs ("Grants") under the LTIP at the sole and absolute discretion of the HRC Committee. The HRC Committee also has the discretion to determine the time or times at which Grants shall be made and become issuable.

The number of RSUs and PSUs to be covered by each Grant shall be determined by dividing the value for such Grant by the Market Value (as defined in the LTIP) of a Common Share as at the valuation date for such Grant, rounded up to the next whole number.

Share Reserve and Limits on Issuance

The aggregate number of Common Shares that may be issued pursuant to the LTIP at any time shall not exceed the Equity Award Pool Limit. No RSUs or PSUs will be granted on terms requiring settlement in newly issued Common Shares if such grant would have the effect of causing the total number of Common Shares subject to the LTIP (together with Common Shares which may be issued pursuant to any other security based compensation arrangement provided by the Company) to exceed the Equity Award Pool Limit.

In addition, (a) the maximum number of Common Shares issued to insiders within any one year period pursuant to the LTIP, together with Common Shares issued to insiders under all other security based compensation arrangements of the Company, shall not exceed 10% of the issued and outstanding Common Shares and (b) the maximum number of Common Shares issuable to insiders, at any time, pursuant to the LTIP, together with Common Shares issuable to insiders under all other security based compensation arrangements provided by the Company, shall not exceed 10% of the issued and outstanding Common Shares.

Vesting and Settlement of RSUs and PSUs

Under the LTIP, participants may be allocated share units in the form of RSUs or PSUs, which represent the right to receive an equivalent number of Common Shares or the Market Value on the vesting date.

Unless otherwise specified in the applicable Grant agreement, all RSUs and PSUs will be settled no later than December 31 of the third year following the year in which the participant performed the services to which the RSUs or PSUs relate.

Adjustments and Change in Control

The LTIP contains provisions for the equitable adjustment of Grants in relation to any stock dividend, stock split, combination or exchange of shares, capital reorganization, consolidation, spin-off, dividends (other than cash dividends in the ordinary course) or other distribution of the Company's assets to shareholders, or any other similar changes affecting the Common Shares.

In the event of a change in control of the Company prior to the vesting of a Grant, and subject to the terms of a participant's employment agreement and the applicable Grant agreement, the HRC Committee shall have full authority to determine in its sole discretion the effect, if any, of a change in control on the vesting, exercisability, settlement, payment or lapse of restrictions applicable to a Grant. In the absence of any action by the HRC Committee, upon a change in control: (i) to the extent the successor to or acquiror of the Company assumes all obligations under the Grant, with appropriate adjustments to preserve the value of the Grant, or provides a substitute award for the Grant on substantially the same terms and conditions with substantially the same value, in either case as determined by the HRC Committee, in its sole discretion, the existing vesting schedule of such Grant will continue to apply; (ii) to the extent the successor to or acquiror of the Company does not assume all obligations under or provide a substitute for the Grants held by a participant at the time of the change in control on substantially the same terms and conditions with substantially the same value as of the effective date of the change in control, then (x) any restrictions imposed on RSUs outstanding as of the effective date of the change in control shall lapse, (y) satisfaction of the performance conditions with respect to all PSUs outstanding as of the effective date of the change in control shall be determined based on performance up to the effective date of the change in control, or where the performance conditions relate to the quarterly financial performance of the Company, to the end of the most recent fiscal quarter of the Company preceding the effective date of the change in control, and (z) all RSUs and/or PSUs that have not previously vested shall immediately vest as of the effective date of the change in control. Notwithstanding the foregoing, if a participant is terminated without cause or resigns with good reason during the 18 month period following a change in control, then (x) any remaining restrictions applicable to the participant's outstanding RSUs shall lapse, (y) satisfaction of the performance conditions with respect to the participant's outstanding PSUs shall be determined based on performance up to the effective date of the change in control, or where the performance conditions relate to the quarterly financial performance of the Company, to the end of the most recent fiscal quarter of the Company preceding the effective date of the change in control, and (z) all RSUs and/or PSUs that have not previously vested shall immediately vest on the effective date of the participant's termination.

Amendment and Termination of the LTIP

The LTIP and any Grant made pursuant to the LTIP may be amended, modified or terminated by the Board without approval of Shareholders, provided that no amendment may be made without the consent of a participant if it adversely affects the rights of the participant in respect of any Grant previously made to such participant. For greater certainty, the LTIP may not be amended without shareholder approval to allow any of the following: (a) amendment for which shareholder approval is required under law; (b) increase in the maximum number or percentage of Shares issuable under the LTIP; (c) extension of the term of Share Units held by Insiders; (d) removal of or increase to the insider participation limits under the LTIP; (e) change in Eligible Persons that may permit the introduction or reintroduction of non-employee directors on a discretionary basis; (f) amendment that would allow Share Units granted under the LTIP to be transferable or assignable other than for estate settlement purposes; or (g) amendment to the LTIP's amendment provisions.

Shareholder approval will not be required for the following amendments: (a) amendments of a "housekeeping" nature; (b) a change to the vesting provisions of any Grants; (c) a change to the termination provisions of any Grant that does not entail an extension beyond the original term of the Grant; or (d) amendments to the provisions relating to a change in control.

Executives' DSU Plan

In connection with the Offering, the Company will adopt an executive deferred share unit plan (the “**Executives' DSU Plan**”), which is a component of the Company’s long-term incentive compensation arrangements available for our executive employees (the “**Eligible Executives**”). The purposes of the Executives' DSU Plan are (a) to promote a further alignment of interests between the Eligible Executives and the shareholders of the Company, and (b) to associate a portion of Eligible Executives' compensation with the returns achieved by shareholders of the Company.

Administration

The Executives' DSU Plan will be administered by the HRC Committee, in its sole and absolute discretion.

Election Process

The Executives' DSU Plan will provide Eligible Executives with the opportunity to elect to receive a portion of their short-term incentive compensation in the form of deferred share units (“**DSUs**”), representing a unit equivalent in value to a Common Share in accordance with the terms of the Executives' DSU Plan. Such DSUs will be fully vested upon being credited to an Eligible Executive's account.

The HRC Committee may also award DSUs to an Eligible Executive as the HRC Committee deems advisable. Such DSUs will vest in accordance with such terms and conditions as may be determined by the HRC Committee and set out in the DSU award agreement.

Redemption of DSUs

The Eligible Executive, or the beneficiary of an Eligible Executive, is entitled to redeem the Eligible Executive's DSUs following the Eligible Executive's death, disability, resignation or retirement from the Company or termination (with or without cause) as an employee, or if such Eligible Executive becomes a member of the Board, upon resignation or retirement as a director.

An Eligible Executive may elect one or more dates as of which the DSUs credited to the Eligible Executive's account shall be redeemed. An Eligible Executive who redeems DSUs shall be entitled to receive a cash payment in an amount equal to the Market Value (as defined in the Executives' DSU Plan) of the DSUs that are being redeemed as of the entitlement date applicable to such DSUs, net of any applicable withholding taxes and other required source deductions.

DSUs granted under the Executives' DSU Plan are not assignable or transferable, other than by will or the laws of descent and distribution. The Executives' DSU Plan does not include a maximum that may be issued to a participant.

Adjustments and Reorganizations

The Executives' DSU Plan provides that appropriate adjustments, if any, will be made by the Board in connection with a stock dividend, split, recapitalization, reclassification, amalgamation, arrangement, merger, consolidation, combination or exchange of Common Shares or distribution of rights to shareholders or any other form of corporation reorganization, to any DSUs then outstanding to preclude a dilution or enlargement of the benefits under the Executives' DSU Plan.

Plan Amendment and Termination

The Board may amend or terminate the Executives' DSU Plan as it deems necessary or appropriate, but no such amendment or termination shall adversely affect the rights of an Eligible Executive with respect to any amount in respect of which an Eligible Executive has then elected to receive DSUs which the Eligible Executive has then been granted under the Executives' DSU Plan, without the consent of the Eligible Executive or unless required by law. All DSUs granted under the Executives' DSU Plan, and any payments made under the Executives' DSU Plan in respect of any DSUs, shall be subject to clawback or recoupment as permitted or mandated by applicable law, rules, regulations or any Company policy as enacted, adopted or modified from time to time.

Retirement Benefits

Our retirement benefits include registered pension plans and a supplementary pension plan. Rowan Saunders participates in the defined benefit pension plan and the supplementary pension plan and Philip Mather, Fabian Richenberger, Paul MacDonald, and Innes Dey participate in the defined contribution pension plan and the supplementary pension plan.

Defined Benefit Pension Plan

Economical Insurance closed the defined benefit pension plan to new entrants in 2003. However, Mr. Saunders was added to the plan in November 2016 as part of the terms of his employment.

The defined benefit pension plan pays a monthly pension when the executive retires, according to the following terms. Normal retirement age is 65, but employees can retire earlier (from age 55) as long as they have worked full-time for at least two years.

How the pension amount is calculated	Years of credited service x 2% of the average salary and short-term incentive (up to target) for the best five years of service (adjusted if the participant has less than five years of active service).
Payments depend on retirement age	Retirement at age 62 or higher – full pension. Retirement between 55 and 62 – pension benefit is reduced by 0.5% for each month following the date of retirement until age 62.
When payments begin	Payments begin on the first day of the month after the participant's retirement date and continue to be paid every month until they die.
What happens when the participant dies	If the participant is single at retirement and dies before receiving 120 monthly payments, the participant's beneficiary will receive: • monthly payments until a total of 120 payments have been made, or • the value of the remaining payments in a lump sum. If the participant has a spouse at retirement, the monthly payments will be reduced to 60% and paid to the spouse until the spouse dies. If the spouse has predeceased the participant, pension benefits end and monthly payments stop.

Supplementary Pension Plan

The Tax Act limits the benefits that can be paid by defined benefit pension plans. We use the supplementary pension plan to top up the pension benefits earned under the defined benefit pension plan. Monthly payments begin and are made at the same time payments are made under the defined benefit pension plan.

We prefund all or some of the payments through a retirement compensation arrangement (as defined in the Tax Act). We can cancel the supplementary pension plan and close the retirement compensation arrangement at any time.

Defined Benefit Obligation

The below table below shows (i) the years of credited service at the end of 2020 for Mr. Saunders; (ii) the estimated annual benefit payable under the defined benefit pension plan and the supplementary pension plan, and (iii) a reconciliation of the defined benefit obligation from December 31, 2019 to December 31, 2020, calculated using the same assumptions and methods used in Economical Insurance's 2020 annual consolidated financial statements.

Name	Number of years of credited service (#)	Annual benefits payable		Opening present value of defined benefit obligation ⁽²⁾ (\$)	Compensatory change ⁽²⁾ (\$)	Non-compensatory change ⁽⁴⁾ (\$)	Closing present value of defined benefit obligation ⁽⁵⁾ (\$)
		At year end (\$)	At age 65 ⁽¹⁾ (\$)				
Rowan Saunders	4.167	135,904	425,491	1,761,100	655,700	392,300	2,809,100

Notes:

- (1) The information shown in this column was determined based on the final average earnings of the participant as at December 31, 2020 and years of credited service projected up to age 65 (assuming full-time employment).
- (2) The information shown in this column was determined by using the same assumptions and methods used for the December 31, 2019 financial statement reporting purposes.
- (3) Includes employer service cost (total service cost net of employee contributions), differences between actual and estimated earnings and any additional changes that have a retroactive impact.
- (4) Includes all items that are not compensatory, such as an interest cost on the liability and service cost, an impact of CPP enhancement on annual benefits, employee contributions and a change in the discount rate (from 3.10% to 2.5%).
- (5) The information shown in this column was determined by using the same assumptions and methods used for December 31, 2020 financial statement reporting purpose and the actual 2020 pensionable earnings of \$1,774,423 (basic salary \$924,423, bonus \$850,000).

Defined Contribution Pension Plan

The amount in each participating executive's defined contribution pension plan depends on how long the executive has been working at the Company, the amount of the executive's pensionable earnings, and the investment returns generated by the plan's assets. Participating executives have access to this benefit when they retire.

How the employer contribution is calculated	We contribute 8% of each year's pensionable earnings to the executive's defined contribution plan. Pensionable earnings are defined as each year's salary + short-term incentive (the actual bonus earned, or the target for the year – whichever is lower). Executives can also make voluntary contributions to an employee savings plan. We match these contributions dollar for dollar, contributing up to a maximum of 3.5% of salary to the executive's defined contribution plan.
The value of the benefit	At retirement, the accumulated value of the executive's defined contribution plan may either be transferred to a locked-in retirement vehicle or used to purchase a life annuity.
What happens when the participant dies	If the participant is single at retirement and dies, the designated beneficiary will receive the total amount in the defined contribution plan, including interest, in a lump sum. If the participant has a spouse at retirement and dies, the spouse will receive the total amount in the defined contribution plan, including investment returns, in a lump sum or as a transfer to an RRSP.

Supplementary Pension Plan

The defined contribution pension plan is governed by pension legislation that limits annual contributions. We automatically credit any contributions we make that exceed this limit to the supplementary pension plan. All credits to the supplementary pension plan are made to an unfunded notional account and are tracked and recorded.

The balance in the notional account earns interest and accumulates tax-free (similar to a RRSP). When the executive leaves the Company, retires or dies, the full value of the notional account is paid out and is fully taxable at that time.

Defined Contribution Obligation

The below table shows (i) the value of each executive's defined contribution pension plan as of January 1, 2020; (ii) contributions we made to the executive's defined contribution pension plan in 2020 (the compensatory change), and (iii) the accumulated value of each executive's defined contribution pension plan as of December 31, 2020.

Name	Accumulated value at start of year (\$)	Compensatory change (\$)	Accumulated value at year end (\$)
Philip Mather	318,381	27,830	380,436
Fabian Richenberger	90,791	27,830	131,908
Paul MacDonald	59,541	27,830	99,298
Innes Dey	285,148	27,830	342,915

Summary Compensation Table

The following table sets out information concerning the compensation expected to be earned by, paid to, or awarded to the NEOs for Fiscal 2022, the Company's first full fiscal year as a public company:

Name and principal position	Year	Salary ⁽¹⁾ (\$)	Share- based awards (\$) ⁽²⁾	Option- based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value ⁽⁴⁾ (\$)	All other compensation ⁽⁵⁾⁽⁶⁾ (\$)	Total compensation (\$)
					Annual incentive plans ⁽³⁾	Long- term incentive plans			
Rowan Saunders President and Chief Executive Officer	2022	1,000,000	2,750,000	—	1,000,000	—	655,700	928,242	6,333,942
Philip Mather EVP and Chief Financial Officer	2022	500,000	550,000	—	400,000	—	27,830	821,894	2,299,724
Fabian Richenberger EVP, Commercial Insurance	2022	550,000	605,000	—	440,000	—	27,830	850,228	2,473,058
Paul MacDonald EVP, Personal Insurance	2022	450,000	495,000	—	360,000	—	27,830	752,566	2,085,396
Innes Dey SVP, Legal and Strategy	2022	450,000	405,000	—	225,000	—	27,830	452,697	1,560,527

Notes:

- (1) Represents base salary.
- (2) Represents target grant date fair value of RSUs and PSUs to be granted to each NEO in Fiscal 2022, calculated assuming corporate and individual goals and targets are achieved. See “– Elements of Compensation – Long-Term Incentives”.
- (3) Represents target cash bonus amounts under the STIP for each NEO, calculated assuming applicable targets are achieved. See “– Elements of Compensation – Short-Term Incentives”.

- (4) The amounts in this column for Mr. Saunders represent the compensatory value of our defined benefit pension plan and supplementary pension plan based on December 31, 2020. The amounts in this column for Messrs. Mather, Richenberger, MacDonald and Dey represent the compensatory value of our defined contribution pension plan based on December 31, 2020.
- (5) The amounts in this column represent an annual cash allowance expected to be paid to the named executives in lieu of a perquisite program, (based on amounts paid as of December 31, 2020), contributions by the Company to each NEO's supplementary pension plan and interest accrued on each NEO's supplementary pension plan and the amount expected to be paid under the CEO's award program. See "– Retirement Benefits" and "– Elements of Compensation – Historical Elements of Compensation – CEO's Award Program".
- (6) None of the NEOs are entitled to perquisites or other personal benefits which, in the aggregate, are worth over \$50,000 or over 10% of their base salary.

Incentive Plan Awards

Outstanding Share-based Awards and Option-based Awards

The following table sets out information concerning the share-based awards granted to our NEOs that we expect to be outstanding upon completion of the Offering. There will be no option-based awards outstanding upon completion of the Offering.

Name	Share-Based Awards		
	Number of shares or units of shares that have not vested ⁽¹⁾ (#)	Market or payout value of share-based awards that have not vested ⁽²⁾ (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Rowan Saunders President and Chief Executive Officer	335,262	6,095,055	—
Philip Mather EVP and Chief Financial Officer	84,692	1,539,701	—
Fabian Richenberger EVP, Commercial Insurance	94,053	1,709,884	—
Paul MacDonald EVP, Personal Insurance	75,147	1,366,164	—
Innes Dey SVP, Legal and Strategy	86,238	1,567,806	—

Notes:

- (1) Outstanding RUs and PUs granted pursuant to the MTIP. Following the completion of the Offering, no further awards will be granted under the MTIP. Existing awards will be settled in 2022, 2023 and 2024, respectively, and adjustments will be made to such awards in accordance with the MTIP in connection with the completion of the Offering so that such awards appreciate and depreciate on the basis of the Company's share price, rather than with Economical Insurance's book value. See "– Elements of Compensation – Historical Elements of Compensation – Medium-Term Incentives".
- (2) Represents market value as of December 31, 2020 under the MTIP in respect of RUs and PUs, calculated assuming corporate and individual goals and targets are achieved. See "– Elements of Compensation – Historical Elements of Compensation – Medium-Term Incentives".

Incentive Plan Awards – Value Vested or Earned During the Year

The following table indicates, for each of the NEOs, a summary of the value of the share-based awards expected to be vested in accordance with their terms during Fiscal 2022 and the non-equity incentive plan compensation expected to be earned during Fiscal 2022.

<u>Name</u>	<u>Share-based awards – Value vested during the Year (\$)⁽¹⁾</u>	<u>Non-Equity Incentive Plan Compensation –Value Earned During the Year⁽²⁾ (\$)</u>
Rowan Saunders President and Chief Executive Officer	2,124,842	1,000,000
Philip Mather EVP and Chief Financial Officer	487,188	400,000
Fabian Richenberger EVP, Commercial Insurance	691,240	440,000
Paul MacDonald EVP, Personal Insurance	551,345	360,000
Innes Dey SVP, Legal and Strategy	370,563	225,000

Notes:

- (1) Represents payout value under the MTIP in respect of RUs and PUs granted in 2019 calculated assuming corporate and individual goals and targets are achieved in respect of the performance period ending in 2022. See “– Elements of Compensation – Historical Elements of Compensation – Medium-Term Incentives”.
- (2) Represents cash bonus under the STIP calculated assuming applicable targets are achieved. See “– Elements of Compensation – Short-Term Incentives”.

Employment Agreements, Termination and Change of Control Benefits

The Company has written employment agreements and change of control agreements with each of the Company’s NEOs. Each executive is entitled to receive compensation established by the Company, as well as other benefits in accordance with plans available to the most senior employees.

Confidentiality and Restrictive Covenants

Confidentiality

Our employment agreements with the NEOs include confidentiality obligations that apply during the course of employment and afterwards. NEOs may not, without authorization, disclose any confidential information (unless required by law and prior written notice is provided to the Company), and they must return all confidential information when they leave the Company.

Non-Competition

During the course of employment and for 9-12 months afterwards, NEOs cannot without our consent be employed by, carry on business with, or (other than minimal holdings of publicly-traded shares) hold a financial interest in another property and/or casualty insurer in Canada or be responsible for business activities that are competitive with the Company’s business activities.

Non-Solicitation

During the course of employment and for one year afterwards, NEOs cannot, without our consent, solicit any of the Company’s customers, suppliers, or business partners for any purpose that would compete with the Company or reduce the Company’s business. During the same period, named executives also cannot, without our consent, solicit for hire any Company employees.

Termination and Change of Control Benefits

We have change of control agreements with the NEOs that entitle them to payments if there is a change of control of the Company. These are designed to keep members of senior management in place if we are involved in a major transaction. The transactions contemplated by the Conversion Plan will not be a change of control under terms of these agreements.

We also have employment agreements with the NEOs that stipulate their severance entitlements in certain other circumstances.

Payouts are Double-Trigger

Our change of control provisions are “double-trigger”, which means they only take effect when there is a change of control and termination of employment, either by us without cause or by the executive for good reason (as defined in the relevant agreements), within 18 months after a change of control.

The table below summarizes the terms for the payments we will make to the NEOs when employment is terminated or there is a change in control of the Company (based on our compensation and pension plans in effect as of the date of this prospectus). These terms are either specified in each executive’s employment agreement or defined by the terms of our compensation or pension plans. If a term is not specified, it is determined by common law. The table below does not include information regarding termination and change of control benefits payable under long term incentive plans, which will be adopted in connection with the completion of the Offering and are not in effect as of the date of this prospectus. See “Long-Term Incentive Plans”.

Summary of Termination and Change of Control Provisions

	Retirement	Voluntary resignation	Death	Disability
Severance	None	- Any salary that was scheduled to be paid in the two-month resignation notice period - Vacation pay	- Outstanding salary - Vacation pay - Statutory termination notice and severance pay entitlements (if they apply) - Payments owing under the terms of the individual's STIP and MTIP plan (if any)	- Outstanding salary - Vacation pay - Statutory termination notice and severance pay entitlements (if they apply) - Payments owing under the terms of the individual's STIP or MTIP plan (if any)
Short-term incentive	Pro-rated	Any award that was scheduled to be paid during the two-month resignation notice period	Pro-rated	Pro-rated
Medium-term incentive	- Vests after the end of the performance period - Payout is based on performance (as determined by the HRC Committee)	Any award that was scheduled to be paid during the two-month resignation notice period	Vesting is accelerated to the date of death	Vesting is accelerated to the date of disability
Pension	- Accrued pension - Any funds accumulated in the individual's supplementary pension account	- Continued participation in the Company's pension plan during the two-month⁽¹⁾ resignation notice period - Any funds accumulated in the individual's supplementary pension account	Rowan Saunders: - Accrued pension paid in monthly payments or as a lump sum All other named executives: - Accrued pension paid as a lump sum - Any funds accumulated in the individual's supplementary pension account	- Accrued pension - Any funds accumulated in the individual's supplementary pension account
All other compensation	None	- Perquisites that were scheduled to be paid in the two-month⁽¹⁾ resignation notice period - Continuation of any Company-subsidized benefits plans for the two-month notice period	- Awards under CEO's Award Program - Outstanding perquisite payments - Coverage under Company-subsidized benefits plans ends on the date of termination or as specified by the terms of the benefits plan (whichever is earlier)	- Awards under CEO's Award Program - Outstanding perquisite payments - Coverage under Company-subsidized benefits plans ends on the date of termination or as specified by the terms of the benefits plan (whichever is earlier)

Notes:

(1) Mr. Saunders' resignation notice period is three months.

	Termination for just cause	Termination without cause	Termination without cause after change of control ⁽¹⁾
Severance	- Outstanding salary - Vacation pay	- Outstanding salary - Vacation pay - A severance payment equal to an amount that represents between 12 to 24 months of both (i) the named executive's monthly salary and (ii) pro-rated, monthly STIP entitlement valued at target	- Outstanding salary - Vacation pay 18-24 months of salary (highest salary at any time during the 36 months before the termination) 18-24 months of short-term incentive valued at target
Short-term incentive	Forfeited	- Any unpaid award that was earned for the most recently-completed fiscal year - The award for the year of termination calculated at target but pro-rated for the period of employment prior to termination	- Any unpaid award that was earned for the most recently-completed fiscal year - Target award, pro-rated for number of complete months in the fiscal year of the termination up to the termination date
Medium-term incentive	Forfeited	- Payment in respect of any units that have vested but are not yet paid out - All other units forfeited	Units vest immediately, as though all performance conditions have been met (unless the HRC Committee determines otherwise)
Pension	- Accrued pension - Any funds accumulated in the individual's supplementary pension account	- Any funds accumulated in the individual's supplementary pension account - A lump sum payment equal to 15% of the severance payment amount in lieu of future contributions to the named executive's pension and benefit plans	- Any funds accumulated in the individual's supplementary pension account - A lump sum payment equal to 15% of the severance payment amount in lieu of future contributions to the named executive's pension and benefits plans
All other compensation	Outstanding perquisite payments	- Continued participation in all benefit plans, perquisites and pension plan for the statutory notice period \$10,000 of professional outplacement services - Awards under CEO's Award Program	Rowan Saunders: - Continued participation in all benefit plans - Pension plan for the statutory notice period \$10,000 of professional outplacement services - Awards under CEO's Award Program All other named executives: - Regular benefits for up to 12 months or until the executive retires or is employed full-time and eligible to participate in a group insurance plan similar to ours or a lump sum equal to our total cost (without discount or present valuation) of regular benefits for 12 months \$10,000 of professional outplacement services - Awards under CEO's Award Program

Notes:

- (1) Includes a named executive terminating his own employment for good reason (as defined in the relevant agreements). In the event of a termination without cause after a change of control, the named executives have the choice of receiving their entitlement under Termination without cause or Termination without cause after change of control (whichever is higher).

Estimated Payments on Termination or Change of Control

The table below shows the incremental payments that would be made to our NEOs under the terms of their respective employment agreements upon the occurrence of certain events, if such events were to occur immediately following the completion of the Offering. Amounts are before deducting any withholdings.

Event	Rowan Saunders	Philip Mather	Fabian Richenberger	Paul MacDonald	Innes Dey
Termination with cause/resignation					
Pension ⁽¹⁾	—	\$ 419,043	\$ 201,504	\$ 109,578	\$ 242,072
Termination without cause					
Severance	\$ 4,000,000	\$1,800,000	\$1,320,000	\$1,215,000	\$ 956,250
Short-term Incentive	\$ 1,000,000	\$ 400,000	\$ 440,000	\$ 360,000	\$ 225,000
Medium-term Incentive	—	—	—	—	—
Long-term Incentive	—	—	—	—	—
Pension ⁽¹⁾	—	\$ 419,043	\$ 201,504	\$ 109,578	\$ 242,072
All Other Compensation ⁽²⁾	\$ 1,443,333	\$1,005,000	\$ 958,000	\$ 858,917	\$ 528,437
Total	\$ 6,443,333	\$3,624,043	\$2,919,504	\$2,543,495	\$1,951,759
Termination without cause after change of control					
Severance	\$ 4,000,000	\$1,800,000	\$1,485,000	\$1,215,000	\$1,012,500
Short-term Incentive	\$ 1,000,000	\$ 400,000	\$ 440,000	\$ 360,000	\$ 225,000
Medium-term Incentive	\$ 6,095,055	\$1,539,701	\$1,709,884	\$1,366,164	\$1,567,806
Long-term Incentive	—	—	—	—	—
Pension ⁽¹⁾	—	\$ 419,043	\$ 201,504	\$ 109,578	\$ 242,072
All Other Compensation ⁽²⁾	\$ 1,443,333	\$1,005,000	\$ 982,750	\$ 858,917	\$ 536,875
Total	\$12,538,388	\$5,163,744	\$4,819,138	\$3,909,659	\$3,584,253

Notes:

- (1) These amounts represent the full value of the notional account payable to each executive when such executive leaves the Company. In the case of Mr. Saunders, these amounts would be nil given his participation in the defined benefit pension plan.
- (2) Consists of regular health benefits, the maximum allowable budget for outplacement services and awards under CEO's Award Program.

Compensation Consultant

The table below shows the fees paid to WTW and its affiliates for executive compensation-related services and other compensation-related services in the last two years.

Services Retained	Fees billed in Fiscal 2020	Fees billed in Fiscal 2019
Executive compensation-related fees	\$284,656	\$270,420
All other fees ⁽¹⁾	931	72,421
Total	\$285,587	\$342,841

Notes:

- (1) The amounts disclosed under the caption "All other fees" include the aggregate fees billed for services provided by WTW, or any of its affiliates, that are not reported under "Executive compensation-related fees". 2020 includes fees for consulting services related to non-executive pay practices. 2019 includes fees for consulting services relating to public company readiness support, including assessments of our internal governance framework for rating setting and product line changes, actuarial support and investment management functions.

The HRC Committee of Economical Insurance reviews WTW's independence on a regular basis and has confirmed it is satisfied with WTW's independence. In its review, the HRC Committee considers WTW's processes, protocols and incentive structure, and the consultants' business and personal relationships with Economical Insurance its subsidiaries and their directors and executives.

DIRECTOR COMPENSATION

General

The following discussion describes the significant elements of the expected compensation program for members of the Board and its committees. Our director compensation program is designed to compensate eligible directors for the work required to fulfill their roles, to attract and retain committed and qualified directors and to align their compensation with the long-term interests of the Company's shareholders. Directors who are also employees or officers of the Company or any of our subsidiaries receive no remuneration for acting as a director of the Company or of any subsidiary.

The table below outlines the Company's proposed director compensation program for its non-management directors for the 2022 fiscal year.

Non-management directors' compensation	Annual retainer^{(1),(2)} (\$)
Chair of the Board	350,000
Director ⁽³⁾	165,000
Committee Chair (Audit, Human Resources and Compensation) ⁽⁴⁾	25,000
Committee Chair (Corporate Governance, Risk Review) ⁽⁴⁾	15,000
Committee member ⁽⁵⁾	10,000

Notes:

- (1) Aggregate compensation for Board and committee director and chair retainers, as applicable, in respect of the Company and its Insurance Subsidiaries. The Board Chair does not receive retainers for serving as a committee chair or member during their tenure as Board Chair. The retainers may be supplemented with additional amounts to compensate for unanticipated workloads and extraordinary contributions, but only after specific consideration and approval by the Board.
- (2) Each Board member (i) may elect to receive up to 100% of their retainers in the form of DSUs and (ii) will be required to receive 50% of their base retainer in the form of DSUs until they achieve the share ownership targets set for directors. See "Director Share Ownership Guidelines".
- (3) Paid to all non-management directors other than the Board Chair.
- (4) Committee chair fees differ based on the varying workload of each committee.
- (5) Paid to non-chair committee members only, for each committee they serve on.

We will also reimburse our directors for expenses in accordance with our expense reimbursement policy. Our amended and restated by-laws will limit the aggregate amount of retainers that we pay to our directors for serving on the boards and committees of the Company to \$4.0 million annually.

The table below shows the anticipated amounts, before withholdings, to be provided to our non-management directors for their service on the Board and the boards of its subsidiaries and their respective committees for the 2022 fiscal year.

Name	Fees earned^{(1),(2)} (\$)	Share- based awards⁽³⁾ (\$)	Option- based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
John Bowey	350,000	—	—	—	—	—	350,000
Elizabeth DelBianco	200,000	—	—	—	—	—	200,000
Dan Fortin	185,000	—	—	—	—	—	185,000
Barbara Fraser	185,000	—	—	—	—	—	185,000
Dick Freeborough	210,000	—	—	—	—	—	210,000
Micheál Kelly	190,000	—	—	—	—	—	190,000
Robert McFarlane	195,000	—	—	—	—	—	195,000
Susan Monteith	195,000	—	—	—	—	—	195,000
Michael Stramaglia	190,000	—	—	—	—	—	190,000

Notes:

- (1) The amounts set out in the table assume that, following the closing of the Offering, individuals designated by each of HOOPP and Swiss Re will be appointed to the Board pursuant to the terms of the HOOPP Governance Agreement and the Swiss Re Governance Agreement, respectively, and the committees of the Board will be reconstituted as follows: (i) the Audit Committee will consist of Dick Freeborough (Chair),

Robert McFarlane, Susan Monteith, and a nominee from each of HOOPP and Swiss Re; (ii) the HRC Committee will consist of Elizabeth DelBianco (Chair), Dan Fortin, Barbara Fraser, Dick Freeborough and Micheál Kelly; (iii) the Corporate Governance Committee will consist of Micheál Kelly (Chair), Elizabeth DelBianco, Michael Stramaglia and a nominee from each of HOOPP and Swiss Re; and (iv) the Risk Review Committee will consist of Michael Stramaglia (Chair), Dan Fortin, Barbara Fraser, Robert McFarlane and Susan Monteith. See “The Cornerstone Private Placements – Governance Agreements” and “Corporate Governance – Committees”.

- (2) Certain of our non-management directors participate in a committee of the board of a subsidiary for which such directors receive an annual retainer of \$10,000.
- (3) Each Board member (i) may elect to receive up to 100% of their retainers in the form of DSUs and (ii) will be required to receive 50% of their base retainer in the form of DSUs until they achieve the share ownership targets set for directors. See “Director Share Ownership Guidelines”.

Director Share Ownership Guidelines

The Board will adopt the Share Ownership Guidelines effective as of the Closing in order to encourage the Company’s senior leaders and directors to obtain a significant ownership interest in the Company to better align their interests with those of the Company’s shareholders.

Non-management directors can meet share ownership requirements through direct or beneficial ownership of Eligible Units, including DSUs granted under the Directors’ DSU Plan (as defined below). The Share Ownership Guidelines will require each non-management director to acquire and continue to hold during the time they are a non-management director, an amount of Eligible Units having a value equal to at least three times their annual base retainer.

The ownership requirements for non-management directors must be achieved by the fifth anniversary from the later of (i) the Closing Date and (ii) the initial appointment as a non-management director.

Non-management directors may elect to receive up to 100% of their retainers in the form of DSUs and will be required to receive 50% of their base retainer in the form of DSUs until they achieve the share ownership target set out above.

If a director has not achieved or otherwise maintained the equity ownership requirement within the specified time period, then the HRC Committee or the Corporate Governance Committee, as applicable, shall have discretion to undertake corrective measures to achieve compliance including, among other measures, requiring such director to participate in the Directors’ DSU Plan and receive DSUs in lieu of up to 100% of such director’s annual base retainer for purposes of achieving or seeking to achieve compliance with the Share Ownership Guidelines.

Directors’ DSU Plan

In connection with the completion of the Offering, the Company will adopt a director deferred share unit plan (the “**Directors’ DSU Plan**”), which is a component of the Company’s long-term incentive compensation arrangements available for our non-employee directors (the “**Eligible Directors**”). The purposes of the Directors’ DSU Plan are (a) to promote a further alignment of interests between the Eligible Directors and the shareholders of the Company, (b) to associate a portion of Eligible Director’s compensation with the returns achieved by shareholders of the Company, and (c) to attract and retain directors with the knowledge, experience and expertise required by the Company.

Administration

The Directors’ DSU Plan will be administered by the Corporate Governance Committee, in its sole and absolute discretion.

Election Process

The Directors’ DSU Plan will provide Eligible Directors with the opportunity to receive a portion of their compensation in the form of DSUs, representing a unit equivalent in value to a Common Share in accordance with the terms of the Directors’ DSU Plan.

Redemption of DSUs

The Eligible Director, or the beneficiary of an Eligible Director, is entitled to redeem the Eligible Director's DSUs following the Eligible Director's death, disability, resignation or retirement from our Board, or if such director becomes an employee of the Company, upon termination (with or without cause) as an employee.

An Eligible Director may elect one or more dates as of which the DSUs credited to the Eligible Director's account shall be redeemed. An Eligible Director who redeems DSUs shall be entitled to receive a cash payment in an amount equal to the Market Value (as defined in the Directors' DSU Plan) of the DSUs that are being redeemed as of the entitlement date applicable to such DSUs, net of any applicable withholding taxes and other required source deductions.

DSUs granted under the Directors' DSU Plan are not assignable or transferable, other than by will or the laws of descent and distribution. The Directors' DSU Plan does not include a maximum that may be issued to a participant.

Adjustments and Reorganizations

The Directors' DSU Plan provides that appropriate adjustments, if any, will be made by the Board in connection with a stock dividend, split, recapitalization, reclassification, amalgamation, arrangement, merger, consolidation, combination or exchange of Common Shares or distribution of rights to shareholders or any other form of corporation reorganization, to any DSUs then outstanding to preclude a dilution or enlargement of the benefits under the Directors' DSU Plan.

Plan Amendment and Termination

The Board may amend or terminate the Directors' DSU Plan as it deems necessary or appropriate, but no such amendment or termination shall adversely affect the rights of an Eligible Director with respect to any amount in respect of which an Eligible Director has then elected to receive DSUs which the Eligible Director has then been granted under the Directors' DSU Plan, without the consent of the Eligible Director or unless required by law.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

None of our directors, executive officers, employees, former directors, former executive officers or former employees, and none of their associates, is or has at any time since the beginning of the most recently completed financial year been indebted to us or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or similar agreement provided by us, except for routine indebtedness as defined under applicable securities legislation in Canada.

PLAN OF DISTRIBUTION

General

Pursuant to an underwriting agreement dated November 17, 2021 among the Company, Economical Insurance and the Underwriters (the “**Underwriting Agreement**”), the Company has agreed to issue and sell 63,636,370 Common Shares and the Underwriters have severally agreed to purchase on Closing such Common Shares at a price of \$22.00 per Common Share, payable in cash to the Company against delivery of the Common Shares on the Closing Date or such later date as may be agreed pursuant to the Underwriting Agreement, but no later than December 3, 2021, for aggregate gross proceeds of \$1,400,000,140 to the Company, subject to and in compliance with all of the necessary legal requirements and conditions contained in the Underwriting Agreement.

In consideration for their services in connection with the Offering, the Company has agreed to pay the Underwriters a fee equal to \$0.99 per Common Share, representing 4.50% of the gross proceeds of the Offering. No fees will be payable to the Underwriters in respect of the Cornerstone Private Placements other than the fee that may be payable to BMO and RBC for providing advisory services and acting as private placement agents to the Company in connection with the Cornerstone Private Placements. See “–Relationship Between Us and Certain of the Underwriters” and “The Cornerstone Private Placements”.

Prior to the Offering, there was no public market for the Common Shares. The Offering Price of \$22.00 per Common Share was determined by negotiation between us and the Joint Bookrunners, as representatives of the Underwriters, and the Underwriters propose to offer the Common Shares initially at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Common Shares at the price specified on the cover page of this prospectus, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page of this prospectus, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Common Shares is less than the price paid by the Underwriters to us. Any such reduction will not affect the net proceeds received by us. The Underwriters may form a sub-selling group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Underwriters out of their fees. The obligation to pay the sub-underwriting fee is an obligation of the Underwriters and we are not responsible for ensuring that any dealer receives this payment from the Underwriters.

Pursuant to the Underwriting Agreement, we have granted to the Underwriters the Over-Allotment Option, which is exercisable, in whole or in part, at any time for a period of 30 days after Closing to purchase up to an additional 9,545,455 Common Shares (representing 15% of the aggregate number of Common Shares sold in the base Offering) on the same terms as set forth above for the purpose of covering the Underwriters’ over-allocation position, if any. If the Over-Allotment Option is exercised in full, the total price to the public will be \$1,610,000,150 and the Underwriters’ Fee will be \$72,450,007 (before deducting the expenses of the Offering). This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares to be delivered upon the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters’ over-allotment position acquires those Common Shares under this prospectus, regardless of whether the Underwriters’ over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Under the terms of the Underwriting Agreement, the Underwriters may, at their discretion, terminate the Underwriting Agreement upon the occurrence of certain events, including “material change out”, “disaster out”, “regulatory out” and “market out” clauses. The Underwriters are, however, severally obligated to take up and pay for all of the Common Shares that they have agreed to purchase if any of the Common Shares are purchased under the Underwriting Agreement.

The Company and Economical Insurance have agreed to indemnify the Underwriters and their directors, officers, employees and agents against certain liabilities, including, without restriction, civil liabilities under securities legislation in Canada, and to contribute to any payments that the Underwriters may be required to make in respect thereof.

There is currently no market through which the Common Shares may be sold. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the

Common Shares and the extent of issuer regulation. See “Risk Factors – Risks Relating to the Offering and Ownership of Common Shares”. Subscriptions for Common Shares will be received subject to rejection or allocation in whole or in part and the right is reserved to close the subscription books at any time without notice. The Closing is expected to occur on November 23, 2021 or such other date as the Company and the Underwriters may agree, but in any event not later than December 3, 2021. Closing is conditional upon the Common Shares being approved for listing on the TSX.

The Common Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered, sold or delivered, directly or indirectly, in the United States, except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. Each Underwriter has agreed that it will not offer or sell Common Shares within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement provides that the Underwriters may re-offer and re-sell the Common Shares that they have acquired pursuant to the Underwriting Agreement in the United States to “qualified institutional buyers” (as defined in Rule 144A under the U.S. Securities Act) in accordance with Rule 144A under the U.S. Securities Act.

The Underwriting Agreement also provides that the Underwriters may offer and sell the Common Shares outside the United States in accordance with Rule 903 of Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the U.S. Securities Act.

Price Stabilization, Short Positions and Passive Market Making

In connection with the Offering, the Underwriters may, subject to applicable law, over-allocate or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market, including: stabilizing transactions; short sales; purchases to cover positions created by short sales; imposition of penalty bids; and syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include over-allocating or making short sales of the Common Shares, which involves the sale by the Underwriters of a greater number of Common Shares than they are required to purchase in the Offering. Short sales may be “covered short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount.

The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market compared with the price at which they may purchase Common Shares through the Over-Allotment Option. The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market. Any naked short positions at Closing that are part of the Offering will form part of the Underwriters’ over-allocation position. A purchaser who acquires Common Shares forming part of the Underwriters’ over-allocation position resulting from any covered short sales or naked short sales will, in each case, acquire such Common Shares under this prospectus, regardless of whether the Underwriters’ over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In addition, in accordance with rules and policy statements of certain Canadian securities regulatory authorities and UMIR, the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in or raising the price of the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the TSX, including UMIR, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

Non-Certificated Inventory System

No certificates representing the Common Shares to be sold in the Offering will be issued to purchasers under this prospectus. Registration will be made in the depository service of CDS, or to its nominee, and electronically deposited with CDS on the Closing Date. Each purchaser of Common Shares will typically only receive a customer confirmation of purchase from the participants in the CDS depository service (“**CDS participants**”) from or through which such Common Shares are purchased, in accordance with the practices and procedures of such CDS participant. Transfers of ownership of Common Shares will be effected through records maintained by the CDS participants, which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book-entry system is also available to other institutions that maintain custodial relationships with a CDS participant, either directly or indirectly.

Lock-Up Agreements and Other Transfer Restrictions

In connection with the completion of the Offering, each of the Company, the Cornerstone Investors, and the Company’s directors and executive officers have agreed that he, she or it will not, directly or indirectly, without the prior written consent of BMO and RBC, on behalf of the Underwriters, such consent not to be unreasonably withheld, issue, offer or sell or grant any option, warrant or other right to purchase or agree to issue or sell or otherwise lend, transfer, assign, pledge or dispose of any of the Company’s equity securities, or other securities convertible or exchangeable into or otherwise exercisable into the Company’s equity securities (including without limitation by making any short sale, engaging in any hedging, monetization or derivative transaction or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Company’s securities or securities convertible into, exchangeable for, or otherwise exercisable into the Company’s securities) or agree to do any of the foregoing or publicly announce any intention to do any of the foregoing in a public offering, by way of private placement or otherwise for a period commencing on the Closing Date and ending 180 days after the Closing Date, subject to certain limited exceptions, including but not limited to the sale of the Company’s securities pursuant to the Cornerstone Private Placements, the exercise of the Over-Allotment Option and the issuance of the Company’s securities pursuant to or in connection with the Company’s equity incentive compensation plans.

Policyholders who receive Common Shares as Demutualization benefits will be subject to the Market Stabilization Restrictions, which restrict transfer of the Common Shares unless permitted by the Company. See “Shares Eligible for Future Sale”. Pursuant to the terms of the Underwriting Agreement, the Company has agreed with the Underwriters that it will not permit policyholders to transfer Common Shares during the period in which the Market Stabilization Restrictions apply unless such transfers are (i) of the type that are permitted pursuant to the terms of the Lock-Up Agreements, (ii) donations of Common Shares to the Foundation (subject to a cap on the total amount) or (iii) with the prior written consent of BMO and RBC, on behalf of the Underwriters.

As a result, following completion of the Offering and the Cornerstone Private Placements, all of the issued and outstanding Common Shares will be subject to a restriction on their sale under a Lock-Up Agreement or the Market Stabilization Restrictions, other than Common Shares issued in the Offering.

Relationship Between Us and Certain of the Underwriters

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Company and to persons and entities with relationships with the Company, for which they received or will receive customary fees and expenses.

Each of BMO, RBC, Barclays, Scotia, TD, CIBC and NBF is, directly or indirectly, an affiliate of a bank which is a lender to the Company or its affiliates. See “Description of Material Indebtedness”. In addition, BMO and RBC are

providing advisory services and acting as private placement agents in connection with the Cornerstone Private Placements and may receive a fee in connection therewith. See “The Cornerstone Private Placements”. Consequently, under applicable securities laws in Canada, the Company may be considered to be a connected issuer to such Underwriters. See “Description of Material Indebtedness”.

The terms of the Offering, including the Offering Price, were determined by negotiation between the Joint Bookrunners, on their own behalf and on behalf of each of the other Underwriters, and us. None of the banks with which any of the Underwriters are affiliates were involved in the determination of the terms of the Offering. As a consequence of the Offering, each of such Underwriters will receive its proportionate share of the Underwriters’ Fee.

SHARES ELIGIBLE FOR FUTURE SALE

Market Stabilization Restrictions

To prevent the sale of substantial amounts of Shares in an uncontrolled manner in the period following the Offering, which could negatively impact outside investor confidence and the price that the Shares might otherwise trade at after the Offering, the Conversion Plan includes the Market Stabilization Restrictions, which will apply to each person who received Common Shares as Demutualization benefits for 180 calendar days following the later of the effective date of the Demutualization and the closing of the Offering. We may from time to time in our sole discretion permit certain types of transfers of Common Shares during the period in which the Market Stabilization Restrictions apply; however, pursuant to the terms of the Underwriting Agreement, we have agreed to only permit certain types of transfers without the prior written consent of BMO and RBC, on behalf of the Underwriters. See “Plan of Distribution – Lock-Up Agreements and Other Transfer Restrictions”. Any permitted transfer of Common Shares must also be made in accordance with applicable securities laws in Canada and the transferee of such permitted transfer will continue to be subject to the Market Stabilization Restrictions. See “Plan of Distribution”.

Lock-Up Agreements

In connection with the completion of the Offering, the Cornerstone Investors and each director and officer of the Company will enter into a Lock-Up Agreement with the Underwriters that will restrict transfers or sales of the Common Shares for a period of 180 days, subject to certain exceptions. See “Plan of Distribution – Lock-Up Agreements and Other Transfer Restrictions”.

Governance Agreements

Under the HOOPP Governance Agreement, HOOPP will be subject to transfer restrictions additional to those contained in its Lock-Up Agreement with the Underwriters. This includes an agreement of HOOPP not to sell Common Shares for a period of up to five years from the date of the HOOPP Governance Agreement, subject to certain exceptions. See “The Cornerstone Private Placements – Governance Agreements – HOOPP Governance Agreement”. Under the Swiss Re Governance Agreement, Swiss Re will be subject to transfer restrictions additional to those contained in its Lock-Up Agreement with the Underwriters. This includes an agreement of Swiss Re not to sell Common Shares for a period of up to three years from the date of the Swiss Re Governance Agreement, subject to certain exceptions. See “The Cornerstone Private Placements – Governance Agreements – Swiss Re Governance Agreement”.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Company, and Davies Ward Phillips & Vineberg LLP, counsel to the Underwriters, the following is a general summary, as of the date hereof, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a holder who acquires, as a beneficial owner, Common Shares pursuant to this Offering and who, for the purposes of the Tax Act and at all relevant times, (i) acquires and holds the Common Shares as capital property, and (ii) deals at arm's length with the Company and each of the Underwriters and is not affiliated with the Company or any of the Underwriters (a "**Holder**"). A Common Share will generally be capital property to a holder provided that the holder does not hold or use such Common Share in the course of carrying on a business of trading or dealing in securities and such holder has not acquired or been deemed to have acquired the Common Share in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Holder: (i) that is a "financial institution" (as defined in the Tax Act for the purposes of the mark-to-market rules); (ii) an interest in which would be a "tax shelter investment" (as defined in the Tax Act); (iii) that is a "specified financial institution" (as defined in the Tax Act); (iv) that has made a functional currency reporting election under the Tax Act; or (v) that has entered into or will enter into a "derivative forward agreement" (as defined in the Tax Act) with respect to Common Shares. Such investors should consult their own tax advisors with respect to an investment in Common Shares.

This summary is based upon: (i) the provisions of the Tax Act in force as of the date hereof; (ii) a certificate from an officer of the Company as to certain factual matters; (iii) all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**"); and (iv) counsel's understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") made publicly available in writing prior to the date hereof. This summary assumes the Proposed Amendments will be enacted in the form proposed, however, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law or administrative policy or assessing practice, whether by legislative, regulatory, administrative governmental or judicial decision or action, nor does it take into account any other federal or any provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder or prospective holder of Common Shares, and no representations with respect to the tax consequences to any holder or prospective holder are made. Accordingly, prospective investors are urged to consult their own tax advisors about the specific tax consequences to them of acquiring, holding and disposing of Common Shares, having regard to their particular circumstances.

Resident Holders

The following discussion applies to a Holder who, at all relevant times, for purposes of the Tax Act and any applicable income tax treaty or convention, is or is deemed to be resident in Canada (a "**Resident Holder**"). Certain holders who are resident in Canada for the purposes of the Tax Act and who might not otherwise be considered to hold their Common Shares as capital property may, in certain circumstances, be entitled to have their Common Shares, and all other "Canadian securities" (as defined in the Tax Act) owned by such holder, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders resident in Canada should consult their own tax advisors regarding this election.

Dividends on Common Shares

Dividends received or deemed to be received on Common Shares held by a Resident Holder will be included in the Resident Holder's income for the purposes of the Tax Act.

Such dividends received by a Resident Holder who is an individual (other than certain trusts) will be subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received from

taxable Canadian corporations, including the enhanced gross-up and dividend tax credit in respect of dividends designated by the Company as “eligible dividends” in accordance with the Tax Act. There may be limitations on the ability of the Company to designate dividends as “eligible dividends” and the Company has made no commitments in this regard.

Dividends received or deemed to be received on a Common Share by a Resident Holder that is a corporation will be included in computing such Resident Holder’s income for the taxation year and will generally be deductible in computing its taxable income for that taxation year, subject to all relevant restrictions under the Tax Act. In certain circumstances, a dividend received or deemed to be received by a Resident Holder that is a corporation may be deemed to be proceeds of disposition or a capital gain pursuant to subsection 55(2) of the Tax Act. Resident Holders that are corporations should consult their own tax advisors with respect to the application of subsection 55(2) of the Tax Act having regard to their particular circumstances.

A Resident Holder that is a “private corporation” or a “subject corporation”, each as defined in the Tax Act, may be liable to pay an additional tax (refundable under certain circumstances) under Part IV of the Tax Act on dividends received or deemed to be received on a Common Share to the extent such dividends are deductible in computing the Resident Holder’s taxable income.

Dispositions of Common Shares

A disposition or a deemed disposition of a Common Share (other than to the Company unless purchased by the Company in the open market in the manner in which shares are normally purchased by any member of the public in the open market) by a Resident Holder will generally result in a Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share exceed (or are less than) the aggregate of the adjusted cost base to the Resident Holder thereof and any reasonable costs of disposition. The adjusted cost base to a Resident Holder of a Common Share acquired at any time will be determined by averaging the cost of the Common Share with the adjusted cost base of all other Common Shares (if any) held by the Resident Holder as capital property immediately before that time. Such capital gain (or capital loss) will be subject to the treatment described below under “Taxation of Capital Gains and Capital Losses”.

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a “**taxable capital gain**”) realized by a Resident Holder in a taxation year must be included in computing the Resident Holder’s income for the year, and one-half of any capital loss (an “**allowable capital loss**”) realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses in excess of taxable capital gains realized in a taxation year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

If the Resident Holder is a corporation, the amount of any capital loss realized on the disposition or deemed disposition of a Common Share may, in certain circumstances, be reduced by the amount of any dividends received or deemed to be received by the Resident Holder on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances prescribed by the Tax Act. Similar rules may apply where a Common Share is owned by a partnership or a trust of which a corporation, partnership or trust is a member or beneficiary, as applicable. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

Additional Refundable Tax

A Resident Holder that is, throughout the relevant taxation year, a “Canadian-controlled private corporation”, as defined in the Tax Act, may be liable to pay an additional tax (refundable in certain circumstances) on its “aggregate investment income”, which is defined in the Tax Act to include amounts in respect of taxable capital gains and certain dividends.

Alternative Minimum Tax

Capital gains realized (or deemed to be realized) and dividends received (or deemed to be received) by a Resident Holder that is an individual or a trust, other than certain specified trusts, may give rise to alternative minimum tax under the Tax Act. Such Resident Holders should consult their own tax advisors in this regard.

Non-Resident Holders

The following discussion applies to a Holder who, at all relevant times, for purposes of the Tax Act and any relevant income tax treaty or convention: (i) is neither resident nor deemed to be resident in Canada; and (ii) does not, and is not deemed to, use or hold Common Shares in carrying on a business in Canada (a “**Non-Resident Holder**”). This summary does not apply to a Non-Resident Holder that carries on an insurance business in Canada and elsewhere or that is an “authorized foreign bank” (as defined in the Tax Act) and such holders should consult their own tax advisors.

Dividends on Common Shares

Dividends paid or credited, or deemed to be paid or credited, on a Common Share to a Non-Resident Holder will generally be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax treaty or convention between Canada and the Non-Resident Holder’s country of residence. For example, where the Non-Resident Holder is a resident of the United States that is entitled to full benefits under the *Canada-United States Tax Convention* (1980), as amended, and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%. Non-Resident Holders should consult their own tax advisors in this regard.

Dispositions of Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition or deemed disposition of a Common Share unless the Common Share constitutes “taxable Canadian property” (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident.

Provided the Common Shares are listed on a “designated stock exchange”, as defined in the Tax Act (which currently includes the TSX), at the time of disposition, Common Shares generally will not constitute taxable Canadian property of a Non-Resident Holder unless at any time during the 60-month period that ends at the time of the disposition of the Common Shares the following two conditions were satisfied simultaneously: (i) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm’s length (for purposes of the Tax Act), partnerships in which the Non-Resident Holder or such a non-arm’s length person holds a membership interest (whether directly or indirectly through one or more partnerships), or any combination of the foregoing persons and partnerships, owned 25% or more of the issued shares of any class of the capital stock of the Company; and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: real or immovable property situated in Canada, “Canadian resource properties” (as defined in the Tax Act), “timber resource properties” (as defined in the Tax Act), and options in respect of, or interests in or for civil law rights in, any such property, whether or not such property exists. Notwithstanding the foregoing, Common Shares may otherwise be deemed to be taxable Canadian property to a Non-Resident Holder for purposes of the Tax Act.

A Non-Resident Holder contemplating a disposition of Common Shares that may constitute taxable Canadian property should consult a tax advisor prior to such disposition.

In the event that a Common Share constitutes taxable Canadian property of a Non-Resident Holder and any capital gain that would be realized on the disposition thereof is not exempt from tax under the Tax Act or pursuant to an applicable income tax treaty or convention, the income tax consequences discussed above for Resident Holders under “Disposition of Common Shares” will generally apply to the Non-Resident Holder.

RISK FACTORS

You should carefully consider the risks described below and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Management”, together with all other information contained in this prospectus, before purchasing the Common Shares. The summary of risks described below does not purport to be exhaustive or to summarize all of the risks that may be associated with purchasing or owning Common Shares. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected. In all these cases, the trading price of the Common Shares could decline, and you could lose all or part of your investment. An investment in the Common Shares is speculative and only investors who can afford to lose their entire investment should consider an investment in the Company.

Risks Relating to Our Business

The P&C insurance industry is highly competitive and we may not be able to maintain or increase our premium volume or underwriting profitability

The P&C insurance industry is highly competitive. We compete, and will continue to compete, with both large and small companies in our target markets, some of which have greater financial, marketing, distribution, technical or management resources than we do. For so long as Definity is subject to the leverage restrictions under the ICA, our ability to access debt capital will be limited compared to other P&C insurer holding companies not subject to such restrictions. See “– We may not proceed with the Continuance during the major shareholder restriction period or at all, which could negatively impact our financial flexibility and our ability to drive value creation and execute our strategy”.

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

Participants in the P&C insurance and reinsurance industry, including our competitors and reinsurers and insurance brokers, have been consolidating and creating larger entities with enhanced market power and resources relative to us. We have also seen well-capitalized global reinsurers enter primary insurance markets where they believe they can obtain strong financial returns. Continued consolidation in the P&C insurance industry could increase competition by increasing the market power of such entities or by creating additional larger entities. Increased competition could result in lower premium rates, less favourable policy terms and conditions and greater costs of customer acquisition and retention. Larger entities may try to use their enhanced market power to obtain a larger market share through price competition. In addition, larger entities may be able to spread their risks across a larger capital base so that they require less reinsurance. If competitive pressures reduce our prices, this could in turn lead to reduced premiums and a reduction in earnings.

As competition for customers becomes more intense, the importance of sourcing and properly servicing each customer will become greater. Where customers are sourced through intermediaries such as independent brokers, the ability to win and retain customers is also impacted by the health and vitality of those intermediated channels. We could incur greater expenses relating to customer acquisition and retention, further reducing our operating margins. Reinsurance intermediaries could also continue to consolidate, potentially adversely impacting our ability to access reinsurance and write business. Any of the foregoing could adversely affect our business, results of operations, growth and prospects.

We may also not be aware of other companies that may be planning to enter the insurance market or existing insurers that may be planning to raise additional capital. The entrance of new market participants or a shift in the methods to select or price risks by competitors could also undermine our ability to establish or maintain competitive pricing or policy term. The introduction of disruptive innovations or changing technologies could affect our

addressable market, the way that our customers purchase insurance, how we price insurance, the demand for our products, and our underwriting and other decision-making processes. Our ability to effectively compete may be impaired if we do not respond adequately to new market participants or existing competitors who deploy such technologies. Further, although insurance aggregators are currently operating in a limited number of provinces without a national presence, and do not issue insurance policies, these websites can collect information to develop insights into customer and product data, thereby positioning them well to discover underserved customer segments, react to new trends, and test new products faster than individual insurers. The increased presence of insurance aggregators could impact our ability to retain customers and may result in other insurers pricing their products at rates that may be below the level we require to make a reasonable return in an effort to gain or retain market share. There can be no assurance that we will be able to achieve or maintain any particular level of premiums written in this competitive environment. See “– If we fail to adopt new technologies or adapt our existing systems to changing consumer preferences or emerging industry standards, our business could be materially and adversely affected”.

Several insurers and industry groups and associations currently offer alternative forms of risk protection in addition to traditional insurance products. These products, including large deductible programs and various forms of self-insurance that utilize captive insurance companies and risk-retention groups, have been instituted to allow for better control of risk management and costs. We cannot predict how continued growth in alternative forms of risk protection will affect our future business, but it could reduce our premium volume.

There can be no assurance that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not have a material adverse effect on our business, results of operations and financial condition.

If we are unable to implement our strategy or operate our business as we currently expect, our business, results of operations and financial condition could be adversely affected

In order to seek profitable growth and maximize shareholder returns, we intend to invest significant resources in implementing our strategies which we describe under “Corporate Strategy”. We cannot assure you that we will be successful in implementing our strategies or that we will realize, in full or in part, the anticipated benefits that we expect our strategies will achieve on a timely basis or at all. We may experience difficulty in executing or adapting our strategies because of, among other things, increased competition, difficulty in developing and introducing new products, changes in political, economic, industry and market conditions and trends and changes in regulatory requirements. The failure to implement our strategies or realize the anticipated benefits of such strategies could have a material adverse effect on our business, results of operations and financial condition.

We may not proceed with the Continuance during the major shareholder restriction period or at all, which could negatively impact our financial flexibility and our ability to drive value creation and execute our strategy

We are currently subject to leverage restrictions under the ICA, which provide that our total debt cannot exceed 2% of our total assets. After the Demutualization, for so long as Definity remains an ICA company, our ability to access debt capital will continue to be limited compared to other Canadian P&C insurer holding companies that are not subject to such restrictions, unless we proceed with the Continuance. If we proceed with the Continuance, we would not be subject to these leverage restrictions under the ICA. The process to complete the Continuance involves a number of steps and regulatory approvals, including an application to the Minister of Finance under the ICA for approval to apply under the CBCA for the Continuance, and upon receipt of such approval, an application to the Director under the CBCA for the certificate of continuance. Following the closing of the Offering, we intend to seek regulatory approval from the Minister of Finance to allow us to complete the Continuance. However, we do not intend for the Continuance to circumvent the major shareholder restriction imposed by the Demutualization Regulations. As a result, we do not intend to apply to the Minister of Finance for the Continuance, nor do we believe that the Continuance would be approved, unless the Demutualization Regulations are amended so that the major shareholder restriction would continue to apply to Definity as a CBCA corporation following the Continuance. Such amendments may not be implemented until after the end of the major shareholder restriction period or at all, and regulatory approval for the Continuance may not otherwise be obtained on a timely basis or at all.

For so long as Definity is subject to the leverage restrictions under the ICA, our financial flexibility will be limited compared to other Canadian P&C insurer holding companies that are not subject to such restrictions, which may limit

the size and types of acquisition and investments we could make and could negatively impact our ability to compete for attractive acquisition targets, as well as our overall ability to drive value creation and execute on our strategy. In addition, for so long as Definity is subject to the leverage restrictions under the ICA, our ability to optimize our capital structure will be limited, which will negatively impact our ability to generate further improvements in Operating ROE. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Industry Outlook and Our Financial Targets – Financial Targets”.

We are subject to risks relating to our underwriting of insurance products, including product design, pricing, risk acceptance and claims settlement, which could lead to material declines in underwriting income and/or deficient reserves and could adversely affect our business, results of operations and financial condition

We are subject to the risk of adverse financial exposures arising from various activities integral to the underwriting of insurance products, including product design, pricing, risk acceptance and claims settlement. A financial loss occurs when the liabilities assumed exceed the expectation reflected in the pricing of an insurance product. We price our products by taking into account numerous factors, including product design and features, claim frequency and severity trends, product line expense ratios, special risk factors, capital requirements, regulatory requirements, competitive forces and expected investment returns. Inadequate pricing, resulting from an inadequate assessment of one or more of these factors, or inadequate risk selection or evaluation could lead to material declines in underwriting income and/or deficient reserves and could adversely affect our business, results of operations and financial condition. See “– If actual claims payments exceed our claim liabilities, our business, results of operations and financial conditions could be adversely affected”. We may not be able to remediate poor underwriting performance, which could lead to material declines in underwriting income and could adversely affect our business, results of operations and financial condition. Moreover, our profitability may also be adversely affected by our mandatory participation in Facility Association’s automobile insurance risk-sharing pools. See “Our Business – Distribution – Facility Association”.

Even where insurance contracts have policy limits, the nature of P&C insurance is that losses can exceed policy limits for a variety of reasons and could significantly exceed the premiums received on the underlying policies. Any such losses could have a significant negative impact on our results of operations.

If actual claims payments exceed our claim liabilities, our business, results of operations and financial conditions could be adversely affected

Our success depends upon our ability to accurately assess the risks associated with the insurance policies that we write. We maintain reserves to cover our estimated ultimate liability for losses with respect to reported and unreported claims and claim adjustment expenses incurred with respect to insurance contracts underwritten by us. Our reserves do not represent an exact measurement of liability, but are our best estimates of the expected ultimate future cost of resolution and administration of claims determined in accordance with relevant professional standards and based upon various factors, including: (i) actuarial projections of the cost of settlement and administration of claims; (ii) estimates of future trends in claims severity and frequency (including with respect to catastrophe events); (iii) assessment of liability and damages; (iv) variables in claims handling procedures; (v) economic factors, including inflation and interest rates; and (vi) judicial and legislative trends, including with respect to class action lawsuits and interpretation of policy coverages or exclusions, or judicial decisions affecting third-party litigation insured under our policies such as personal injury litigation or subrogated claims. Climate change and the COVID-19 pandemic creates an additional level of uncertainty in evaluating these factors and therefore in estimating reserve level. There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer and additional lags between the time of reporting and final settlement of claims. As a result, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provisions from claims. Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of changes in these and unforeseen factors could negatively impact our ability to accurately assess the risks of the policies we write or update those assessments over time.

Establishing and maintaining appropriate levels of claim liabilities is an inherently uncertain process. To the extent our reserves prove to be deficient in the future, we will have to increase our reserves by the amount of such deficiency and with a corresponding reduction in our net earnings in the period in which the increase is recorded. The uncertainties regarding our reserves could result in a liability exceeding the reserves by an amount that could adversely affect our results of operations or financial condition.

The occurrence of catastrophe events could have a material adverse effect on our business, results of operations and financial condition

Catastrophe events can be caused by various natural and unnatural events. Natural catastrophe events include tornadoes, hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather, wildfires and floods. Man-made catastrophe events include armed conflicts, terrorist acts, riots, crashes, large-scale industrial accidents and derailments. The incidence and severity of catastrophe events are inherently unpredictable and may become increasingly so as climate patterns change. The extent of losses from a catastrophe event is a function of a number of factors, including the total amount of insured exposure in the area affected by the event, the severity of the event, and the susceptibility of insured property to damage. Although catastrophe events in Canada tend to be restricted to small geographic areas, there are many types of catastrophe event (including tornadoes, hurricanes, windstorms, and earthquakes) that may produce significant damage in large, heavily populated areas. In November 2021, British Columbia experienced severe weather resulting in mudslides and flooding, as has been widely reported. While it is too early to estimate the losses that this event will ultimately cause, claims arising from such losses could adversely impact our financial results.

Catastrophe events can cause losses across a variety of P&C lines and may have continuing effects that delay or hamper efforts to timely and accurately assess the full extent of the damage they cause, to service claims and to mitigate losses. Extreme catastrophe events affecting significant portions of the P&C insurance industry may deplete or exhaust the financial resources of one or more of participants in the reinsurance market and may therefore delay or impair the ability of our reinsurers to provide us with all or any of the reinsurance protection we have purchased from them or could result in disputes with reinsurers over coverage under such reinsurance, and may impair our ability to obtain adequate reinsurance coverage at an acceptable price from the reinsurance market in subsequent periods. Higher construction and other costs due to labour and raw material shortages following a catastrophe event could increase the severity of claims. Claims resulting from natural or unnatural catastrophe events could cause substantial volatility in our financial results for any fiscal quarter or year and could have a material adverse effect upon our business, results of operations and financial condition. Extreme catastrophe events may also have a material adverse effect upon our liquidity and cash flows.

Unforeseeable and/or catastrophe events could cause an abrupt interruption of activities and negatively impact our business, results of operations and financial condition

We may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophe events, including natural disasters, direct or third party technological failures or pandemics, any of which could result in financial, human and reputational consequences, including losses in financial assets, property and equipment, key personnel and/or the ability to process transactions and underwrite business in a timely manner. Such events may have continuing impacts and consequences over extended periods.

We are subject to risks relating to climate change

We are subject to risks from the impact of changing weather patterns arising from climate change and the implications of policies and commitments to mitigate climate change. Climate change has implications for all aspects of our business, including underwriting, claims, investments and our operations. Climate change risks are interdependent and interact with many of the other risks we face, which adds further uncertainty and complexity to, and has the ability to exacerbate, existing risks. We categorize climate change risks into three key categories:

- Physical: relates to impacts of increasing frequency and severity of extreme weather events arising from changing weather patterns. Chronic changes in weather patterns and events also contribute to more quickly degrading and /or overwhelming infrastructure.
- Transition: relates to changes associated with transitioning to a low-carbon economy.
- Reputational: results from stakeholders' assessment of our climate change response.

Increasing frequency and severity of extreme weather events has resulted in increased catastrophe events and claims. See “– The occurrence of catastrophe events could have a material adverse effect on our business, results of operations and financial condition”. Physical and transition considerations may also influence pricing, coverage options, product features or services sought by customers or offered by our competitors. If we are unable to maintain competitive pricing, coverage options, product features or services that are attractive to customers, our ability to grow

or maintain our written premium levels or underwriting profitability may be impacted. See “– The P&C insurance industry is highly competitive and we may not be able maintain or increase our premium volume or underwriting profitability”.

Climate change risks may also influence the cost, coverage and availability of reinsurance for some geographies, risk profiles or carbon-intensive industries. These risks could impair the ability or desire of our reinsurers to provide us with reinsurance protection and could adversely impact our ability to obtain adequate reinsurance coverage on acceptable terms or at all. See “– We may not be able to successfully alleviate risk through reinsurance arrangements”.

Investment values and returns may also be impacted by climate change risks. Weather-related loss or the transition to a low-carbon economy may impact the profit and prospects of an investee, and this, along with investor sentiment, could adversely impact the value of our investments. See “– Our portfolio holdings are subject to fluctuations in the market which could negatively affect their value”.

Government policy can both impact climate change and be impacted by climate change. Introduction of carbon pricing or limits could impact our claims and operational costs. Consumer concerns about costs and availability of insurance for particular coverages, geographies or industries, may result in additional regulations which could impact the viability of our existing products or services. Mandated climate change disclosures could result in increases in our compliance costs. See “– We are subject to substantial government laws, regulations and administrative policies, which impose changing restrictions on our business and could result in substantial fines or significant sanctions for non-compliance”.

Expectations are rapidly evolving for all companies to respond meaningfully to the expected impact of climate change; to not only manage climate change risks but also to contribute to mitigating climate change. How shareholders and others assess our climate change strategy, or that of our industry, could have reputational and business implications, and how investors assess our climate change strategy could adversely impact the market value of our shares. See “– Risks Relating to the Offering and Ownership of the Common Shares – Market conditions may cause the market price of the Common Shares to fluctuate substantially”.

We may not be able to successfully alleviate risk through reinsurance arrangements

We use reinsurance to help manage our exposure to insured risks. The availability and cost of reinsurance are subject to prevailing market conditions that can affect our premium volume and profitability. Reinsurance availability, terms, conditions, and/or pricing may change on renewal, particularly following domestic, foreign, or global catastrophe events, or as a result of higher-than-expected claims activity on non-catastrophe reinsurance treaties. Those changes may include changes in the number of reinsurers able or willing to offer reinsurance and may also include exclusions with respect to perils that we cannot exclude in policies we write due to business or regulatory constraints or which, if excluded from our policies, may not be enforceable as a result of judicial interpretation. Reinsurers may also introduce new exclusions that would result in a period of time where such perils are excluded from reinsurance, but not yet from some or all of our underlying policies. In addition, reinsurers may impose terms, such as lower per-occurrence and aggregate limits, on primary insurers that are inconsistent with corresponding terms in the policies written by these primary insurers. As a result, we may write insurance policies that to some extent do not have the benefit of reinsurance protection. These gaps in reinsurance protection may expose us to greater risk and greater potential losses and could materially adversely affect our business, results of operations, or as a result of higher-than-expected claims activity on non-catastrophe reinsurance treaties and financial condition. Further, without the benefit of reinsurance protection, we may be forced to withdraw capacity from certain lines of business or geographies, which could negatively impact our written premium levels or growth prospects, as well as support from brokers.

We bear the credit risk of our reinsurers, certain policyholders, brokers, agents and insurers

Although reinsurance makes the assuming reinsurer liable to us to the extent of the insurance risk that we have ceded to the insurer, we are not relieved of our primary liability to our policyholders as the direct insurer. As a result, we bear credit risk with respect to our reinsurers. We cannot ensure that our reinsurers will pay all reinsurance claims on a timely basis or at all. The inability to collect amounts due to us under reinsurance arrangements could reduce our net income and cash flow, and the ability of our insurance company subsidiaries to pay dividends or make other distributions to us.

We write large deductible policies (policies where the insured retains a specific amount of any potential loss) in which the insured and reinsured must reimburse us for certain losses. Accordingly, we bear credit risk on these policies and there can be no assurance that our policyholders will pay us on a timely basis or at all. Additionally, our policyholders may elect to pay their premiums on a monthly pay plan. In the ordinary course of business, we are sometimes unable to collect all amounts billed to policyholders. We provide for these amounts in the period the collection issues become known. The inability to collect amounts due to us under these policies could reduce our net income and cash flow, and the ability of our insurance company subsidiaries to pay dividends or make other distributions to us.

In accordance with industry practice, our customers often pay the premiums for their policies to brokers or agents for payment over to us. These premiums are considered paid when received by the broker or agent and thereafter the customer is no longer liable to us for those amounts, whether or not we have actually received the premiums from the broker or agent. Consequently, we assume a degree of credit risk associated with our reliance on brokers and agents in connection with the settlement of insurance premium balances. We also purchase annuities from life insurers to provide for fixed and recurring payments to our claimants. As a result of these arrangements, we are exposed to credit risk to the extent to which any of the life insurers fail to fulfill their obligations.

We periodically issue commercial loans to brokers. While collateral, principally in the form of security over a borrowing brokerage's operating assets, is held to protect us against loss in the event of a default of any of these loans, we could incur losses if some brokers become unable or unwilling make payments under the terms of the commercial loans.

The P&C insurance industry is cyclical, and we expect to experience periods with excess underwriting capacity and unfavourable pricing

Historically, the financial performance of the P&C insurance industry has fluctuated in cyclical patterns of "soft" markets, characterized generally by increased competition resulting in lower premium rates, followed by "hard" markets, characterized generally by lessening competition and increasing premiums rates. Our profitability has tended to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. As a result, we expect to experience periods with excess underwriting capacity, which may result in unfavourable pricing and which could negatively impact our results of operations and financial condition.

Our portfolio holdings are subject to fluctuations in the market which could negatively affect their value

Our financial results and financial condition depend, in part, on the performance of our investment portfolio. We primarily hold bonds and other debt instruments and equity securities in our portfolio. Accordingly, fluctuations in the fixed income or equity markets could impair our financial condition, profitability or cash flows. We derive our investment income from interest and dividends, together with net gains or losses on investments.

The return on our portfolio and the risks associated with our investments are also affected by our asset mix, which can change materially depending on market conditions. Investments in cash or short-term investments generally produce a lower return than other investments. The market value of bonds, other debt instruments and preferred stocks fluctuates with changes in interest rates and credit quality and is exposed to liquidity risks. The market value of common stocks and equity-related securities is exposed to fluctuations in the stock market and to liquidity risk. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management – Common Equity Market Price Risk and Preferred Stock Price Risk" and "– Liquidity Risk". Equities and equity-related securities are volatile or extremely volatile, with the result that their market value and their liquidity may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known upon their disposition or settlement. The uncertainty around the ultimate amount and the timing of our claim payments may force us to liquidate securities, which may cause us to incur losses. If we structure our investments improperly relative to our liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. Realized and unrealized investment losses resulting from a decline in value could significantly decrease our net earnings.

The ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. General economic conditions can adversely affect the markets for interest-rate sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and,

consequently, the value of fixed income securities. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. General economic conditions, stock market conditions, investor sentiment and many other factors can also adversely affect the equity markets and, consequently, the value of the equity and equity-related securities we own. We may also be adversely affected by foreign currency fluctuations. Our functional currency is the Canadian dollar and we have investments denominated in currencies other than the Canadian dollar. As a result, we may experience losses resulting from fluctuations in the values of foreign currencies relative to the Canadian dollar. We may also make significant investments in the future in derivative instruments, which may be less liquid and may respond to the foregoing factors differently and with greater volatility than traditional fixed income or equity securities.

Our investment portfolio may also be subject to concentration risk. Concentration risk arises from exposure to significant asset defaults of a single issuer, industry or class of securities, based on economic or regional conditions or as a result of adverse regulatory or court decisions. Regulatory requirements or restrictions on types of investments may also impact the concentration of our investments by class or geography or may limit our ability to diversify our portfolio. The default of a particular asset or class of assets could threaten our financial condition, results of operations and cash flows.

Any of the foregoing could adversely affect our business, results of operations, financial condition, growth and prospects.

If we are unable to maintain our financial strength ratings, our ability to write insurance and compete with other P&C insurance companies may be adversely impacted and a downgrade of our credit rating may affect the cost and availability of financing

Third-party rating agencies periodically assess and rate the financial strength of Economical Insurance based upon criteria established by the rating agencies. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financial Strength Ratings”. Financial strength ratings are an important competitive factor in the insurance industries. Ratings organizations periodically review the financial performance and condition of insurers and reinsurers. The financial strength ratings assigned by rating agencies to insurance companies represent independent opinions of financial strength and ability to meet insurance obligations and are not directed toward the protection of investors. Ratings organizations assign ratings based upon several factors, including historical experience, and while most of these factors relate to the underlying company, some of the factors relate to general economic conditions and circumstances outside the company’s control. Ratings are subject to revision or withdrawal at any time by the assigning ratings organization. Financial strength ratings are not a recommendation to buy, sell or hold securities, and each rating should be evaluated independently of any other rating.

There can be no assurance that the financial strength ratings assigned to Economical Insurance will remain in effect for any given period of time or that the rating will not be lowered, withdrawn or revised by the rating agency at any time. Any downgrade in the financial strength ratings of Economical Insurance could adversely affect our ability to sell products, retain existing business and compete for attractive acquisition opportunities and could result in us being removed from the approved lists of some customers, preventing us from entering into or renewing policies with those customers, and may adversely affect our ability to write business to other customers, particularly in our commercial lines business, where certain customers may require that we maintain minimum ratings to enter into or renew business with us.

In addition, a downgrade in a financial strength rating or outlook of Economical Insurance, among other factors, may also increase our cost of capital and could result in the early termination of the Lock-Up Period. See “The Cornerstone Private Placements – Governance Agreements”. Accordingly, a financial strength rating downgrade of Economical Insurance could adversely affect our business or the market price of the Common Shares. See “Risks Relating to the Offering and Ownership of the Common Shares – Significant ownership by the Cornerstone Investors may adversely affect the market price of the Common Shares”. No assurance can be provided that any action taken by a rating agency would not result in a material adverse effect on our business, results of operations, financial condition or prospects.

Our ability to execute our strategy depends in part on our ability to maintain Economical Insurance’s current investment-grade credit rating from DBRS Limited. The credit rating process is contingent upon a number of factors, many of which are beyond our control. Economical Insurance’s rating may not remain in effect for any given period of

time and may be revised or withdrawn entirely by the rating agency in the future if, in its judgement, circumstances so warrant. If we cannot maintain Economical Insurance's current credit rating, our interest expense could increase and our ability to obtain financing on favourable terms may be adversely affected.

Pandemics and other public health events, including the ongoing COVID-19 pandemic, could materially adversely impact our business, results of operations and financial condition

A local, regional, national or international outbreak of a contagious disease or other public health event, such as the COVID-19 pandemic or the worsening thereof, could materially adversely impact our business, results of operations and financial condition. Such event could result in an abrupt interruption of activities and in direct financial and human consequences, including losses in financial assets, key personnel and/or the ability to process transactions and underwrite business in a timely manner. Such events may have continuing impacts and consequences over extended periods and may also have indirect impacts on our business, results of operations and financial condition by the impact of such events on the general business and economic environment.

In particular, the uncertainty and volatility in the current business environment as a result of the COVID-19 pandemic may also have the effect of heightening many of the other risks described in this "Risk Factors" section, including: insurance risk including uncertainty regarding possible COVID-19-related claim exposures and consumer relief measures; reserve estimation risk due to uncertainty of changes in claim exposures, claimant behaviours and claims reporting / settlement patterns; legal and regulatory action risk due to possible changes to laws or regulations that may restrict prices we are able to charge or that increase the scope and amount of claim payments; financial risk to our investment portfolio arising from interest rate risk as interest rates fall, and equity market and preferred stock price risk due to the volatility in equity markets; credit risk caused by our counter-parties not being able to meet obligations as they become due as they absorb the impact of the economic downturn; inflation risk impacting the cost of goods and services used in claims and our own operations; and supply chain disruption increasing construction and other costs and impacting our ability to remediate claims on a timely basis.

Also, increased economic uncertainty generated by the outbreak of COVID-19 could have adverse impacts on economic activity that affect demand for our insurance products, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows.

In addition, in 2020, Canadian P&C insurers, including us, faced claims for business interruption coverage due to COVID-19, including national and regional class proceedings seeking to establish coverage under insurance policies. See "Legal and Regulatory Proceedings" and "– We may be subject to regulatory proceedings or significant litigation".

Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the impact of the COVID-19 pandemic, including any responses to it, will be on us or for how long disruptions are likely to continue. The longer-term impacts will depend on future developments, which are highly uncertain, evolving and difficult to predict. Such developments, depending on their nature, duration, and intensity, could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows.

Our business and profitability could be materially adversely affected by the general business and economic environment

Our business and profitability could be materially adversely affected from time to time by general business, and economic conditions. In periods of economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, individuals and businesses may choose not to purchase insurance products, may allow existing policies to lapse, or may choose to reduce the amount of coverage purchased. In addition to the demand for our insurance products being adversely affected, frequency or severity of claims could increase, resulting in lower earnings. General inflationary pressures may affect the costs of medical care, automobile parts and repair, construction and other items, and may increase the costs of paying claims. Depressed economic conditions may cause changes in the level of demand for insurance or reductions in policy coverages and have been correlated with increases in claims fraud. See "– We may be subject to internal or external fraud".

We are subject to substantial government laws, regulations and administrative policies, which impose changing restrictions on our business and could result in substantial fines or significant sanctions for non-compliance

As an insurance company, we are subject to numerous laws, regulations and policies, including, in particular, those of Canada, its provinces and territories. Such legislation and policies delegate certain regulatory, supervisory, and

administrative powers to federal, provincial, or other jurisdictional insurance regulatory authorities. Such legislation and policies are generally designed to protect policyholders rather than shareholders and are related to matters including: rate setting; restrictions on types of investments; the maintenance of adequate provisions for unearned premiums and unpaid claims; the examination of insurance companies by regulatory authorities, including periodic market conduct examinations; and the licensing of insurers and their agents and brokers. In addition, changes to capital and solvency standards, restrictions on certain types of investments distributions, capital or liquidity management actions and the outcomes of periodic market conduct and financial examinations by regulators could impact our ability to successfully implement our strategy and could have a materially adverse effect on our business, results of operations and financial condition. As a holding company, we rely on cash dividends and other permitted payments from our subsidiaries to meet our obligations for payment of holding company expenses, dividends to shareholders and to meet any obligations for payment of interest and principal on outstanding indebtedness. Furthermore, the payment of dividends by us and by our operating subsidiaries is subject to restrictions set forth in the insurance laws and regulations of applicable jurisdictions. See “– As a holding company, we depend on our subsidiaries to meet our obligations, including future dividend payments”.

In each case, the application of existing laws or policies may require a degree of interpretation, particularly with respect to new or emerging issues, or new operations. In addition, changes to laws and regulations, including changes in their implementation, interpretation or application, or the introduction of new laws and regulations, could affect us by limiting capital or liquidity management actions, limiting the products or services we can provide, restricting the prices we are able to charge, impacting the manner in which we offer our products to the market, requiring specified claims payments, limiting the effectiveness of our policy wordings, and/or increasing the ability of competitors to compete with our products and services and/or our ability to compete with those products and services. In particular, personal automobile insurance is subject to significant regulation in each province, and it is possible that future regulatory changes or decisions may prevent us from taking actions, such as raising rates or modifying coverages, which would adversely affect our business, results of operations and financial condition.

Any failure by us to comply with applicable law could result in the imposition of significant restrictions on our ability to do business, and could also result in fines and other sanctions, any or all of which could adversely affect our results of operations or financial condition. In particular, our Insurance Subsidiaries are required by federal regulators (and our capital management policy) to maintain sufficient capital with a view to ensuring their continued solvency. A reduction in capital levels below our internal or regulatory targets could subject us to regulatory intervention. If OSFI is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a federally regulated insurance company, OSFI may direct the insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. In certain circumstances, OSFI may take control of the assets of an insurance company or take control of the company itself. See “Canadian P&C Insurance Regulatory Environment”.

The brokers on whom we rely to distribute our products are also subject to laws and regulations governing the conduct of their businesses, and the disclosure they provide to clients. We are unable to control the extent to which those brokers comply with applicable laws and regulations, and any failure by them to do so could result in the imposition of significant restrictions on their ability to do business with us, which could, in turn, adversely affect our results of operations or financial condition.

Our insurance operations are subject to Canadian tax laws and regulations. The federal or provincial governments could from time to time consider legislation and regulations that could increase the amount of taxes that we pay or impact our profitability. An increase to tax rates could have an adverse effect on our financial condition and results of operations.

It is not possible to predict the future impact of changing federal and provincial laws and regulations or changes in the interpretation, administration or application of those laws and regulations on our operations, and there can be no assurance that such changes will not be more restrictive than existing laws and regulations. Any such changes could have a material adverse effect on our business, results of operations and financial condition or the insurance industry in general.

We may be subject to regulatory proceedings or significant litigation

In the normal course of our business, we are subject to a variety of litigation and regulatory actions relating to our current and past business operations, including, but not limited to: disputes over coverage or claims adjudication, including accident benefits disputes; claims under liability provisions of our policies; disputes regarding sales

practices, disclosures, premium refunds, licensing, regulatory compliance, and employment-related matters, including compensation arrangements; disputes with our brokers and agents over compensation and termination of contracts and related claims; disputes with suppliers over licensing arrangements; and disputes with taxing authorities regarding our tax liabilities. In addition, plaintiffs may bring new types of legal claims against insurance and related companies including, in our case, claims by policyholders in relation to our Demutualization. Current and future court decisions and legislative activity may increase our exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic, or punitive damage awards. If one or more of these claims resulted in a significant damage award or a judicial ruling that was otherwise detrimental (including setting a negative precedent), it or they could have a material adverse effect on our business, results of operations and financial condition. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. We cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our businesses. From time to time, we also advance subrogated claims against other insurers and recovery from such claims can also be impacted by adverse judicial rulings and a changing legal landscape. In 2020, we faced claims for business interruption coverage due to COVID-19, including national and regional class proceedings seeking to establish coverage under insurance policies. The results of litigation cannot be predicted with certainty. The costs of defending or settling such litigation can be significant. If we are unable to resolve these disputes favourably, they may have a material adverse impact on our financial performance, cash flow and results of operations. See “Legal and Regulatory Proceedings”.

We or our brokers and agents or other entities with whom we do business may be subject to governmental, regulatory or administrative investigations, proceedings and reviews from time to time. We cannot predict the outcome of any such investigation, proceeding or review, and cannot assure you that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect our business, results of operations and financial condition.

The P&C insurance industry generally, or our business practices and insurance products and services specifically, may be subject to negative publicity

Negative publicity from unsatisfied customers, consumer advocacy groups or the media regarding the P&C insurance industry generally, or our business practices and insurance products and services specifically, whether true or not, could negatively impact our brands or result in increased regulation and/or industry supervision, legislated price decreases, changes in behaviour by insurance purchasers and brokers, as well as increased litigation, which may alone or in combination could increase our costs of doing business, adversely affect our profitability, impede our ability to market our products and services, reduce the demand for our products or services, or increase the regulatory burdens under which we operate. Any of these outcomes could have a material adverse effect on our business, results of operations and financial condition.

In particular, unsatisfied customers, consumer advocacy groups or the media may generate negative publicity related specifically to our claims-handling or underwriting practices. Untimely or poor handling of such negative publicity may increase the impact of a situation and materially affect our reputation and adversely affect our business, results of operations and financial condition.

Social media could accelerate or amplify the impact of a reputational issue arising from negative publicity and could result in further damage to our reputation and a heightened negative impact on our business.

We may be subject to internal or external fraud

As a P&C insurer, we may be subject to internal or external fraud. Potential exposures include our customers exaggerating claims for personal gain; our customers or brokers submitting inaccurate underwriting information in an attempt to reduced premium costs; service providers exaggerating invoice values or charging for unnecessary or uncompleted work; organized crime engaged in insurance fraud, including staged accidents, auto theft and fraud for profit by service providers; employees attempting to misappropriate assets or attempting to submit inadmissible expenses for reimbursement; or external parties attempting to impersonate employees or vendors to misappropriate assets or gain access to systems. Despite our efforts to control fraud and abuse, including internal controls to prevent and detect potential internal fraud and fraud detection analytics, which are used by our claims teams to detect potential fraud and flag cases for further investigation, our staff, systems and processes may be unable to adequately detect and prevent internal or external fraud. Fraud could result in financial losses and negatively impact our reputation.

We may be unable to successfully identify, complete, integrate and realize the benefits of acquisitions or manage the associated risks, all of which could have a material adverse effect on us

Our business strategy includes selective consideration of acquisitions or investments, some of which may be material. There can be no assurance that we will successfully identify suitable candidates in the future for strategic transactions at acceptable prices or at all, have sufficient capital resources to finance potential acquisitions or be able to consummate any desired transactions. Although we expect to identify acquisition candidates that we believe may be suitable, we may not be able to acquire them at prices or on terms and conditions favourable to us, or we may not be able to close such acquisitions if we fail to obtain necessary regulatory approvals. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Investment Powers”. We expect that continued consolidation of insurance companies in the P&C insurance industry over the longer term will reduce the number of attractive acquisition candidates and contribute to higher transaction multiples. Moreover, general economic conditions and the environment for attractive investments may affect the desire of the owners of acquisition candidates to sell their insurance businesses. As a result, we may have fewer acquisition opportunities, and those opportunities may be on less attractive terms than in the past, which could cause a reduction in our rate of growth from acquisitions. Also, for so long as Definity is subject to the leverage restrictions under the ICA, our ability to access debt capital will be limited compared to other P&C insurer holding companies not subject to such restrictions. See “– We may not proceed with the Continuance during the major shareholder restriction period or at all, which could negatively impact our financial flexibility and our ability to drive value creation and execute our strategy”.

Acquisitions, including completed acquisitions, involve a number of other risks, including diversion of management’s attention from operating our business, failure to retain key personnel of acquired companies, legal risks and liabilities relating to the acquisition or the acquired entity’s historic operations, which may be unknown or undisclosed and for which we may not be indemnified fully or at all, failure to integrate the acquisition in a timely manner, any of which could have a material adverse effect on our business, results of operations and financial condition.

We could also experience financial or other setbacks if transactions encounter unanticipated problems, including problems related to execution, integration or underperformance relative to prior expectations, which could result in an impairment of acquired assets. Post-acquisition activities include the review and alignment of employee cultures, accounting policies, treasury policies, corporate policies such as ethics and privacy policies, employee transfers and moves, information systems integration, optimization of service offerings and the establishment of control over new operations. Such activities may not be conducted efficiently and effectively. Our management may not be able to successfully integrate any future acquired business into our operations and culture on our anticipated timeline or at all, or maintain our standards, controls and policies, which could negatively impact the experience of our clients, optimization of our service offerings and control over operations and otherwise have a material adverse effect on our business, results of operations and financial condition. Moreover, following the completion of acquisitions, we may be required to rely on the seller to provide administrative and other support, including financial reporting and internal controls over financial reporting, and other transition services to the acquired business for a period of time. We may not have experience in working with the sellers of the business we have acquired to obtain the necessary support to operate a newly acquired business. There can be no assurance that the seller will do so in a manner that is acceptable to us. Consequently, any acquisition we complete may not result in anticipated or long-term benefits or synergies to us or we may not be able to further develop the acquired business in the manner we anticipated.

We do business with a large network of independent brokers on a non-exclusive basis

We do business with a large network of independent brokers on a non-exclusive basis, and we cannot rely on their commitment to our insurance products. Individual brokers or brokerage firms, as applicable, may decide to promote or sell our competitors’ products more often rather than our products or not sell our products at all, and some brokerage firms with which we do business are owned or controlled by our competitors and could be instructed by such competitors not to promote or sell our products. Strong competition exists among insurers for brokers with demonstrated ability to develop and deliver a profitable book of business. Our volume of premiums written and our profitability could be materially adversely affected if there is a material decrease in the number of brokers that choose to sell our insurance products. The competitive environment is also characterized by the consolidation of brokers, and the acquisition of brokers by other P&C insurance companies, which may have a direct impact on our market share and ability to grow profitably.

In the event that an independent broker exceeds its authority by binding us on a risk that does not comply with our underwriting guidelines, we may be at risk for that policy until we receive the application and effect a cancellation. Any improper use of binding authority may result in losses that could have a material adverse effect on our business, results of operations and financial condition.

A disruption or failure of our information technology systems, including a cybersecurity incident, could result in reputational damage, financial loss and/or regulatory consequences to the Company

We rely on information technology in virtually all aspects of our business, including to securely process, transmit and store electronic information. We utilize third parties to augment key components of our information technology systems, including network or data center services, voice or data communications services and a variety of software as a service (SaaS). Certain confidential information resides on third-party hosted data center servers and is transmitted utilizing industry standard security protocols. A significant disruption or failure of our information technology systems, including a failure of our third-party services providers to deliver services on a timely basis, could compromise our ability to process transactions in a timely manner or otherwise conduct business, result in the loss of existing or potential business relationships or otherwise impair our ability to develop, modify or execute our strategies and, ultimately, could negatively affect our financial results and our reputation. The general liability insurance we purchase may not adequately compensate us for material losses that may occur due to disruptions in our service as a result of information technology systems disruption or failure. While we maintain business continuity plans, including data back-ups, there is a risk that such plans are ineffective in restoring operations on a timely basis.

Despite the implementation of security and system monitoring measures, our internal computer systems and those of our third-party service providers are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Attacks into information technology systems are increasing in their frequency, levels of persistence, sophistication and intensity, and are being conducted by sophisticated and organized groups and individuals with a wide range of motives and expertise. In addition to the extraction of sensitive information, such attacks could include the deployment of harmful malware, ransomware, denial-of-service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information. The prevalent use of mobile devices and remote work increases the risk of data security incidents.

Any failure or perceived failure by us and/or those of our third-party service providers to comply with our privacy, confidentiality or data security-related legal or other obligations to third parties, or any security incidents or other inappropriate access events that result in the unauthorized access, release or transfer of sensitive information, which could include personally identifiable information, may result in governmental investigations, enforcement actions, regulatory fines, litigation, or public statements against us and could cause third parties to lose trust in us. We could also be subject to claims by third parties that we have breached our privacy or confidentiality-related obligations. Any of the foregoing could materially and adversely affect our business, financial performance and prospects.

Moreover, data security incidents and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm. While we have implemented security measures intended to protect our information technology systems and infrastructure, there can be no assurance that such measures will successfully prevent service interruptions or security incidents. We may need to expend significant resources to protect against and remedy any potential security breaches and their consequences.

If we fail to adopt new technologies or adapt our existing systems to changing consumer preferences or emerging industry standards, our business could be materially and adversely affected

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our Digital Platforms and other products and services and respond to technological advances and emerging industry standards and practices in a cost-effective and timely manner. If we are unable to adapt in a cost-effective and timely manner in response to changing consumer preferences or industry standards, whether for technical, legal, financial or other reasons, we may not achieve our strategic objectives and may suffer a competitive disadvantage, which could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology

Our future success depends in part upon the successful protection of our intellectual property. We seek to protect our intellectual property through a combination of trademarks, trade secret protections, copyright and confidentiality agreements.

The steps we take to protect our intellectual property and proprietary information may not be adequate to prevent misappropriation of our models, algorithms, technologies, original software, unique processes and know-how, as the existence of laws or contracts prohibiting such misappropriation may not always serve as a sufficient deterrent. Policing and defending against the unauthorized use of our intellectual property may be expensive and time consuming. Our intellectual property rights may be challenged, and we may not be able to secure such rights in the future. Consequently, third parties, including our competitors, may be able to use our intellectual property without a licence or authorization. The unauthorized exploitation of our intellectual property by third parties may reduce or eliminate the competitive advantage we derive from using our own technology.

In addition, while we stipulate in our Code of Conduct that any intellectual property arising from, or created during, an employee's performance of their duties belongs exclusively to us, we do not typically enter into agreements assigning such intellectual property rights to us, which may limit our ability to obtain such rights. While it is our policy to require contractors who may be involved in the conception or development of intellectual property to enter into agreements assigning such intellectual property rights to us, we may be unsuccessful in executing such an agreement with each party who, in fact, conceives or develops intellectual property that we regard as our own. The assignment of intellectual property rights may not be self-executing, or the assignment agreements may be breached.

We may be forced to bring claims against third parties, including former employees and contractors, to determine the inventorship or ownership of what we regard as our intellectual property. If we fail in asserting such claims, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, intellectual property. Even if we are successful in actions to enforce our intellectual property rights, litigation could result in substantial costs and be a distraction to our management and employees.

The materialization of any of these risks could have a material adverse effect on our business, results of operations and financial condition.

If our products are found to infringe on the proprietary rights of others, we may be required to change our business practices and may also become subject to significant costs

We may become subject to infringement claims from third parties. Such claims, whether with or without merit, are time consuming, may result in costly litigation and may not be resolved on terms favourable to us. Successful claims of infringement, misuse or misappropriation by a third-party against us or a third-party that we indemnify could prevent us from distributing certain products or performing certain services or could require us to pay substantial damages, an account of profits, royalties or other fees. Such claims also could require us to cease making, licensing or using products that are alleged to infringe or misappropriate the intellectual property rights or misuse the confidential information of others, to expend additional development resources to attempt to redesign our products or services or otherwise to acquire or develop alternative technology that does not infringe, misuse or misappropriate, or to enter into potentially unfavourable royalty or license agreements in order to obtain the right to use necessary technologies, confidential information or intellectual property rights.

Any of these outcomes could have a material adverse effect on our business, results of operations and financial condition.

We depend on the continued services of our senior management team and key personnel

We depend on a strong senior management team, which makes us vulnerable to management turnover. The members of our senior management team have extensive industry, company and/or leadership experience and the loss of a key member of management could adversely affect our ability to execute our business strategy, identify new business opportunities, manage our finances and operations and drive the innovation necessary to remain competitive. There can be no assurance that any members of our senior management will continue to work for us for the full

duration of, or beyond, the terms of their existing service agreements. Further, there can be no assurance that we will be able to enforce non-compete agreements with members of our senior management. In addition, we may face challenges in attracting suitably qualified new senior management team members. The departure of any member of our senior management without adequate replacement may have a material adverse effect on our business, results of operations and financial condition. We also rely on highly skilled and experienced personnel and if we are unable to attract, retain or motivate key personnel or hire qualified personnel, our business may be harmed.

In addition, the departure of certain specified members of our senior management could result in the early termination of the Lock-Up Period. See “The Cornerstone Private Placements – Governance Agreements”. Accordingly, such departure(s) could adversely affect our business or the market price of the Common Shares. See “– Risks Relating to the Offering and Ownership of the Common Shares – Significant ownership by the Cornerstone Investors may adversely affect the market price of the Common Shares”.

Restrictions on ownership and regulatory protection from takeovers may defer or prevent transactions involving a change of control of the Company

The ICA and the regulations thereunder contain restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of an insurance company or, when a holding company structure is used, its holding body corporate. In their current form, these restrictions would preclude any person from acquiring any shares of Definity or Economical Insurance without the prior written approval of the Minister of Finance if the acquisition would cause the person to have a “significant interest” in any class of shares of Definity or Economical Insurance, respectively. Further, neither Definity nor Economical Insurance is permitted to record any transfer or issue of its shares if the transfer or issue would cause the person to have or increase a significant interest in Definity or Economical Insurance, as applicable. For these purposes, a person has a significant interest in a class of shares of Definity or Economical Insurance, as applicable, where the aggregate of any shares of that class beneficially owned by that person, any entity controlled by that person and by any person acting jointly or in concert with that person, exceeds 10% of all the outstanding shares of that class of shares of Definity or Economical Insurance, as applicable.

In addition, under the takeover protection provided by the Demutualization Regulations, the Minister of Finance will not approve, for a period following a demutualization, an acquisition by any person of more than 20% of any class of voting shares of a demutualized insurance company or, when a holding company structure is used, its holding body corporate (unless such company is in financial difficulty and the Minister of Finance believes the acquisition will improve the company’s financial position). This major shareholder restriction would prevent a person from acquiring a controlling interest in Economical Insurance or Definity for two years following the Demutualization, and from acquiring more than 20% of any class of shares of Economical Insurance or, for so long as it remains an ICA company, Definity, for that same two-year period.

Following the closing of the Offering, we intend to seek regulatory approval from the Minister of Finance to allow us to complete the Continuance. However, we do not intend for the Continuance to circumvent the major shareholder restriction imposed by the Demutualization Regulations. As a result, we do not intend to apply to the Minister of Finance for the Continuance, nor do we believe that the Continuance would be approved, unless the Demutualization Regulations are amended so that the major shareholder restriction would continue to apply to Definity as a CBCA corporation following the Continuance. Such amendments may not be implemented until after the end of the major shareholder restriction period or at all, and regulatory approval for the Continuance may not otherwise be obtained on a timely basis or at all. If we proceed with the Continuance, following the expiry of the major shareholder restriction period, the approval of the Minister of Finance would still be required under the ICA in order for any person to acquire control of Definity since this would result in the indirect acquisition of control of Economical Insurance and the Insurance Subsidiaries. See “Demutualization – Continuance under the CBCA”, “– Major Shareholder Restriction Period” and “Canadian P&C Insurance Regulatory Environment – Regulation of Definity and Impact of Continuance – Constraints on the Transfer of Shares or Assets”.

Consequently, any person seeking to acquire a controlling interest in the Company would face regulatory obstacles that may delay, defer or prevent an acquisition that shareholders of the Company might otherwise consider to be in their best interests.

If our judgments or estimates relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of securities analysts and investors

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, the results of which form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of the Common Shares.

Changes in accounting standards or interpretations could adversely affect our financial results

IFRS accounting standards and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including valuation of claim liabilities, impairment of long-lived assets, impairment of financial assets, valuation of post-employment benefits obligation and measurement of income taxes, are highly complex and involve many subjective assumptions, estimates and judgments. Our implementation of and compliance with changes in accounting rules, including new accounting rules and interpretations, could adversely affect our reported financial position or operating results or cause unanticipated fluctuations in our reported operating results in future periods. The accounting rules and regulations that we must comply with are complex and continually changing. We cannot predict the impact of future changes to accounting principles on our financial statements going forward.

In particular, our accounts are prepared in accordance with IFRS 4 which is applicable to the insurance industry. In May 2017, the IASB issued IFRS 17, which replaces IFRS 4. IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. In June 2020, the IASB approved amendments to IFRS 17. The amendments, among other items, included deferring the effective date of IFRS 17 to be effective for annual reporting periods beginning on or after January 1, 2023. Retrospective application is required unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. We plan to adopt the new standard on the required effective date together with IFRS 9. The disclosure and measurement differences on adoption are expected to be significant. Also, in July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions. An entity whose activities are predominantly connected with insurance at its annual reporting date that immediately precedes April 1, 2016 is eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. We have chosen to apply the temporary exemption from IFRS 9 to defer the application of IFRS 9 until the effective date of IFRS 17.

The system, process, internal control and reporting changes required to implement these standards are significant and may negatively impact other initiatives, operational processes and internal controls and financial performance. See Note 3 – “Standards Issued But Not Yet Effective” to our audited consolidated financial statements included in this prospectus.

Failure to comply with requirements to design, implement and maintain effective control over financial reporting could have a material adverse effect on our business and the price of the Common Shares

As a public company, we will be subject to reporting and other obligations under applicable Canadian securities laws and rules of the TSX. We will have significant requirements for enhanced financial reporting and internal controls. All of our current operating subsidiaries are, and potential future acquisitions may be, private companies and their systems of internal controls over financial reporting may be less developed as compared to public company requirements. Any failure to maintain adequate internal controls over financial reporting or to implement required, new or improved controls, or difficulties encountered in their implementation, could cause material weaknesses or significant deficiencies in our internal controls over financial reporting and could result in errors or misstatements in our consolidated financial statements that could be material. If we or our independent registered public accounting firm

were to conclude that our internal controls over financial reporting were not effective, investors could lose confidence in our reported financial information and the price of the Common Shares could decline. Our failure to achieve and maintain effective internal controls could have a material adverse effect on our business, our ability to access capital markets and investors' perception of us. In addition, material weaknesses in our internal controls could require significant expense and management time to remediate.

Risks Relating to the Offering and Ownership of the Common Shares

Market conditions may cause the market price of the Common Shares to fluctuate substantially

The market price for the Common Shares may be volatile and subject to substantial fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- actual or anticipated fluctuations in our financial results and results of operations, including as a result of claims related to catastrophe events;
- changes by us in estimates of our future results of operations;
- announcements of developments related to our business or industry;
- a shortfall in our profitability compared to securities analysts' expectations;
- expiration of lock-up or other transfer restrictions in respect of outstanding Common Shares;
- changes in the economic performance or market valuations of other companies in the insurance industry or of other companies that investors deem comparable to the Company;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, strategic partnerships, joint ventures, capital commitments or changes in business strategy;
- price and volume fluctuations in the trading of the Common Shares and in the overall stock market, including as a result of trends in the economy as a whole;
- changes in general political, economic, industry and market conditions and trends;
- changes in securities research analysts' recommendations or projections;
- changes in and/or new laws or regulations, including GAAP, or new interpretations of existing laws or regulation, including GAAP;
- lawsuits threatened or filed against us;
- changes in our board of directors, management or other key personnel;
- regulatory actions; and
- sales of large blocks of the Common Shares, including by our executive officers, directors and significant shareholders, including the Cornerstone Investors.

The capital markets have experienced extreme volatility and disruption in recent years, including as a result of the COVID-19 pandemic. In some cases, the markets have produced downward pressure on share prices for certain companies seemingly without regard to those issuers' underlying financial strength. Accordingly, the market price of the Common Shares may decline even if our business, results of operations, financial condition and prospects have not changed. There can be no assurance that fluctuations in price and volume will not occur.

Prior to the Offering, there has been no public market for the Common Shares and an active, liquid and orderly trading market for the Common Shares may not develop

Prior to the Offering, there has been no public market for the Common Shares. In the past, the prices of securities offered publicly by companies for the first time have been subject to considerable fluctuations that may not have reflected the business, results of operations, financial condition and prospects of the particular company. The Offering Price will be determined on the basis of a book-building procedure. There can be no assurance that the Offering Price will correspond to the market price of the Common Shares following the Offering or that the price of the Common Shares available in the public market will reflect the Company's actual financial performance or the state of the Company's business, results of operations and financial condition.

The Company has applied to have its Common Shares listed on the TSX. The TSX has not conditionally approved the listing application and there is no assurance that it will do so. There is no market through which the Common Shares may be sold and, if a market for the Common Shares does not develop or is not sustained, investors may not be able to resell the Common Shares purchased in the Offering. The market price for the Common Shares could also be negatively influenced by adverse developments affecting the general economic or investment climate. In addition, geopolitical factors, such as war or acts of terrorism, or health crises, such as pandemics (including the COVID-19 pandemic) may indirectly adversely affect the market price of the Common Shares. If an active trading market for the Common Shares fails to develop and continue after the Offering, you may not be able to resell the Common Shares at or above the Offering Price.

Sales of Common Shares in the public market, or the perception that these sales may occur, could cause the market price of the Common Shares to decline

Immediately prior to the completion of the Offering, Common Shares will be issued to Eligible Policyholders pursuant to the Conversion Plan. Immediately following the closing of the Offering and the Cornerstone Private Placements, 8,198,229 Common Shares (representing 7.9% of the issued and outstanding Common Shares) will be owned by the Eligible Policyholders. Common Shares issued to Eligible Policyholders will be subject to the Market Stabilization Restrictions described in the “Shares Eligible for Future Sales – Market Stabilization Restrictions” section of this prospectus for 180 days following the later of the effective date of the Demutualization and the closing of the Offering, subject to certain limited exceptions. Sales of a substantial number of Common Shares in the public market could occur at any time after the expiration of the Market Stabilization Restrictions.

In addition, under the HOOPP Governance Agreement, subject to the early termination of the lock-up period in certain limited circumstances, HOOPP is restricted from transferring its Common Shares to a third party that is not affiliated with HOOPP for a period of five years from the closing of the HOOPP Cornerstone Private Placement, and under the Swiss Re Governance Agreement, subject to the early termination of the lock-up period in certain limited circumstances, Swiss Re is restricted from transferring its Common Shares to a third party that is not affiliated with Swiss Re for a period of three years from the closing of the Swiss Re Cornerstone Private Placement, in each case unless otherwise agreed to by the Board. Following such five-year or three-year period, as applicable, subject to certain sale restrictions in the Governance Agreements, each of HOOPP and Swiss Re may sell its Common Shares (including pursuant to demand or piggy-back registration rights) from time to time and is not required to consider the negative impact of such sales on the trading price of the Common Shares or the Company in general. Immediately following the closing of the Offering and the Cornerstone Private Placements, 32,141,179 Common Shares (representing 30.9% of the issued and outstanding Common Shares) will be owned by the Cornerstone Investors.

If a large number of the Common Shares are sold in the public market after they become eligible for sale following the expiration of the Market Stabilization Restrictions or the lock-up period under each of the Governance Agreements, respectively, or there is a perception that such sales could occur, the market price of the Common Shares could decline and impair our ability to raise additional capital through the sale of Common Shares. Further, we cannot predict the size of future issuances of Common Shares or the effect, if any, that future sales and issuances of Common Shares would have on the market price of the Common Shares.

Our payment of future cash dividends will be subject to the discretion of the Board and may vary from time to time or be suspended entirely

Our payment of cash dividends will be subject to the discretion of the Board and will depend on a variety of factors and conditions existing from time to time that the Board may deem relevant, including the financial condition of the Company, general business conditions and restrictions regarding the payment of dividends to the Company by our subsidiaries (see “– As a holding company, we depend on our subsidiaries to meet our obligations, including future dividend payments”). For so long as the Company is governed by the ICA, we will also be subject to the restrictions on dividends set forth in the ICA, which prohibit the declaration or payment of any dividend on shares if there are reasonable grounds for believing the Company is, or the payment of the dividend would cause the company to be, in contravention of its requirements to maintain adequate capital and liquidity, and any additional regulatory restrictions that may be imposed from time to time. Depending on these and various other factors, many of which will be beyond the Company’s control, the Company’s dividend policy may vary from time to time and, as a result, future dividends

could be reduced or suspended entirely. A reduction or suspension of the payment of dividends could materially adversely affect the market price of the Common Shares. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Restrictions on Dividends and Capital Transactions”.

As a holding company, we depend on our subsidiaries to meet our obligations, including future dividend payments

We are a holding company and will conduct substantially all of our business through our subsidiaries and receive substantially all of our earnings from them. Economical Insurance and each of the Insurance Subsidiaries must comply with applicable insurance regulations. Economical Insurance and each of the Insurance Subsidiaries must maintain reserves for losses and loss adjustment expenses to cover the risks it has underwritten, as well as comply with regulatory capital requirements. The reserves of Economical Insurance or any one of the Insurance Subsidiaries are only available to be applied against the risks underwritten by other of the Insurance Subsidiaries or Economical Insurance, as applicable, to the extent provided for in the Reinsurance Agreements. The financial condition and results of operations of Economical Insurance and each of the Insurance Subsidiaries are included in our consolidated financial statements and, generally, losses incurred by Economical Insurance or any of our Insurance Subsidiaries directly impact our consolidated results. A severe loss incurred by one company, even if not material to us when our financial condition is viewed as a whole, could have an adverse effect on us because it could affect adversely how Economical Insurance or any of the Insurance Subsidiaries, as applicable, are treated by third parties, including rating agencies and insurance regulators.

In the event of the insolvency or liquidation of a subsidiary, following payment by such subsidiary of its liabilities, the subsidiary may not have sufficient remaining assets to make payments to us as a shareholder or otherwise.

The ability of our subsidiaries to pay dividends to us in the future will depend on their statutory surplus, on their earnings and on regulatory restrictions. The ability of our subsidiaries to pay dividends or make distributions or returns of capital to us may be limited by applicable corporate and insurance law or regulatory restrictions. No assurance can be given that some or all of our operating subsidiaries’ jurisdictions will not adopt statutory provisions more restrictive than those currently in effect. To the extent the ability of our subsidiaries to pay dividends or make distributions or returns of capital to us is limited in any way, our ability to service our debt and pay dividends, if any, could be materially adversely impacted. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Restrictions on Dividends and Capital Transactions”.

The Cornerstone Private Placements may fail to close

Although we have entered the Subscription Agreements with the Cornerstone Investors, there is no guarantee that all of the conditions to the completion of the Cornerstone Private Placements will be satisfied or that HOOPP and/or Swiss Re will not terminate the HOOPP Subscription Agreement or the Swiss Re Subscription Agreement, as applicable. Although the closing of the Cornerstone Private Placements is conditional upon the closing of the Offering, it is possible that the Offering could close without one or both of the Cornerstone Private Placements also closing.

Significant ownership by the Cornerstone Investors may adversely affect the market price of the Common Shares

Immediately following the closing of the Offering and the Cornerstone Private Placements, 32,141,179 Common Shares (representing 30.9% the issued and outstanding Common Shares) will be owned by the Cornerstone Investors. In addition, the Cornerstone Investors will be party to the Governance Agreements that, among other things, provide for certain governance and registration rights, a pre-emptive right and the Top-Up Right. Each of the Cornerstone Investors will also be subject to a lock-up period and other restrictions on transfer. See “The Cornerstone Private Placements – Governance Agreements”. Accordingly, the Cornerstone Investors will be able to exert significant influence over matters that must be decided by a vote of the shareholders. To the extent that the interests of one or both of the Cornerstone Investors differ from the interests of the other shareholders, our other shareholders may be disadvantaged by any actions that one or both of the Cornerstone Investors may seek to pursue. In addition, the Cornerstone Investors’ significant interest in the Company may discourage transactions involving a change of control of the Company and/or the Cornerstone Investors may have the ability to delay or prevent a change of control, merger or consolidation or other fundamental transactions involving the Company.

The future issuance of equity or debt securities that are convertible into equity by the Company could immediately and substantially dilute your ownership interest

We may choose to raise additional capital in the future, depending on market conditions or strategic considerations. For so long as Definity is subject to the leverage restrictions under the ICA, our ability to access debt capital will be limited. To the extent that additional capital is raised through the issuance of Common Shares or other securities that are convertible into equity of the Company, the issuance of these securities will dilute your proportional holding of the Common Shares, and the terms of such securities may include liquidation or other preferences that adversely affect your rights as a Shareholder. See “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Restrictions on Dividends and Capital Transactions”.

If analysts do not publish research reports about our business or if they change their recommendation or target price for the Common Shares, the market price of the Common Shares and/or trading volume could decline

The trading market for the Common Shares will likely be influenced by the equity research and reports that industry or security analysts publish about the Company or its industry after the Offering. We do not control these analysts. If one or more of the analysts who cover the Company downgrade their recommendation with regard to the Common Shares, the price of the Common Shares could decline. In addition, if one or more of these analysts cease coverage of the Company or fail to regularly publish reports on the Company, we could lose visibility in the market, which could, in turn, cause the trading volume in the Common Shares and/or the price of the Common Shares to decline.

The transition to being a public company involves increased costs, changes in our corporate governance, management culture and reporting practices and exposes our management to new challenges and requirements

As a public company that has applied to list the Common Shares on the TSX, we will incur significant legal, accounting, investor relations and other expenses that we did not incur as a private company, including costs associated with the increased reporting requirements that apply to such companies. We will also incur increased costs associated with compliance with corporate governance requirements, including requirements implemented by applicable securities regulators in Canada and the TSX. We expect these rules and regulations to increase our legal and financial compliance costs substantially and to make some activities more time consuming and costly. In particular, these new obligations will require substantial attention from our management team and could divert their attention away from the day-to-day management of our business.

As well as such direct costs, we may incur additional expenses to support corporate strategies, programs or initiatives that enhance our environmental, social, corporate governance, management culture, operational, or non-financial reporting practices to meet the expectations of shareholders and others.

The forward-looking statements contained in this prospectus may prove to be incorrect

The forward-looking information contained in this prospectus may prove to be incorrect. The financial targets set out in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the other forward-looking information included in this prospectus are based on opinions, assumptions and estimates made by the Company in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. Actual results of the Company in the future may vary significantly from the historical and estimated results and those variations may be material. There is no representation by the Company that actual results achieved by the Company in the future will be the same, in whole or in part, as those included in this prospectus. See “Forward-Looking Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further information as to the forward-looking information in this prospectus, the assumptions underlying that forward-looking information and the risks and other factors that could cause our actual results and future events to differ materially from those expressed or implied by such forward-looking information.

The assumptions underlying our financial targets are inherently uncertain and are subject to risks, challenges and uncertainties that could cause actual future results to differ materially from those targets

The financial targets set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Targets” in respect of our GWP, Combined Ratio and Operating ROE are premised on a number of underlying factors and assumptions relating to future results, events and circumstances that management currently believes are reasonable in the current industry environment. As a result, those factors and assumptions are inherently uncertain and are subject to risks, challenges and uncertainties that could cause actual results to differ materially. We make no representation that our actual future results will be the same, in whole or in part, to the financial targets set forth in this prospectus. In light of the foregoing, investors are urged to put these statements in context and not to place undue reliance on them.

LEGAL AND REGULATORY PROCEEDINGS

In the normal course of carrying on our business, we may become the subject of claims and are involved in various legal proceedings, including litigation in relation to our insurance policies. Except as set out below, we are not currently involved in any material legal proceedings, nor are we aware of any pending or threatened proceedings, that we believe would have a material adverse effect upon our financial condition or results of operations. We believe that we have established adequate provisions in respect of legal proceedings to which we are a party.

In 2020, numerous Canadian P&C insurers, including Economical Insurance, faced litigation for business interruption losses related to COVID-19, seeking to establish coverage under insurance policies, including national and regional class proceedings in British Columbia, Ontario, Québec and Saskatchewan. The Ontario action on behalf of a national class (businesses in Canada excluding Québec) was certified as a class proceeding on August 20, 2021. Economical Insurance and other insurer defendants consented to the certification order. Certification is a procedural step in a class proceeding and is not a determination of the merits. An action in Québec (limited to dentists and dental offices in Québec) proceeded to a determination of authorization as a class proceeding, which the court denied on August 18, 2021. Subject to any appeal, the denial represents a rejection of that class proceeding. A determination of authorization for a second Québec action (all other businesses in Québec) has not yet been scheduled.

We have denied that there is coverage for most of the individual claims (with there being a small subset of claims with coverage) and deny liability in the class proceedings. Nevertheless, given the preliminary nature of the proceedings, the Company cannot predict with certainty the cost of defence and ultimate outcome, including the extent of reinsurance recovery for any amounts that may be required to be paid, and how many additional individual claims in respect of business interruption may be received in the future. We may also receive claims under the liability portion of policies where the insured is alleged to have acted negligently or otherwise with fault regarding the transmission of COVID-19.

There are (a) no penalties or sanctions imposed against the Company by a court relating to provincial and territorial securities legislation or by any securities regulatory authority within the three years immediately preceding the date of this prospectus; (b) no other penalties or sanctions imposed by a court or regulatory body against the Company necessary for this prospectus to contain full, true and plain disclosure of all material facts relating to the securities being distributed; or (c) no settlement agreements that the Company entered into before a court relating to provincial and territorial securities legislation or with a securities regulatory authority within the three years immediately preceding the date of this prospectus.

LEGAL MATTERS AND EXPERTS

The matters referred to under “Eligibility for Investment” and “Certain Canadian Federal Income Tax Considerations”, as well as certain other legal matters relating to the issue and sale of the Common Shares, will be passed upon on our behalf by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Davies Ward Phillips & Vineberg LLP. As at the date of this prospectus, the partners and associates of each of Blake, Cassels & Graydon LLP and Davies Ward Phillips & Vineberg LLP beneficially own, directly and indirectly, less than 1% of our outstanding securities or other property, or our affiliates.

There is no person or company whose profession or business gives authority to a report, valuation, statement or opinion made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion in this prospectus other than Blake, Cassels & Graydon LLP, Davies Ward Phillips & Vineberg LLP and Ernst & Young LLP.

Ernst & Young LLP is independent of the Company in the context of the CPA Code of Professional Conduct of Chartered Professional Accountants of Ontario.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed elsewhere in this prospectus, there are no material interests, direct or indirect, of any of our directors or executive officers, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect us or any of our subsidiaries. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Related Party Transactions”.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The Company’s auditor is Ernst & Young LLP located at 420 Wes Graham Way, Suite 300, Waterloo, Ontario, N2L 0J6. Ernst & Young LLP has advised the Company that it is independent in the context of the CPA Code of Professional Conduct of Chartered Professional Accountants of Ontario.

The transfer agent and registrar for the Common Shares is anticipated to be Computershare Trust Company of Canada at its principal office located at 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1.

MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which the Company has entered into since the beginning of the last financial year before the date of this prospectus, entered into prior to such date but which contract is still in effect, or to which the Company is or will become a party on or prior to the closing of the Offering:

- the Underwriting Agreement, which is described in “Plan of Distribution”; and
- the HOOPP Governance Agreement; and
- the Swiss Re Governance Agreement.

Copies of such agreements will be available under the Company’s profile on SEDAR at www.sedar.com.

EXEMPTIONS

We have been notified by the Ontario Securities Commission, as principal regulator, that it is of the view that Economical Insurance is a promoter of the Company within the meaning of applicable securities laws. Pursuant to subsection 58(5) of the *Securities Act* (Ontario), the Director has consented to Economical Insurance not signing a certificate as a promoter for this prospectus. Further, we have been advised by the Ontario Securities Commission that the issuance of a receipt for this prospectus will evidence the granting of such consent. Neither we nor Economical Insurance agrees or admits that Economical Insurance is a promoter of the Company.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

GLOSSARY

This glossary defines certain business, industry, technical and legal terms used in this prospectus for the convenience of the reader. It is not a comprehensive list of all of the defined terms used in this prospectus.

“**AFS**” has the meaning given to such term under the heading “Our Business – Investment Management”.

“**Automatic Concurrent Repurchase and Disposition Plan**” means a plan entered into by the Company, a Cornerstone Investor and one or more securities dealers pursuant to which the Company effects repurchases of outstanding Shares for cancellation through market purchases and the Cornerstone Investor effects market sales, each in a coordinated manner so that the percentage of issued and outstanding Shares held by the Cornerstone Investor (on a non-diluted basis) will not at any time exceed 19.9%, such purchases and sales being coordinated by a securities dealer or dealers on a fully-discretionary basis in a manner, which satisfies the applicable requirements of Securities Laws for an automatic share purchase plan in respect of the Company, and an automatic share sale plan in respect of the Cornerstone Investor;

“**BMO**” has the meaning given to such term on the cover page of this prospectus;

“**Board**” means the board of directors of Definity;

“**CAGR**” means compound annual growth rate;

“**capitalization**” means, at any time, the aggregate of Total Indebtedness at such time and Total Equity at such time;

“**CBCA**” means *Canada Business Corporations Act*;

“**CEO**” means the President and Chief Executive Officer of the Company;

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

“**Closing**” has the meaning given to such term on the cover page of this prospectus;

“**Closing Date**” has the meaning given to such term on the cover page of this prospectus;

“**Code of Conduct**” means our code of business conduct;

“**Common Shares**” has the meaning given to such term on the cover page of this prospectus;

“**Company**” has the meaning given to such term under the heading “General Matters”;

“**Competitor**” means any: (a) person that is engaged, or any of whose affiliates are engaged, directly or indirectly, in the business of property and casualty insurance in Canada; and (b) person that owns 20% or more, directly or indirectly, of the outstanding equity interests (or any securities convertible into or exercisable or exchangeable for equity interests) in any person described in clause (a) or that otherwise, to the actual knowledge of the Cornerstone Investor, exercises effective control over any person described therein;

“**Continuance**” has the meaning given to such term under the heading “Prospectus Summary – Our Strengths – Significant Financial Flexibility to Support Value Creation”;

“**Conversion Plan**” means the Conversion Plan of Economical Insurance under section 237 of the ICA and section 13 of the *Mutual Property and Casualty Insurance Company with Non-mutual Policyholders Conversion Regulations* made thereunder, providing for the “demutualization” of Economical Mutual Insurance Company;

“**Cornerstone Investors**” has the meaning given to such term on the cover page of this prospectus;

“**Cornerstone Private Placements**” has the meaning given to such term on the cover page of this prospectus;

“**CRA**” means the Canada Revenue Agency;

“**Credit Agreement**” has the meaning given to such term under the heading “Description of Material Indebtedness”;

“**customer relief related to the COVID-19 pandemic**” means actions taken to ease the burden of the COVID-19 pandemic on our individual and business customers, in the form of rate relief and flexibility in underwriting rules;

“**Demutualization**” has the meaning given to such term on the cover page of this prospectus;

“**Demutualization Regulations**” means the *Mutual Property and Casualty Insurance Company with Non-Mutual Policyholders Conversion Regulations*, SOR/2015-168, which came into force on July 1, 2015 and were issued pursuant to subsections 237(2) to 237(3) and subsection 1021 of the ICA;

“**Digital Platforms**” means, collectively, our Sonnet platform and Vyne, our broker service platform. See “Prospectus Summary – Our Business – Digital Platforms”;

“**Directors’ DSU Plan**” has the meaning given to such term under the heading “Director Compensation – Directors’ DSU Plan”;

“**DSUs**” has the meaning given to such term under the heading “Executive Compensation – Long-Term Incentive Plans – Executives’ DSU Plan – Election Process”;

“**DWP**” has the meaning given to such term under the heading “Market, Industry, and Economic Data”;

“**EBCM**” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Management – Management of Key Risks – Operational Risk – Business Interruption Risk”;

“**Economical Board**” has the meaning given to such term under the heading “Corporate Structure”;

“**Economical Insurance**” has the meaning given to such term on the cover page of this prospectus;

“**Eligible Directors**” has the meaning given to such term under the heading “Director Compensation – Directors’ DSU Plan”;

“**Eligible Executives**” has the meaning given to such term under the heading “Executive Compensation – Long-Term Incentive Plans – Executives’ DSU Plan”;

“**Eligible Policyholders**” has the meaning given to such term under the heading “Demutualization – Overview of the Demutualization Process”;

“**Employee Share Ownership Plan**” has the meaning given to such term under the heading “Options to Purchase Securities”;

“**ESG**” has the meaning given to such term under the heading “Our Business – Environment, Social and Governance”;

“**Equity Award Pool Limit**” has the meaning given to such term under the heading “Executive Compensation – Long-Term Incentive Plans – Stock Option Plan – Share Reserve and Limits on Issuance”;

“**Executives’ DSU Plan**” has the meaning given to such term under the heading “Executive Compensation – Long-Term Incentive Plans – Executives’ DSU Plan”;

“**Family Insurance**” has the meaning given to such term under the heading “Corporate Structure”;

“**FCT**” has the meaning given to such term under the heading “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Financial Condition Testing”;

“**Fiscal 2022**” has the meaning given to such term under the heading “Executive Compensation”;

“**FNOL**” has the meaning given to such term under the heading “Our Business – Claims Management”;

“**Foundation**” has the meaning given to such term under the heading “Our Business – Community Investment and the Definity Insurance Foundation”;

“**frequency**” means a measure of how often a claim is reported as a function of policies in force;

“**FSRA**” has the meaning given to such term under the heading “Canadian P&C Insurance Regulatory Environment Provincial Insurance Regulation”;

“**FVTPL**” has the meaning given to such term under the heading “Our Business – Investment Management”;

“**GAAP**” has the meaning given to such term under the heading “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”;

“**GWP**” has the meaning given to such term under the heading “Prospectus Summary – Our Business”;

“**Holder**” has the meaning given to such term under the heading “Certain Canadian Federal Income Tax Considerations”;

“**HOOPP**” has the meaning given to such term on the cover page of this prospectus;

“**HOOPP Lock-Up Period**” has the meaning given to such term under the heading “The Cornerstone Private Placements – Governance Agreements – Restrictions on Transfer”;

“**HOOPP Offering Shares**” has the meaning given to such term on the cover page of this prospectus;

“**HOOPP Over-Allotment Private Placement**” has the meaning given to such term on the cover page of this prospectus;

“**HOOPP Subscription Agreement**” has the meaning given to such term on the cover page of this prospectus;

“**HRC Committee**” means the Human Resources and Compensation Committee of the Board;

“**IAS**” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Summary of Significant Accounting Policies – Intangible Assets”;

“**IASB**” has the meaning given to such term under the heading “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”;

“**IAS 38**” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Summary of Significant Accounting Policies – Intangible Assets”;

“**IAS 39**” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Future Accounting and Reporting Changes – Financial Instruments: Classification and Measurement”;

“**Incurred but not reported**” or “**IBNR**” means the amount that is added to case reserves to establish the total claim liabilities. It is intended to cover future development on reported claims, as well as claims that have occurred but not yet been reported to the Company;

“**ICA**” means the *Insurance Companies Act*, S.C. 1991, c. 47;

“**Insurance Subsidiaries**” has the meaning given to such term under the heading “Corporate Structure”;

“**IRCA**” has the meaning given to such term under the heading “Our Business – Overview”;

“**Joint Bookrunners**” has the meaning given to such term on the cover page of this prospectus;

“**Large loss**” means a single claim with a gross loss in excess of \$1 million but less than \$3 million;

“**Lock-up Agreements**” has the meaning given to such term under the heading “The Offering – Lock-Up Agreements and Other Transfer Restrictions”;

“**Lock-Up Securities**” has the meaning given to such term under the heading “The Cornerstone Private Placements – Governance Agreements – HOOPP Governance Agreement – Restrictions on Transfer”;

“**Look-Back Three-Year Period**” means the three-year period consisting of the 12 fiscal quarters that ended immediately prior to the commencement of the most recently completed four fiscal quarters;

“**LTIP**” has the meaning given to such term under the heading “Executive Compensation – Long-Term Incentive Plans – LTIP”;

“**major shareholder restriction**” has the meaning given to such term under the heading “Demutualization – Major Shareholder Restriction Period”;

“**major shareholder restriction period**” has the meaning given to such term under the heading “Demutualization – Major Shareholder Restriction Period”;

“**Market Stabilization Restrictions**” has the meaning given to such term under the heading “The Offering – Lock-Up Agreements and Other Transfer Restrictions”;

“**Market Value**” means, with respect to the relevant date, the volume weighted average trading price per Common Share on the TSX during the immediately preceding five (5) consecutive trading days or, if the Common Shares are not listed thereon, then on such stock exchange on which the Common Shares are listed as may be selected by the Board acting in good faith;

“**Minimum Capital Test**” or “**MCT**” means a regulatory formula defined by OSFI that is a risk-based test of capital available relative to capital required;

“**MD&A**” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations”;

“**Minister’s Approval**” means any required approval of the Minister of Finance (Canada) pursuant to section 407(1) of the ICA for the acquisition of Common Shares by each of HOOPP and Swiss Re as contemplated in the HOOPP Subscription Agreement and the Swiss Re Subscription Agreement, respectively;

“**MTIP**” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Summary of Significant Accounting Policies – Pensions, Other Post-Employment Benefits and Other Employee Benefits – Medium-Term Incentive Plan”;

“**NEOs**” means our named executive officers;

“**net earned premiums**” or “**NEP**” means the portion of NWP equal to the expired period of time an insurance policy is in effect in the current period presented;

“**Net Offering Proceeds**” has the meaning given to such term under the heading “Demutualization – Allocation of Demutualization Benefits and Election Process”;

“**net written premiums**” or “**NWP**” means GWP less the cost of reinsurance coverage;

“**NI 58-101**” means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*;

“**NI 52-109**” means National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings*;

“**nominee**” means a nominee proposed for election as Director by the Company and included as a nominee for election as Director in a management information circular of the Company relating to a Director Election Meeting;

“**Non-Resident Holder**” has the meaning given to such term under the heading “Certain Canadian Federal Income Tax Considerations – Non-Resident Holders”;

“**Notional Units**” has the meaning given to such term under the heading “Demutualization – Allocation of Demutualization Benefits and Election Process”;

“**OCl**” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Summary of Significant Accounting Policies – Financial Instruments Including Investments – Available for Sale”;

“**Offering**” has the meaning given to such term on the cover page of this prospectus;

“**Offering and Cornerstone Private Placement Expenses**” has the meaning given to such term under the heading “The Offering – Use of Proceeds”;

“**Offering Price**” has the meaning given to such term on the cover page of this prospectus;

“**Operating ROE**” has the meaning given to such term under the heading “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”;

“**Options**” has the meaning given to such term under the heading “Executive Compensation – Long-Term Incentive Plans – Stock Option Plan – Administration”;

“**OSFI**” has the meaning given to such term under the heading “Our Business – Industry Overview – Canadian P&C Regulatory Environment”;

“**ORSA**” has the meaning given to such term under the heading “Canadian P&C Insurance Regulatory Environment – Federal Insurance Regulation – Capital Requirements”;

“**Over-Allotment Option**” has the meaning given to such term on the cover page of this prospectus;

“**P&C Companies**” has the meaning given to such term under the heading “Canadian P&C Insurance Regulatory Environment”;

“**PACICC**” has the meaning given to such term under the heading “Canadian P&C Insurance Regulatory Environment – P&C Insurance Compensation Corporation”;

“Petline Insurance” or **“Petline”** has the meaning given to such term under the heading “Corporate Structure”;

“PfAD” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Key Accounting Terms and Concepts – Impact of Discounting”;

“Placement Fee” has the meaning given to such term under the heading “The Offering – Use of Proceeds”;

“Policies in force” means the number of insurance policies that are in effect at a specified date;

“Policyholder Committees” has the meaning given to such term under the heading “Demutualization – Overview of Demutualization Process”;

“Post-Closing Reorganization” has the meaning given to such term under the heading “Corporate Structure”;

“Pre-Approval Policy” has the meaning given to such term under the heading “Corporate Governance – Committees – Audit Committee – Pre-Approval Policy for Non-Audit Services”;

“Preferred Shares” has the meaning given to such term under the heading “Description of Share Capital”;

“Proposed Amendments” has the meaning given to such term under the heading “Certain Canadian Federal Income Tax Considerations”;

“PUs” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Summary of Significant Accounting Policies – Pensions, Other Post-Employment Benefits and Other Employee Benefits – Medium-Term Incentive Plan”;

“Quota Share Agreement” means the Surplus Relief Net Quota Share Reinsurance Agreement, which was effective as of January 1, 2019;

“RBC” has the meaning given to such term on the cover page of this prospectus;

“Reinsurance Agreements” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Management”;

“Resident Holder” has the meaning given to such term under the heading “Certain Canadian Federal Income Tax Considerations – Resident Holders”;

“Restricted Activity” has the meaning given to such term under the heading “The Cornerstone Private Placements – Governance Agreements – HOOPP Governance Agreement – Restrictions on Transfer”;

“Revolving Credit Facility” has the meaning given to such term under the heading “Description of Material Indebtedness”;

“ROE” has the meaning given to such term under the heading “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”;

“RRSPs” has the meaning given to such term under the heading “Eligibility for Investment”;

“RUs” has the meaning given to such term under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Accounting and Internal Controls – Summary of Significant Accounting Policies – Pensions, Other Post-Employment Benefits and Other Employee Benefits – Medium-Term Incentive Plan”;

“Securities Trading Policy” has the meaning given to such term under the heading “Executive Compensation – Compensation Risk Management – Securities Trading Policy”;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval;

“**Severity**” means a measure of the average dollar amount paid per claim;

“**Share Ownership Guidelines**” has the meaning given to such term under the heading “Executive Compensation – Compensation Risk Management – Share Ownership Guidelines”;

“**Sonnet Insurance**” or “**Sonnet**” has the meaning given to such term under the heading “Corporate Structure”;

“**Specified Dilutive Transaction**” has the meaning given to such term under the heading “The Cornerstone Private Placements – Governance Agreements – HOOPP Governance Agreement – Top-Up Right”;

“**STIP**” has the meaning given to such term under the heading “Executive Compensation – Elements of Compensation – Short-Term Incentives”;

“**Stock Option Plan**” has the meaning given to such term under the heading “Executive Compensation – Long-Term Incentive Plans – Stock Option Plan”;

“**Subscription Agreement**” has the meaning given to such term on the cover page of this prospectus;

“**Swiss Re Subscription Agreement**” has the meaning given to such term on the cover page of this prospectus;

“**Tax Act**” means the *Income Tax Act* (Canada);

“**taxable capital gain**” has the meaning given to such term under the heading “Certain Canadian Federal Income Tax Considerations – Resident Holders – Dispositions of Common Shares – Taxation of Capital Gains and Capital Losses”;

“**TFSAs**” has the meaning given to such term under the heading “Eligibility for Investment”;

“**Top-Up Right**” has the meaning given to such term under the heading “The Cornerstone Private Placements – Governance Agreements – HOOPP Governance Agreement – Top-Up Right”;

“**Top-Up Shares**” has the meaning given to such term under the heading “The Cornerstone Private Placements – Governance Agreements – HOOPP Governance Agreement – Top-Up Right”;

“**Total equity**” means retained earnings plus accumulated other comprehensive income (loss);

“**Total Indebtedness**” means, at any time, the aggregate Indebtedness of the Borrower on a consolidated basis at such time, determined in accordance with IFRS;

“**TSX**” means the Toronto Stock Exchange;

“**Underwriters**” has the meaning given to such term on the cover page of this prospectus;

“**Underwriting Agreement**” has the meaning given to such term under the heading “Plan of Distribution – General”;

“**U.S. Securities Act**” means the United States Securities Act of 1933, as amended; and

“**WTW**” means Willis Towers Watson.

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PRO FORMA CONSOLIDATED BALANCE SHEET (UNAUDITED)

As At September 30, 2021

(in millions of Canadian dollars)

	Economical Mutual Insurance Company	Definity Financial Corporation	Adjustments	Notes	Definity Financial Corporation Pro Forma
ASSETS					
Cash and cash equivalents	\$ 339.9	\$—	\$ 2,107.1 (17.0) (77.1) (2,019.6)	3a 3b 3c 3d	\$ 333.3
Investments	4,969.8				4,969.8
Accrued investment income	23.3				23.3
Premiums receivable	1,052.0				1,052.0
Income taxes receivable	0.9				0.9
Reinsurance receivable and recoverable	140.4				140.4
Deferred policy acquisition expenses	288.4				288.4
Property and equipment	54.8				54.8
Deferred income tax assets	42.5		24.8	3b, 3c, 3e	67.3
Goodwill and intangible assets	213.6				213.6
Other assets	126.0				126.0
	<u>\$7,251.6</u>	<u>\$—</u>	<u>\$ 18.2</u>		<u>\$7,269.8</u>
LIABILITIES AND EQUITY					
Unearned premiums	\$1,564.0				\$1,564.0
Claim liabilities	3,246.5				3,246.5
Accounts payable and other liabilities	363.8				363.8
Income taxes payable	47.5				47.5
	<u>5,221.8</u>				<u>5,221.8</u>
EQUITY					
Retained earnings	1,949.1		(1,949.1)	3f	0.0
Accumulated other comprehensive income	80.7		(80.7)	3f	0.0
Total equity	<u>2,029.8</u>		<u>(2,029.8)</u>		<u>0.0</u>
SHAREHOLDERS' EQUITY					
Common shares			2,107.1 (56.8)	3a 3c	2,050.3
Retained earnings			1,949.1 (2,019.6) (12.5)	3f 3d, 3f 3b	(83.0)
Accumulated other comprehensive income			80.7	3f	80.7
Total shareholders' equity	<u>—</u>	<u>—</u>	<u>2,048.0</u>		<u>2,048.0</u>
	<u>\$7,251.6</u>	<u>\$—</u>	<u>\$ 18.2</u>		<u>\$7,269.8</u>

CONDENSED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

For the nine months ended September 30, 2021

(in millions of Canadian dollars)

	Economical Mutual Insurance Company	Definity Financial Corporation	Adjustments	Notes	Definity Financial Corporation Pro Forma
Net earned premiums	\$2,088.6	\$—	\$—		\$2,088.6
Other underwriting revenues	\$ 6.2	\$—	\$—		\$ 6.2
Total underwriting revenues	\$2,094.8	\$—	\$—		\$2,094.8
Net claims and underwriting expenses	1,940.6	—	—		1,940.6
Underwriting income	154.2	—	—		154.2
Impact of discounting	35.2	—	—		35.2
Underwriting income after the impact of discounting . . .	189.4	—	—		189.4
Investment income	60.2	—	—		60.2
Other (expenses) income	(13.5)	—	—		(13.5)
Income before income taxes	236.1	—	—		236.1
Income tax (expense) recovery	(56.5)	—	—		(56.5)
Net income	\$ 179.6	\$—	\$—		\$ 179.6
Other comprehensive income	\$ 32.2	\$—	\$—		\$ 32.2
Comprehensive income	\$ 211.8	\$—	\$—		\$ 211.8
Pro forma basic income per common share				4	\$ 1.73

CONDENSED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

For the year ended December 31, 2020

(in millions of Canadian dollars)

	Economical Mutual Insurance Company	Definity Financial Corporation	Adjustments	Notes	Definity Financial Corporation Pro Forma
Net earned premiums	\$2,508.7	\$—	\$—		\$2,508.7
Other underwriting revenues	\$ 7.5	\$—	\$—		\$ 7.5
Total underwriting revenues	\$2,516.2	\$—	\$—		\$2,516.2
Net claims and underwriting expenses	2,379.8	—	—		2,379.8
Underwriting income	136.4	—	—		136.4
Impact of discounting	(114.0)	—	—		(114.0)
Underwriting income after the impact of discounting . . .	22.4	—	—		22.4
Investment income	180.1	—	—		180.1
Other (expenses) income	(1.9)	—	—		(1.9)
Income before income taxes	200.6	—	—		200.6
Income tax (expense) recovery	(46.7)	—	—		(46.7)
Net income	\$ 153.9	\$—	\$—		\$ 153.9
Other comprehensive income	\$ 53.1	\$—	\$—		\$ 53.1
Comprehensive income	\$ 207.0	\$—	\$—		\$ 207.0
Pro forma basic income per common share				4	\$ 1.48

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian dollars)

1. DESCRIPTION OF THE DEMUTUALIZATION, IPO AND CORNERSTONE PRIVATE PLACEMENTS

Economical Mutual Insurance Company (the “Company”) is a mutual insurance company which, along with its wholly-owned subsidiaries, offers property and casualty insurance in Canada.

Demutualization is a regulated legal process by which a mutual insurance company converts from a company with mutual policyholders as its voting members and no shareholders, to a share company with voting shareholders and no voting policyholders and by which, as prescribed in the *Mutual Property and Casualty Insurance Company with Non-Mutual Policyholders Conversion Regulations*, SOR/2015-168, which came into force on July 1, 2015 and were issued pursuant to subsections 237(2) to 237(3) and subsection 1021 of the *Insurance Companies Act* (Canada), the value of the converting company is distributed to eligible recipients as demutualization benefits. The Company’s demutualization process was formally initiated on November 3, 2015 when the Company’s board of directors passed a resolution recommending that the Company demutualize. At the first special meeting on demutualization held on December 14, 2015, the Company’s eligible mutual policyholders passed a special resolution to negotiate the allocation of demutualization benefits with eligible non-mutual policyholders. Following the completion of those negotiations, the second special meeting on demutualization was held on March 20, 2019, at which eligible mutual policyholders passed a special resolution to amend the by-laws of the Company to extend the right to vote on certain demutualization matters to eligible non-mutual policyholders.

The third special meeting on demutualization was held on May 20, 2021, at which eligible policyholders passed a special resolution approving the Company’s conversion plan (the “Conversion Plan”), confirming the amended and restated by-laws of the Company that will become effective at the time of demutualization, and authorizing the Company to apply to the Minister of Finance for approval of the Conversion Plan and the issuance of letters patent of conversion (the “Letters Patent of Conversion”). The Minister of Finance approved the Conversion Plan and the Letters Patent of Conversion, which are expected to take effect immediately prior to the completion of the IPO (as defined below) and is the final step required to complete the demutualization of the Company.

Definity Financial Corporation (“Definity”) was incorporated to act as the parent company for the Company. Immediately after the completion of the demutualization, Definity will directly own all of the outstanding shares of the Company. Persons eligible to receive benefits from the demutualization will receive common shares of Definity (“Common Shares”), cash to be raised from the proposed initial public offering of Common Shares (the “IPO”) or a combination of both. Concurrent with the IPO, Definity intends to complete two private placements of Common Shares to two investors (collectively, the “Cornerstone Private Placements” and each a “Cornerstone Private Placement”, and together with the IPO, the “IPO Transactions”). It is intended that the IPO and the Cornerstone Private Placements will be completed immediately following the completion of the demutualization of the Company. The Common Shares have been conditionally approved for listing on the Toronto Stock Exchange. Listing is subject to Definity fulfilling all of the requirements of the TSX on or before February 8, 2022.

2. BASIS OF PRESENTATION

The unaudited pro forma consolidated financial statements (the “Pro Forma Financial Statements”) are prepared from the perspective of Definity to reflect the completion of the demutualization and the IPO Transactions (assuming no exercise of the over-allotment option to be granted by Definity to the underwriters of the IPO (the “Over-Allotment Option”) and no additional private placement by one of the investors to the Cornerstone Private Placements in connection therewith (the “Over-Allotment Private Placement”)), assuming they had occurred as at September 30, 2021 for purposes of the unaudited pro forma consolidated balance sheet and as at January 1, 2020 for purposes of the unaudited condensed pro forma consolidated statement of comprehensive income. The financial data in the Pro Forma Financial Statements is derived from the audited consolidated financial statements of the Company as at and for the year ended December 31, 2020 which are prepared under International Financial Reporting Standards (“IFRS”) and the unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2021 which are prepared under International Accounting Standard 34 – *Interim Financial Reporting*.

The accounting policies used in the preparation of the unaudited pro forma consolidated balance sheet as at September 30, 2021, the unaudited pro forma consolidated statement of comprehensive income for the nine months ended September 30, 2021, and the unaudited pro forma consolidated statement of comprehensive income for the year ended December 31, 2020 incorporate the significant accounting policies used by the Company for the respective periods in the financial statements. The Pro Forma Financial Statements include all adjustments necessary for the fair presentation of the Pro Forma Financial Statements in accordance with the recognition and measurement principles of IFRS as issued by the International Accounting Standards Board.

As the reorganization of the Company as a wholly-owned subsidiary of Definity as part of the demutualization and the IPO Transactions is assessed to be a common control transaction, the Pro Forma Financial Statements are prepared on a continuity-of-interest basis whereby the assets, liabilities and results of operations of the Company are reflected in the Pro Forma Financial Statements as if Definity had always wholly-owned the Company.

Pro forma adjustments reflected in the Pro Forma Financial Statements are based on items that are reasonably estimable, directly attributable to the demutualization and the IPO Transactions, and are expected to have a continuing impact on the Pro Forma Financial Statements for which complete financial effects are objectively determinable.

3. PRO FORMA ADJUSTMENTS

The Pro Forma Financial Statements of Definity have been prepared for informational purposes only using currently available information. The assumptions made could differ significantly from actual reported amounts.

- (a) For purposes of the Pro Forma Financial Statements, it is assumed that the Over-Allotment Option is not exercised and there is no Over-Allotment Private Placement. The Pro Forma Financial Statements reflect that (i) the rate of exchange for one United States dollar

expressed in Canadian dollars published by the Bank of Canada on the date of execution of the Underwriting Agreement is US\$1.00 = C\$1.2595 (as the number of Common Shares to be issued to one of the investors pursuant to the applicable Cornerstone Private Placement is calculated using that exchange rate), (ii) the expenses of the Offering and the Cornerstone Private Placements are \$10.325 million (which expenses, for greater certainty, do not include the fees payable to the underwriters of the IPO (the “Underwriters’ Fee”) or the fees payable to the placement agents in connection with the Cornerstone Private Placements (the “Placement Fee”), respectively)), and (iii) the gross proceeds from the IPO and Cornerstone Private Placements are \$2.107 billion, of which \$2.019 billion is used to fund the distribution of cash benefits of demutualization of the Company to eligible policyholders and Definity Insurance Foundation pursuant to the Conversion Plan of the Company providing for the demutualization and the remaining \$87.4 million is applied to cover the Underwriters’ Fee, the Placement Fee and the other expenses of the IPO Transactions.

- (b) The remaining pre-tax costs of the demutualization and IPO transactions are assumed to be \$17.0 million (\$12.5 million net of tax). For purposes of the Pro Forma Financial Statements, it is assumed that all of these costs will be deducted over time. An adjustment to retained earnings is recognized in the unaudited pro forma consolidated balance sheet but no impact is recognized in the unaudited condensed pro forma consolidated statement of comprehensive income, as the expenses will have no continuing impact on the Company. The tax recovery is assumed to be \$4.5 million using the statutory rate of 26.3%.
- (c) Based on the assumptions set out in note 3(a), the Underwriters’ Fee and the Placement Fee are \$77.1 million pre-tax (\$56.8 million net of tax) and the tax recovery is estimated to be \$20.3 million using the statutory rate of 26.3%. For purposes of the Pro Forma Financial Statements, these after-tax costs are netted against common shares in shareholders’ equity.
- (d) Approximately \$2.019 billion will be paid to eligible policyholders electing a cash payment and eligible policyholders and other recipients that are required to receive a cash payment.
- (e) The \$24.8 million increase in deferred income tax assets is due to tax recoveries on the assumed demutualization costs and the Underwriters’ Fee, the Placement Fee and other costs in conjunction with the IPO Transactions as discussed in notes 3b and 3c. As demutualization costs and fees paid to underwriters and placement agents are deducted over time for tax purposes, this creates a temporary difference resulting in a deferred income tax asset.
- (f) The equity in the Company is reclassified to shareholders’ equity in Definity. Retained earnings in Definity are reduced by the assumed cash payments to eligible policyholders and other recipients. Accumulated other comprehensive income transfers from equity in the Company to shareholders’ equity in Definity at its carrying value at the time of demutualization.
- (g) The estimated incremental ongoing costs of operating as a public company are estimated to be approximately \$1.0 million per year but have not been reflected in the Pro Forma Financial Statements.

4. PRO FORMA BASIC INCOME PER COMMON SHARE

The pro forma basic income per common share is calculated by taking the net income of the Company for the year ended December 31, 2020 and the nine months ended September 30, 2021 and dividing it by 103,975,778, the number of outstanding Common Shares at the end of each respective period (based on the assumptions set out in note 3(a)).

DEFINITY FINANCIAL CORPORATION

FINANCIAL STATEMENTS

As at and for the 93-day period ended September 30, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Definity Financial Corporation

Opinion

We have audited the financial statements of **Definity Financial Corporation** ["the Company"] which comprise the statement of financial position as at September 30, 2021, and the statement of changes in shareholder's equity and statement of cash flows for the 93-day period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2021 and its cash flows for the 93-day period then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ["Canadian GAAS"]. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young LLP

Waterloo, Canada
November 4, 2021

Chartered Professional Accountants
Licensed Public Accountants



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DEFINITY FINANCIAL CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2021
(in millions of dollars)

ASSETS	
Cash	<u>\$5.0</u>
	<u>\$5.0</u>
SHAREHOLDER'S EQUITY	
Share capital	<u>\$5.0</u>
	<u>\$5.0</u>

On behalf of the Board:

J.H. Bowey, Director

R.B. Saunders, Director

DEFINITY FINANCIAL CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE 93-DAY PERIOD ENDED SEPTEMBER 30, 2021

(in millions of dollars)

Balance, beginning of the period	\$ —
Share capital	<u>5.0</u>
Balance, end of the period	<u><u>\$5.0</u></u>

DEFINITY FINANCIAL CORPORATION
STATEMENT OF CASH FLOWS
FOR THE 93-DAY PERIOD ENDED SEPTEMBER 30, 2021
(in millions of dollars)

Financing activities:	
Issuance of share capital	<u>\$5.0</u>
Increase in cash during the period	<u>5.0</u>
Cash, end of the period	<u><u>\$5.0</u></u>

DEFINITY FINANCIAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

1. NATURE OF OPERATIONS

On June 30, 2021, Economical Holdings Corporation was incorporated under the *Insurance Companies Act (Canada)* (the “Act”). On August 6, 2021, Economical Holdings Corporation issued one common share to Economical Mutual Insurance Company (“Economical Insurance”) for a subscription price of \$5 million. A bylaw changing the name from Economical Holdings Corporation to Definity Financial Corporation (“the Company”) took effect on August 12, 2021. The Company was formed to become the parent holding company of Economical Insurance following completion of the conversion of Economical Insurance from a mutual insurance company to a company with share capital pursuant to the Act and regulations thereunder, a process known as “demutualization”. There were no operating transactions during the 93-day period ended September 30, 2021.

The Company’s registered office and principal place of business is 111 Westmount Road South, Waterloo, Ontario, Canada.

2. BASIS OF PRESENTATION

Statement of Compliance

These stand-alone financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The Company has assessed future accounting pronouncements and does not expect to be materially impacted at the current time. No comparative periods were presented as the Company was incorporated on June 30, 2021.

All amounts are presented in millions of Canadian dollars, unless otherwise stated.

These financial statements were authorized for issuance and approved by the Company’s Board of Directors on November 4, 2021.

3. CASH

Cash consists of cash on hand and balances on deposit with banks held in Canadian dollars. 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. Cash is classified as level 1 in the Company’s three-level hierarchy. Fair values approximate carrying values for term deposits. The Company does not currently have significant market, credit, liquidity or foreign exchange risk.

4. SHARE CAPITAL

Subject to the Act and the bylaws of the Company, shares of the Company may be issued at such times and to such persons and for such consideration as the directors of the Company may determine. Shares of the Company are without nominal or par value. There is currently one common share issued and outstanding. No dividends were issued in the 93-day period ended September 30, 2021.

5. CAPITAL MANAGEMENT

As a federally regulated property and casualty insurance company incorporated under the Act, capital requirements are promulgated by the Office of the Superintendent of Financial Institutions. The Company manages its capital to comply with these requirements and at the current time is in compliance.

ECONOMICAL MUTUAL INSURANCE COMPANY

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

**FOR THE THIRD QUARTER ENDED
SEPTEMBER 30, 2021**

ECONOMICAL MUTUAL INSURANCE COMPANY
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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ECONOMICAL MUTUAL INSURANCE COMPANY
INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
(in millions of dollars)

		As at	
	Notes	September 30, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents		\$ 339.9	\$ 510.3
Investments	5	4,969.8	4,366.3
Accrued investment income		23.3	16.8
Premiums receivable		1,052.0	958.7
Income taxes receivable		0.9	2.1
Reinsurance receivable and recoverable	7	140.4	95.6
Deferred policy acquisition expenses	6	288.4	260.2
Property and equipment		54.8	56.9
Deferred income tax assets		42.5	40.2
Goodwill and intangible assets		213.6	211.6
Other assets	9	126.0	101.6
		<u>\$7,251.6</u>	<u>\$6,620.3</u>
LIABILITIES AND EQUITY			
Unearned premiums	6	\$1,564.0	\$1,433.1
Claim liabilities	6	3,246.5	3,026.3
Accounts payable and other liabilities	10	363.8	324.2
Income taxes payable		47.5	18.7
		<u>5,221.8</u>	<u>4,802.3</u>
EQUITY			
Retained earnings		1,949.1	1,755.9
Accumulated other comprehensive income		80.7	62.1
Total equity		<u>2,029.8</u>	<u>1,818.0</u>
		<u>\$7,251.6</u>	<u>\$6,620.3</u>

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIODS ENDED SEPTEMBER 30
(in millions of dollars)

		<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>Notes</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Gross written premiums		\$851.5	\$753.9	\$2,384.8	\$2,058.8
Net written premiums	7	\$788.7	\$708.3	\$2,214.2	\$1,937.1
Net earned premiums		\$725.1	\$645.0	\$2,088.6	\$1,843.1
Other underwriting revenues		2.1	1.8	6.2	5.6
Total underwriting revenues		727.2	646.8	2,094.8	1,848.7
Net claims and underwriting expenses:					
Net claims and adjustment expenses	6,7	439.0	398.3	1,251.2	1,182.4
Net commissions	7	109.3	100.8	325.7	281.7
Operating expenses		96.4	84.7	285.1	252.7
Premium taxes		27.4	23.9	78.6	68.2
		672.1	607.7	1,940.6	1,785.0
Underwriting income		55.1	39.1	154.2	63.7
Impact of discounting	6	1.9	(13.7)	35.2	(103.9)
Underwriting income (loss) after the impact of discounting		57.0	25.4	189.4	(40.2)
Investment income:					
Net investment income	5	24.6	25.0	71.8	76.6
Recognized (losses) gains on investments	5	(7.1)	7.7	(11.6)	75.9
		17.5	32.7	60.2	152.5
Other (expenses) income	13	(5.0)	—	(13.5)	(0.4)
Income before income taxes		69.5	58.1	236.1	111.9
Income tax expense	8	(16.2)	(12.5)	(56.5)	(24.7)
Net income		\$ 53.3	\$ 45.6	\$ 179.6	\$ 87.2
Items that may be reclassified subsequently to net income:					
Net unrealized gains on AFS investments	5	3.9	48.6	71.7	24.8
Reclassification to net income of net recognized (gains) losses on AFS investments	5	(2.2)	(0.2)	(46.3)	7.5
Foreign exchange gain (loss) on investments in associates		0.6	(0.6)	(0.2)	0.8
Income tax expense	8	(0.4)	(13.3)	(6.6)	(8.6)
		1.9	34.5	18.6	24.5
Items that will not be reclassified subsequently to net income:					
Post-employment benefit obligation gain	11	18.4	—	18.4	—
Income tax expense	8	(4.8)	—	(4.8)	—
		13.6	—	13.6	—
Other comprehensive income		15.5	34.5	32.2	24.5
Comprehensive income		\$ 68.8	\$ 80.1	\$ 211.8	\$ 111.7

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(in millions of dollars)

	2021			2020		
	Retained	Accumulated	Total	Retained	Accumulated	Total
	earnings	other	equity	earnings	other	equity
		comprehensive			comprehensive	
		income			income	
Balance, beginning of the period	\$1,755.9	\$62.1	\$1,818.0	\$1,608.6	\$ 2.4	\$1,611.0
Net income	179.6	—	179.6	87.2	—	87.2
Other comprehensive income	13.6¹	18.6	32.2	—	24.5	24.5
Total comprehensive income	193.2	18.6	211.8	87.2	24.5	111.7
Balance, end of the period	<u>\$1,949.1</u>	<u>\$80.7²</u>	<u>\$2,029.8</u>	<u>\$1,695.8</u>	<u>\$26.9²</u>	<u>\$1,722.7</u>

- 1 Actuarial gains for the post-employment benefit obligation recognized in retained earnings (net of income tax expense of \$4.8 million (September 30, 2020: nil)).
- 2 Included in accumulated other comprehensive income ("AOCI") is \$3.7 million (December 31, 2020: \$3.9 million) related to the cumulative foreign exchange gain on investments in associates.

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE PERIODS ENDED SEPTEMBER 30
(in millions of dollars)

		<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>Notes</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Operating activities:					
Receipts:					
Premiums collected (net of reinsurance ceded)		\$ 751.3	\$ 671.6	\$ 2,120.8	\$ 1,863.1
Interest received		18.5	18.4	63.2	66.6
Dividends received		7.5	7.3	23.1	22.0
Income taxes recovered		2.2	3.1	2.2	3.3
		<u>779.5</u>	<u>700.4</u>	<u>2,209.3</u>	<u>1,955.0</u>
Payments:					
Claims paid	6	328.8	332.0	1,021.2	1,071.8
Commissions and expenses paid		165.8	151.4	585.9	478.5
Premium taxes paid		20.8	30.4	81.6	71.6
Income taxes paid		7.9	0.6	42.1	1.1
		<u>523.3</u>	<u>514.4</u>	<u>1,730.8</u>	<u>1,623.0</u>
Net cash provided by operating activities		<u>256.2</u>	<u>186.0</u>	<u>478.5</u>	<u>332.0</u>
Investing activities:					
Investments purchased		(860.4)	(520.9)	(3,127.7)	(2,600.8)
Investments sold, redeemed or matured		707.7	419.7	2,518.9	2,442.7
Commercial loans advanced		—	—	—	(4.8)
Commercial loans collected		1.0	7.0	3.0	18.6
Other assets purchased		(22.0)	(12.1)	(43.1)	(31.1)
Net cash used in investing activities		<u>(173.7)</u>	<u>(106.3)</u>	<u>(648.9)</u>	<u>(175.4)</u>
Cash and cash equivalents:					
Net increase (decrease) during the period		82.5	79.7	(170.4)	156.6
Balance, beginning of the period		257.4	171.6	510.3	94.7
Balance, end of the period		<u>\$ 339.9</u>	<u>\$ 251.3</u>	<u>\$ 339.9</u>	<u>\$ 251.3</u>
Cash		191.2	210.3	191.2	210.3
Cash equivalents		148.7	41.0	148.7	41.0
Total cash and cash equivalents		<u>\$ 339.9</u>	<u>\$ 251.3</u>	<u>\$ 339.9</u>	<u>\$ 251.3</u>

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2021

1. NATURE OF OPERATIONS

Economical Mutual Insurance Company (the “Company”) is a mutual insurance company which, along with its wholly owned subsidiaries, offers property and casualty (“P&C”) insurance in Canada. The Company is incorporated and is domiciled in Canada. Its registered office and principal place of business is 111 Westmount Road South, Waterloo, Ontario, Canada.

2. BASIS OF PREPARATION

The condensed interim consolidated financial statements (“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, 2020. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2020.

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 claim liabilities and benefit plan obligations, which are valued on a discounted basis in accordance with accepted actuarial practice.

The financial statements of the subsidiaries and material associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies of subsidiaries and associates in line with the Company. The interim financial statements include the accounts of Economical Mutual Insurance Company and its wholly owned subsidiaries, Waterloo Insurance Company, Perth Insurance Company, The Missisquoi Insurance Company, Sonnet Insurance Company, Petline Insurance Company (“Petline”), Westmount Financial Inc., Family Insurance Solutions Inc., Definity Financial Corporation (“Definity”), and the TEIG Investment Partnership (which holds the investment portfolio for all insurance companies in the group, except for Petline and Definity). Each of these subsidiaries operate and are incorporated or established in Canada.

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.

These interim financial statements were authorized for issuance and approved by the Company’s Board of Directors on November 4, 2021.

3. 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, 2020.

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

4. SEASONALITY

The P&C insurance business is seasonal in nature. As such, underwriting income (loss) may vary significantly between quarters due to weather-related losses.

5. INVESTMENTS

(a) Investment income and balances

Investment income by financial instrument classification is as follows:

(in millions of dollars)

Three months ended September 30, 2021

	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 10.1	\$ 7.6	\$0.3	\$ 18.0
Dividends	—	7.7	—	7.7
Investment expenses	—	—	—	(1.1)
Net investment income	10.1	15.3	0.3	24.6
Realized gains on sale of investments	0.9	2.2	—	3.1
Unrealized losses on fair value through profit or loss (“FVTPL”) investments	(10.2)	—	—	(10.2)
Recognized (losses) gains on investments	(9.3)	2.2	—	(7.1)
	<u>\$ 0.8</u>	<u>\$17.5</u>	<u>\$0.3</u>	<u>\$ 17.5</u>

(in millions of dollars)

Three months ended September 30, 2020

	FVTPL	AFS	Loans and receivables	Total
Interest	\$10.1	\$ 8.0	\$0.3	\$18.4
Dividends	—	7.3	—	7.3
Investment expenses	—	—	—	(0.7)
Net investment income	10.1	15.3	0.3	25.0
Realized (losses) gains on sale of investments	(0.7)	2.1	—	1.4
Impairment losses on available for sale (“AFS”) investments	—	(1.9)	—	(1.9)
Unrealized gains on FVTPL investments	8.2	—	—	8.2
Recognized gains on investments	7.5	0.2	—	7.7
	<u>\$17.6</u>	<u>\$15.5</u>	<u>\$0.3</u>	<u>\$32.7</u>

(in millions of dollars)

Nine months ended September 30, 2021

	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 29.7	\$22.4	\$0.9	\$ 53.0
Dividends	—	22.2	—	22.2
Investment expenses	—	—	—	(3.4)
Net investment income	29.7	44.6	0.9	71.8
Realized (losses) gains on sale of investments	(2.7)	46.3	—	43.6
Unrealized losses on FVTPL investments	(55.2)	—	—	(55.2)
Recognized (losses) gains on investments	(57.9)	46.3	—	(11.6)
	<u>\$(28.2)</u>	<u>\$90.9</u>	<u>\$0.9</u>	<u>\$ 60.2</u>

(in millions of dollars)

Nine months ended September 30, 2020

	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 31.3	\$ 25.2	\$1.1	\$ 57.6
Dividends	—	21.7	—	21.7
Investment expenses	—	—	—	(2.7)
Net investment income	31.3	46.9	1.1	76.6
Realized gains on sale of investments	1.2	8.1	—	9.3
Impairment losses on AFS investments	—	(15.6)	—	(15.6)
Unrealized gains on FVTPL investments	82.2	—	—	82.2
Recognized gains (losses) on investments	83.4	(7.5)	—	75.9
	<u>\$114.7</u>	<u>\$ 39.4</u>	<u>\$1.1</u>	<u>\$152.5</u>

The fair value yield as at September 30, 2021 for the FVTPL bond portfolio was 1.22% (September 30, 2020: 0.87%) and for the AFS bond portfolio was 1.31% (September 30, 2020: 0.77%).

Investment carrying values by financial instrument classification are as follows:

As at September 30, 2021				
(in millions of dollars)	FVTPL	AFS	Loans and receivables	Total
Short-term investments	\$ 23.5	\$ 124.6	\$ —	\$ 148.1
Bonds	2,032.2	1,794.4	—	3,826.6
Preferred stocks	—	404.1	—	404.1
Common stocks	—	522.2	—	522.2
Pooled funds	—	34.2	—	34.2
Commercial loans	—	—	34.6	34.6
	<u>\$2,055.7</u>	<u>\$2,879.5</u>	<u>\$34.6</u>	<u>\$4,969.8</u>

As at December 31, 2020				
(in millions of dollars)	FVTPL	AFS	Loans and receivables	Total
Short-term investments	\$ 35.0	\$ 183.2	\$ —	\$ 218.2
Bonds	1,898.8	1,501.9	—	3,400.7
Preferred stocks	—	336.6	—	336.6
Common stocks	—	329.8	—	329.8
Pooled funds	—	43.4	—	43.4
Commercial loans	—	—	37.6	37.6
	<u>\$1,933.8</u>	<u>\$2,394.9</u>	<u>\$37.6</u>	<u>\$4,366.3</u>

The commercial loans have an amortized cost of \$34.6 million (December 31, 2020: \$37.6 million) and fair value of \$33.1 million (December 31, 2020: \$35.8 million).

Of the bonds held as at September 30, 2021, 93.7% (December 31, 2020: 92.0%) were rated “A-” or better and 78.4% (December 31, 2020: 81.1%) of the preferred stocks were rated “P2L” or better.

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

	As at September 30, 2021	As at December 31, 2020
Financial services	62.4%	61.3%
Utilities	11.0%	10.0%
Energy	9.4%	9.4%
Industrials	6.3%	7.1%
Communication services	3.7%	3.6%
Other	7.2%	8.6%
	<u>100.0%</u>	<u>100.0%</u>

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

	As at September 30, 2021	As at December 31, 2020
Canada	99.6%	99.8%
United States	0.3%	0.1%
Other	0.1%	0.1%
	<u>100.0%</u>	<u>100.0%</u>

The gross unrealized gains (losses) on AFS investments are detailed below. The cost of all AFS investments, except AFS bonds, is the purchase price less cumulative impairment losses, if applicable. The cost of all AFS bonds is the amortized cost adjusted for cumulative impairment losses.

As at September 30, 2021				
(in millions of dollars)	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	\$ 124.5	\$ 0.1	\$ —	\$ 124.6
Bonds:				
Government	1,118.6	11.2	(4.9)	1,124.9
Corporate	663.5	10.0	(4.0)	669.5
	1,782.1	21.2	(8.9)	1,794.4
Canadian preferred stocks	389.5	21.6	(7.0)	404.1
Common stocks:				
Canadian	299.3	69.9	(2.6)	366.6
Foreign	145.1	14.3	(3.8)	155.6
Foreign pooled funds	33.8	1.3	(0.9)	34.2
	478.2	85.5	(7.3)	556.4
	<u>\$2,774.3</u>	<u>\$128.4</u>	<u>\$(23.2)</u>	<u>\$2,879.5</u>

As at December 31, 2020				
(in millions of dollars)	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	\$ 182.9	\$ 0.3	\$ —	\$ 183.2
Bonds:				
Government	920.4	34.8	(0.3)	954.9
Corporate	526.7	20.3	—	547.0
	1,447.1	55.1	(0.3)	1,501.9
Canadian preferred stocks	384.8	6.5	(54.7)	336.6
Common stocks:				
Canadian	231.7	37.5	(4.0)	265.2
Foreign	26.2	38.4	—	64.6
Foreign pooled funds	42.4	1.0	—	43.4
	300.3	76.9	(4.0)	373.2
	<u>\$2,315.1</u>	<u>\$138.8</u>	<u>\$(59.0)</u>	<u>\$2,394.9</u>

(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.

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

As at September 30, 2021				
(in millions of dollars)	Level 1	Level 2	Level 3	Total
Short-term investments	\$ —	\$ 148.1	\$—	\$ 148.1
Bonds	—	3,826.6	—	3,826.6
Preferred stocks	404.1	—	—	404.1
Common stocks	522.2	—	—	522.2
Pooled funds	—	34.2	—	34.2
	<u>\$926.3</u>	<u>\$4,008.9</u>	<u>\$—</u>	<u>\$4,935.2</u>

	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
(in millions of dollars)				
Short-term investments	\$ —	\$ 218.2	\$—	\$ 218.2
Bonds	—	3,400.7	—	3,400.7
Preferred stocks	336.6	—	—	336.6
Common stocks	329.8	—	—	329.8
Pooled funds	—	43.4	—	43.4
	<u>\$666.4</u>	<u>\$3,662.3</u>	<u>\$—</u>	<u>\$4,328.7</u>

There were no transfers of financial instruments between the levels during the three-month or nine-month period ended September 30, 2021 (December 31, 2020: nil).

(c) *Impairment review*

Impairment reclassification of unrealized losses from AOCI to net income is as follows:

	Three months ended September 30	
	2021	2020
(in millions of dollars)		
Common stocks:		
Canadian	\$—	\$1.8
Foreign	—	0.1
	<u>\$—</u>	<u>\$1.9</u>
	Nine months ended September 30	
	2021	2020
(in millions of dollars)		
Common stocks:		
Canadian	\$—	\$15.3
Foreign	—	0.3
	<u>\$—</u>	<u>\$15.6</u>

The remaining gross unrealized losses of \$23.2 million (December 31, 2020: \$59.0 million) on the AFS investments have not been recognized in net income as the Company does not believe there is currently objective evidence of impairment. During 2020, global equity markets experienced significant volatility largely due to the COVID-19 pandemic, leading to an impairment charge of \$15.6 million primarily on domestic common stocks.

The Company has determined that there is no evidence of significant impairment of any individual commercial loan because all balances are current, and a review of the financial condition of the debtors and pledged collateral indicates that there is reasonable assurance of timely collection of the full amounts of principal and interest.

(d) *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, 2021, the Company had derivative financial assets with a notional amount of \$123.7 million (December 31, 2020: \$102.5 million) and derivative financial liabilities with a notional amount of \$10.1 million (December 31, 2020: nil). These derivatives have an expected maturity date within the next year. The fair value of the derivative financial instruments is not significant.

6. POLICY LIABILITIES

These interim financial statements contain an actuarial estimate of the policy liabilities of the Company. Policy liabilities represent the amount of the obligation of the Company on account of policies effective on or before the reporting date and consist of premium and claim liabilities. Claim liabilities are associated with claims that have occurred on or before the reporting date, whether the claim has been reported to the Company at that time or not, whereas premium liabilities are associated with claims that may occur in the future on policies in force on the reporting date.

(a) *Premium liabilities*

Premium liabilities are represented by the amount of net unearned premiums (“UPR”) less the amount of net deferred policy acquisition expenses (“DPAE”). Generally, broker commissions, premium taxes, and certain direct expenses in respect of the Company’s digital direct business, corresponding to the net UPR are deferrable; however, this amount is written down if the resulting expected future net policy costs are greater than the net UPR. No such write-down to DPAE was considered necessary as at September 30, 2021 (December 31, 2020: nil).

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

		September 30, 2021		
		Gross UPR	Ceded UPR	Net UPR
(in millions of dollars)				
Personal lines:				
Auto		\$ 736.2	\$27.7	\$ 708.5
Property		429.8	15.1	414.7
Commercial lines		398.0	17.2	380.8
		<u>\$1,564.0</u>	<u>\$60.0</u>	<u>\$1,504.0</u>
		December 31, 2020		
		Gross UPR	Ceded UPR	Net UPR
(in millions of dollars)				
Personal lines:				
Auto		\$ 695.6	\$25.9	\$ 669.7
Property		373.4	13.5	359.9
Commercial lines		364.1	15.3	348.8
		<u>\$1,433.1</u>	<u>\$54.7</u>	<u>\$1,378.4</u>

(b) Claim liabilities

Claim liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the end of the period, including incurred but not reported claims. The ultimate cost of these liabilities may vary from the estimate made at any point in time. Additional information on the judgments, estimates and assumptions used in determining claim liabilities is contained in note 4 to the Company's audited consolidated financial statements for the year ended December 31, 2020. The discount rate as at September 30, 2021 used to discount the claim liabilities was 1.37% (December 31, 2020: 0.82%).

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

		Three months ended September 30, 2021		
		Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
(in millions of dollars)				
Claim liabilities, beginning of period		\$3,124.8	\$81.2	\$3,043.6
Current period claims incurred		475.8	21.9	453.9
Prior year (favourable) adverse claims development		(14.7)	0.2	(14.9)
Claims and adjustment expenses		461.1	22.1	439.0
Decrease due to discounting (including provisions for adverse deviations ("PfAD"))		(1.9)	—	(1.9)
Claims and adjustment expenses, discounted		459.2	22.1	437.1
Claims paid during the period		337.5	8.7	328.8
Claim liabilities, end of period		<u>\$3,246.5</u>	<u>\$94.6</u>	<u>\$3,151.9</u>
		Three months ended September 30, 2020		
		Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
(in millions of dollars)				
Claim liabilities, beginning of period		\$2,942.6	\$65.2	\$2,877.4
Current period claims incurred		408.4	11.5	396.9
Prior year adverse claims development		5.1	3.7	1.4
Claims and adjustment expenses		413.5	15.2	398.3
Increase due to discounting (including PfAD)		13.9	0.2	13.7
Claims and adjustment expenses, discounted		427.4	15.4	412.0
Claims paid during the period		345.9	13.9	332.0
Claim liabilities, end of period		<u>\$3,024.1</u>	<u>\$66.7</u>	<u>\$2,957.4</u>

	Nine months ended September 30, 2021		
(in millions of dollars)	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$3,026.3	\$69.2	\$2,957.1
Current period claims incurred	1,350.3	56.1	1,294.2
Prior year favourable claims development	(46.3)	(3.3)	(43.0)
Claims and adjustment expenses	1,304.0	52.8	1,251.2
Decrease due to discounting (including PfAD)	(35.7)	(0.5)	(35.2)
Claims and adjustment expenses, discounted	1,268.3	52.3	1,216.0
Claims paid during the period	1,048.1	26.9	1,021.2
Claim liabilities, end of period	<u>\$3,246.5</u>	<u>\$94.6</u>	<u>\$3,151.9</u>

	Nine months ended September 30, 2020		
(in millions of dollars)	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$2,808.2	\$65.3	\$2,742.9
Current period claims incurred	1,237.2	33.9	1,203.3
Prior year (favourable) adverse claims development	(17.1)	3.8	(20.9)
Claims and adjustment expenses	1,220.1	37.7	1,182.4
Increase due to discounting (including PfAD)	105.3	1.4	103.9
Claims and adjustment expenses, discounted	1,325.4	39.1	1,286.3
Claims paid during the period	1,109.5	37.7	1,071.8
Claim liabilities, end of period	<u>\$3,024.1</u>	<u>\$66.7</u>	<u>\$2,957.4</u>

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

	September 30, 2021		
(in millions of dollars)	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	\$2,000.5	\$46.2	\$1,954.3
Property	274.5	7.5	267.0
Commercial lines	971.5	40.9	930.6
	<u>\$3,246.5</u>	<u>\$94.6</u>	<u>\$3,151.9</u>

	December 31, 2020		
(in millions of dollars)	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	\$1,945.3	\$41.3	\$1,904.0
Property	171.2	4.6	166.6
Commercial lines	909.8	23.3	886.5
	<u>\$3,026.3</u>	<u>\$69.2</u>	<u>\$2,957.1</u>

7. REINSURANCE CONTRACTS

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

(in millions of dollars)	As at September 30, 2021	As at December 31, 2020
Individual loss		
Property		
Net company retention ¹	\$ 3.0	\$ 3.0
Maximum limit	100.0	100.0
Auto and general liability		
Net company retention	4.0	4.0
Maximum limit	40.0	40.0
Catastrophe – primary		
Net company retentions ²	30.0	30.0
Maximum limit	<u>1,450.0</u>	<u>1,050.0</u>

- 1 In addition to the property net retention, the Company had a maximum \$2.0 million (December 31, 2020: \$1.8 million) per loss participation in lower layers of the treaty.
- 2 In addition to the catastrophe net retention, the Company had a maximum \$61.6 million (December 31, 2020: \$64.9 million) participation in higher layers of the treaty. If a catastrophe breaches the retention level, the Company is required to pay an automatic reinstatement premium commensurate with the reinsurance coverage utilized. Further reinstatement coverage may be sought by the Company at an additional cost.

The Company participates in a quota share treaty ceding a proportion of certain broker personal lines business to facilitate overall growth levels. The Company also has a catastrophe aggregate treaty to provide protection against the potential for increased frequencies of smaller value catastrophe losses. In addition, the Company purchases facultative reinsurance coverage as required in line with its underwriting guidelines.

(a) Underwriting impact of reinsurance contracts

The following amounts relate to reinsurance ceded recorded in the interim consolidated statement of comprehensive income:

(in millions of dollars)	Notes	Three months ended September 30	
		2021	2020
Premiums written		\$62.8	\$45.6
Premiums earned		61.0	43.5
Claims and adjustment expenses	6(b)	22.1	15.2
Commissions earned on ceded reinsurance		<u>11.9</u>	<u>8.9</u>
(in millions of dollars)	Notes	Nine months ended September 30	
		2021	2020
Premiums written		\$170.6	\$121.7
Premiums earned		165.2	115.6
Claims and adjustment expenses	6(b)	52.8	37.7
Commissions earned on ceded reinsurance		<u>33.4</u>	<u>24.8</u>

(b) Reinsurance receivable and recoverable

The amounts presented under reinsurance receivable and recoverable in the interim consolidated balance sheet represent the Company's contractual rights under reinsurance contracts and are evaluated in a manner consistent with the gross liabilities.

(in millions of dollars)	Notes	As at September 30, 2021	As at December 31, 2020
Reinsurers' share of UPR	6(a)	\$ 60.0	\$ 54.7
Reinsurers' share of claim liabilities	6(b)	94.6	69.2
Reinsurer receivables		42.2	14.7
Reinsurer payables		(34.9)	(24.7)
Unearned reinsurance commissions		<u>(21.5)</u>	<u>(18.3)</u>
		<u>\$140.4</u>	<u>\$ 95.6</u>

8. INCOME TAXES

The reconciliation of income tax calculated at the Canadian statutory tax rate to the income tax expense at the effective tax rate recorded in net income in the interim consolidated statement of comprehensive income is provided in the table below:

	Three months ended September 30			
(in millions of dollars)	2021		2020	
Income tax expense calculated based on statutory tax rates	26.3%	\$18.3	26.6%	\$15.4
Canadian dividend income not subject to tax	(2.7%)	(1.8)	(3.1%)	(1.8)
Effect of change in tax rates	—	—	0.1%	0.1
Non-deductible expenses	0.1%	0.1	—	—
Other	(0.4%)	(0.4)	(2.0%)	(1.2)
Income tax expense recorded in net income	<u>23.3%</u>	<u>\$16.2</u>	<u>21.6%</u>	<u>\$12.5</u>

	Three months ended September 30	
(in millions of dollars)	2021	2020
Current income taxes	\$20.3	\$16.9
Deferred income taxes	(4.1)	(4.4)
Income tax expense	<u>\$16.2</u>	<u>\$12.5</u>

	Nine months ended September 30			
(in millions of dollars)	2021		2020	
Income tax expense calculated based on statutory tax rates	26.3%	\$62.1	26.6%	\$29.8
Canadian dividend income not subject to tax	(2.3%)	(5.3)	(4.7%)	(5.3)
Effect of change in tax rates	—	—	0.2%	0.2
Non-deductible expenses	—	0.1	0.1%	0.1
Other	(0.1%)	(0.4)	(0.1%)	(0.1)
Income tax expense recorded in net income	<u>23.9%</u>	<u>\$56.5</u>	<u>22.1%</u>	<u>\$24.7</u>

	Nine months ended September 30	
(in millions of dollars)	2021	2020
Current income taxes	\$63.7	\$19.7
Deferred income taxes	(7.2)	5.0
Income tax expense	<u>\$56.5</u>	<u>\$24.7</u>

Income taxes included in other comprehensive income are as follows:

	Three months ended September 30	
(in millions of dollars)	2021	2020
Income tax on items that may be reclassified subsequently to net income:		
Net unrealized gains on AFS investments	\$ 1.0	\$12.6
Reclassification to net income of net recognized (gains) losses on AFS investments	(0.6)	0.7
	<u>0.4</u>	<u>13.3</u>
Income tax on items that will not be reclassified subsequently to net income:		
Post-employment benefit obligation gain	4.8	—
Income tax expense	<u>\$ 5.2</u>	<u>\$13.3</u>

	Nine months ended September 30	
(in millions of dollars)	2021	2020
Income tax on items that may be reclassified subsequently to net income:		
Net unrealized gains on AFS investments	\$ 18.9	\$6.5
Reclassification to net income of net recognized (gains) losses on AFS investments	(12.3)	2.1
	<u>6.6</u>	<u>8.6</u>
Income tax on items that will not be reclassified subsequently to net income:		
Post-employment benefit obligation gain	4.8	—
Income tax expense	<u>\$ 11.4</u>	<u>\$8.6</u>

9. OTHER ASSETS

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

(in millions of dollars)	Notes	As at September 30, 2021	As at December 31, 2020
Investments in associates		\$ 83.1	\$ 81.8
Pension asset	11	22.3	6.6
Prepaid expenses and other		20.6	13.2
		<u>\$126.0</u>	<u>\$101.6</u>

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

(in millions of dollars)	Notes	As at September 30, 2021	As at December 31, 2020
Accounts payable and other		\$184.6	\$164.3
Commissions payable		81.7	61.1
Pension and non-pension benefit obligations	11	45.7	48.3
Premium and other taxes payable		31.6	28.8
Lease liabilities		20.2	21.7
		<u>\$363.8</u>	<u>\$324.2</u>

11. 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, 2021 were \$0.4 million (September 30, 2020: \$0.6 million). The total contributions to the defined benefit pension plans made by the Company during the nine-month period ended September 30, 2021 were \$1.3 million (September 30, 2020: \$1.7 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, 2021 were \$2.9 million (September 30, 2020: \$3.2 million). Contributions under the defined contribution component of the pension plan during the nine-month period ended September 30, 2021 were \$11.5 million (September 30, 2020: \$10.3 million).

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

(in millions of dollars)	Three and nine months ended September 30	
	2021	2020
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	\$21.0	\$—
Return on plan assets excluding interest income	(2.6)	—
	<u>\$18.4</u>	<u>\$—</u>

The discount rate as at September 30, 2021 used to determine the defined benefit obligations for the Company's pension plans and other benefit plans was 3.1% (December 31, 2020: 2.5%).

12. CREDIT FACILITY

On July 22, 2021, the Company entered into a new \$150 million unsecured committed credit facility, which will increase automatically to \$400 million if and when, following demutualization, the holding company parent of the Company is continued under the *Canada Business Corporations Act*. The facility has a five-year term and contains certain financial covenants. As at September 30, 2021, the Company is in compliance with these covenants and no amounts had been drawn under this facility. The May 4, 2020 credit facility was terminated at the time of entering into the new credit facility on July 22, 2021.

13. DEMUTUALIZATION

Demutualization is the process whereby a mutual company converts into a share company. On November 3, 2015, the Company's Board of Directors announced its decision to proceed with demutualization within the federal demutualization regulatory framework. At the first special meeting on demutualization held on December 14, 2015, the Company's eligible mutual policyholders passed a special resolution to authorize the start of negotiations of the allocation of demutualization benefits with eligible non-mutual policyholders. Following the completion of those

negotiations, a second special meeting was held on March 20, 2019 where eligible mutual policyholders passed a special resolution that amended company by-laws in a targeted manner to permit eligible non-mutual policyholders to participate in a third, and final, special meeting on demutualization. That final special meeting was held on May 20, 2021, where eligible policyholders approved the Company's conversion plan and authorized the Company to apply to the federal Minister of Finance for approval to demutualize.

Following the final special meeting, the Company has applied to the federal Minister of Finance for approval to demutualize. On August 27, 2021, Definity, a newly created entity incorporated under the *Insurance Companies Act (Canada)* that will be the parent company of the Company following the completion of the demutualization, filed with the securities regulatory authorities in each of the provinces and territories in Canada a preliminary base PREP prospectus for a proposed initial public offering ("IPO") of common shares of Definity. The timing for completion of demutualization has not yet been determined. Definity and the Company continually evaluate market conditions, company performance, the impact of the COVID-19 pandemic and other relevant factors that may impact the timing and success of the IPO and any private placements and, by extension, the demutualization process.

Demutualization and IPO-related expenses are included in "Other (expenses) income" in the interim consolidated statement of comprehensive income. Demutualization and IPO-related expenses during the three-month period ended September 30, 2021 were \$4.7 million (September 30, 2020: \$0.5 million), and demutualization and IPO-related expenses during the nine-month period ended September 30, 2021 were \$13.4 million (September 30, 2020: \$2.2 million).

14. RISKS RELATED TO THE COVID-19 PANDEMIC AND RELATED FINANCIAL IMPACTS

The Company is continuing to respond to the hardships that the COVID-19 pandemic has created for individuals, communities, and businesses across Canada with a mix of customer relief and community impact efforts to provide support for Canadians. The Company's support efforts include reductions of premiums for customers, flexible payment options for personal insurance customers, and solutions for brokers and business owners. The impact of these measures during the three-month period ended September 30, 2021 was a reduction in gross written premiums of approximately \$15 million (September 30, 2020: \$25 million) and a reduction in net earned premiums of approximately \$15 million (September 30, 2020: \$10 million). The impact of these measures during the nine-month period ended September 30, 2021 was a reduction in gross written premiums of approximately \$40 million (September 30, 2020: \$40 million) and a reduction in net earned premiums of approximately \$45 million (September 30, 2020: \$15 million).

The Company is continuing to monitor the evolving economic impact of the COVID-19 pandemic to its operations and capital position. The Company's strong capital position and its proactive capital and risk management practices developed in recent years have enabled the Company to react rapidly to the changing environment resulting from the COVID-19 pandemic. Due to the significant uncertainties in the current business environment surrounding the duration of the pandemic and overall economic impact of COVID-19, the extent of the impact on the Company's financial condition and performance in the future remains uncertain.

Along with many other P&C insurers in Canada, the Company has been named as a defendant in class proceedings that together purport to be on behalf of all policyholders with business interruption coverage. The class actions seek damages for business interruption losses relating to the COVID-19 pandemic and other allegedly related damages. The Company denies liability and intends to vigorously defend these proceedings.

ECONOMICAL MUTUAL INSURANCE COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Members of
Economical Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of **Economical Mutual Insurance Company** and its subsidiaries [the "Company"], which comprise the consolidated balance sheets as at December 31, 2020 and 2019 and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the one-year periods ended December 31, 2020, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Company as at December 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the one-year periods ended December 31, 2020, 2019 and 2018 in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ["Canadian GAAS"]. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other information

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

- Management's discussion and analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's discussion and analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report, including the final version of Management's discussion and analysis, is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Waterloo, Canada
February 11, 2021

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



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ECONOMICAL MUTUAL INSURANCE COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
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ECONOMICAL MUTUAL INSURANCE COMPANY
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31

	Notes	2020	2019
		(in millions of dollars)	
ASSETS			
Cash and cash equivalents		\$ 510.3	\$ 94.7
Investments	6	4,366.3	4,191.0
Accrued investment income		16.8	18.8
Premiums receivable		958.7	850.7
Income taxes receivable		2.1	3.0
Reinsurance receivable and recoverable	8,10	95.6	95.1
Deferred policy acquisition expenses	8	260.2	235.6
Property and equipment	11	56.9	61.1
Deferred income tax assets	12	40.2	89.8
Goodwill and intangible assets	13	211.6	210.9
Other assets	14	101.6	105.8
		<u>\$6,620.3</u>	<u>\$5,956.5</u>
LIABILITIES AND EQUITY			
Unearned premiums	8	\$1,433.1	\$1,294.5
Claim liabilities	8,9	3,026.3	2,808.2
Accounts payable and other liabilities	16	324.2	240.6
Income taxes payable		18.7	2.2
		<u>4,802.3</u>	<u>4,345.5</u>
EQUITY			
Retained earnings		1,755.9	1,608.6
Accumulated other comprehensive income		62.1	2.4
Total equity	19	<u>1,818.0</u>	<u>1,611.0</u>
		<u>\$6,620.3</u>	<u>\$5,956.5</u>
Commitments and contingencies	22		

On behalf of the Board:

J.H. Bowey, Director

R.B. Saunders, Director

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31

	Notes	2020	2019	2018
		(in millions of dollars)		
Gross written premiums	20	<u>\$2,814.7</u>	<u>\$2,511.0</u>	<u>\$2,456.3</u>
Net written premiums	10,20	<u>\$2,639.8</u>	<u>\$2,331.0</u>	<u>\$2,380.7</u>
Net earned premiums	20	<u>\$2,508.7</u>	<u>\$2,343.2</u>	<u>\$2,244.6</u>
Other underwriting revenues		<u>7.5</u>	<u>10.1</u>	<u>15.4</u>
Total underwriting revenues		<u>2,516.2</u>	<u>2,353.3</u>	<u>2,260.0</u>
Net claims and underwriting expenses:				
Net claims and adjustment expenses	8,10	1,562.3	1,713.9	1,694.7
Net commissions	10	379.6	361.3	381.0
Operating expenses		344.8	310.2	369.2
Premium taxes		<u>93.1</u>	<u>86.2</u>	<u>80.7</u>
		<u>2,379.8</u>	<u>2,471.6</u>	<u>2,525.6</u>
Underwriting income (loss)		<u>136.4</u>	<u>(118.3)</u>	<u>(265.6)</u>
Impact of discounting	8	<u>(114.0)</u>	<u>(29.0)</u>	<u>4.3</u>
Underwriting income (loss) after the impact of discounting		<u>22.4</u>	<u>(147.3)</u>	<u>(261.3)</u>
Investment income:				
Net investment income	6	100.3	105.4	102.6
Recognized gains on investments	6	<u>79.8</u>	<u>68.3</u>	<u>58.9</u>
		<u>180.1</u>	<u>173.7</u>	<u>161.5</u>
Other expenses	23	<u>(1.9)</u>	<u>(6.0)</u>	<u>(0.4)</u>
Restructuring (expenses) recovery		<u>—</u>	<u>0.8</u>	<u>(17.3)</u>
Income (loss) before income taxes		<u>200.6</u>	<u>21.2</u>	<u>(117.5)</u>
Income tax (expense) recovery	12	<u>(46.7)</u>	<u>(3.8)</u>	<u>44.5</u>
Net income (loss)		<u>\$ 153.9</u>	<u>\$ 17.4</u>	<u>\$ (73.0)</u>
Items that may be reclassified subsequently to net income (loss):				
Net unrealized gains (losses) on AFS investments	6	76.8	73.7	(90.3)
Reclassification to net income (loss) of net recognized losses (gains) on AFS investments	6	5.0	(39.2)	(58.9)
Foreign exchange (loss) gain on investments in associates		<u>(0.5)</u>	<u>(1.5)</u>	<u>2.4</u>
Income tax (expense) recovery	12	<u>(21.6)</u>	<u>(9.6)</u>	<u>40.2</u>
		<u>59.7</u>	<u>23.4</u>	<u>(106.6)</u>
Items that will not be reclassified subsequently to net income (loss):				
Post-employment benefit obligation (loss) gain	18	(8.8)	4.2	22.6
Income tax recovery (expense)	12	<u>2.2</u>	<u>(1.3)</u>	<u>(6.1)</u>
		<u>(6.6)</u>	<u>2.9</u>	<u>16.5</u>
Other comprehensive income (loss)		<u>53.1</u>	<u>26.3</u>	<u>(90.1)</u>
Comprehensive income (loss)		<u>\$ 207.0</u>	<u>\$ 43.7</u>	<u>\$ (163.1)</u>

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31

	2020			2019			2018		
	Retained earnings	Accumulated other comprehensive income	Total equity	Retained earnings	Accumulated other comprehensive income	Total equity	Retained earnings	Accumulated other comprehensive loss	Total equity
	(in millions of dollars)								
Balance, beginning of the year	\$1,608.6	\$ 2.4	\$1,611.0	\$1,588.3	\$(21.0)	\$1,567.3	\$1,644.8	\$ 85.6	\$1,730.4
Net income (loss)	153.9	—	153.9	17.4	—	17.4	(73.0)	—	(73.0)
Other comprehensive income (loss)	(6.6)¹	59.7	53.1	2.9 ¹	23.4	26.3	16.5 ¹	(106.6)	(90.1)
Total comprehensive income (loss)	147.3	59.7	207.0	20.3	23.4	43.7	(56.5)	(106.6)	(163.1)
Balance, end of the year	<u>\$1,755.9</u>	<u>\$62.1²</u>	<u>\$1,818.0</u>	<u>\$1,608.6</u>	<u>\$ 2.4²</u>	<u>\$1,611.0</u>	<u>\$1,588.3</u>	<u>\$ (21.0)²</u>	<u>\$1,567.3</u>

- 1 Actuarial (losses) gains for the post-employment benefit obligation recognized in retained earnings (net of income tax recovery of \$2.2 million (2019: \$1.3 million income tax expense, 2018: \$6.1 million income tax expense)).
- 2 Included in accumulated other comprehensive income (loss) is \$3.9 million (2019: \$4.3 million, 2018: \$5.8 million) related to the cumulative foreign exchange gain on investments in associates.

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Notes</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
		(in millions of dollars)		
Operating activities:				
Receipts:				
Premiums collected (net of reinsurance ceded)		\$ 2,527.8	\$ 2,318.8	\$ 2,242.5
Interest received		95.6	88.2	79.4
Dividends received		29.3	29.8	38.3
Income taxes recovered		3.4	15.0	44.0
		<u>2,656.1</u>	<u>2,451.8</u>	<u>2,404.2</u>
Payments:				
Claims paid	8	1,462.1	1,615.2	1,548.4
Commissions and expenses paid		609.2	604.2	723.6
Premium taxes paid		93.2	88.8	80.4
Income taxes paid		1.4	2.9	4.3
Restructuring expenses paid		—	2.2	2.9
		<u>2,165.9</u>	<u>2,313.3</u>	<u>2,359.6</u>
Net cash provided by operating activities		<u>490.2</u>	<u>138.5</u>	<u>44.6</u>
Investing activities:				
Investments purchased		(3,072.8)	(7,626.2)	(5,974.0)
Investments sold, redeemed, or matured		3,025.8	7,421.7	5,935.1
Commercial loans advanced		(4.8)	(0.5)	(12.7)
Commercial loans collected		20.0	49.2	7.4
Other assets purchased		(42.8)	(23.3)	(49.5)
Business dispositions		—	—	18.0
		<u>(74.6)</u>	<u>(179.1)</u>	<u>(75.7)</u>
Net cash used in investing activities		<u>(74.6)</u>	<u>(179.1)</u>	<u>(75.7)</u>
Cash and cash equivalents:				
Net increase (decrease) during the year		415.6	(40.6)	(31.1)
Balance, beginning of the year		94.7	135.3	166.4
Balance, end of the year		<u>\$ 510.3</u>	<u>\$ 94.7</u>	<u>\$ 135.3</u>
Cash		\$ 361.1	\$ 93.2	\$ 96.6
Cash equivalents		149.2	1.5	38.7
Total cash and cash equivalents		<u>\$ 510.3</u>	<u>\$ 94.7</u>	<u>\$ 135.3</u>

See accompanying notes.

ECONOMICAL MUTUAL INSURANCE COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

1. NATURE OF OPERATIONS

Economical Mutual Insurance Company (the “Company”) is a mutual insurance company which, along with its wholly owned subsidiaries, offers property and casualty (“P&C”) insurance in Canada. The Company is incorporated and is domiciled in Canada. Its registered office and principal place of business is 111 Westmount Road South, Waterloo, Ontario, Canada.

These consolidated financial statements were approved by the Company’s Board of Directors on February 11, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and Canadian accepted actuarial practice and reflect the requirements of the Office of the Superintendent of Financial Institutions (“OSFI”).

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

The financial statements of the subsidiaries and material associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies of subsidiaries and associates in line with the Company. The consolidated financial statements include the accounts of Economical Mutual Insurance Company and its wholly owned subsidiaries, Waterloo Insurance Company, Perth Insurance Company, The Missisquoi Insurance Company, Sonnet Insurance Company, Petline Insurance Company (“Petline”), Westmount Financial Inc., Family Insurance Solutions Inc. and the TEIG Investment Partnership (which holds the investment portfolio for all insurance companies in the group, except for Petline). Each of these subsidiaries operate and are incorporated or established in Canada.

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

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

(b) Basis of consolidation

When the Company is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee, the investee is considered a subsidiary. Subsidiaries are fully consolidated from the date that control is obtained by the Company. Subsidiaries are deconsolidated from the date that control ceases.

When the Company has significant influence over an investee, that is the power to participate in the financial and operating decisions of the investee but does not have control or joint control over those decisions, the investee is considered to be an associate. Associates are accounted for under the equity method.

Business combinations are accounted for using the acquisition method. The acquisition method requires that the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the year incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest. Any contingent consideration is also measured at fair value at the acquisition date.

The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(c) Insurance contracts

Insurance contracts are those contracts which transfer significant insurance risk at inception. The Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified event (the insured event) with uncertain timing or amount adversely affects the policyholder. Similarly, by purchasing reinsurance, the Company transfers significant insurance risk to the reinsurers. As a general guideline, the Company determines whether significant insurance risk has been transferred for insurance and reinsurance contracts by comparing whether significantly more would be paid or received if the insured event occurs, versus if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Premiums and unearned premiums

Premiums are recognized in net earned premiums in the consolidated statement of comprehensive income on a pro-rata basis over the period of risk. Premiums on policies written are accounted for in full in gross written premiums in the year written. Premiums receivable include the premiums due for the remaining months of the contracts. Written premiums on multi-year policies are recognized in gross written premiums in the year written and are recognized in net earned premiums on a pro-rata basis over the period of risk. Unearned premiums (“UPR”) represent the portion of premiums written relating to periods of insurance coverage subsequent to the reporting date and are presented as a liability gross of amounts ceded to reinsurers. UPR ceded to reinsurers is included in “Reinsurance receivable and recoverable”.

Claim liabilities

Claim liabilities are calculated based on Canadian accepted actuarial practice. The claim liabilities consist of reserves for reported claims as determined on a case-by-case basis by claims adjusters and an actuarially determined provision for incurred but not reported claims (“IBNR”). The estimates include related investigation, settlement, and internal and external adjustment expenses. Measurement uncertainty in these estimates exists due to internal and external factors that can substantially impact the ultimate settlement costs. Consequently, the Company reviews and re-evaluates claims and reserves on a regular basis and any resulting adjustments are included in “Net claims and adjustment expenses” in the consolidated statement of comprehensive income in the period the adjustment is made. Claims and adjustment expenses are reported net of reinsurance. The claim liabilities are valued on a discounted basis using a rate that is derived from the fair value yield of the bonds that have been identified as supporting the claim liabilities. In addition, the claim liabilities include provisions for adverse deviations (“PfAD”). The effect of discounting plus PfAD is included in “Impact of discounting” in the consolidated statement of comprehensive income. The claim liabilities are extinguished when the obligation to pay a claim expires, is discharged, or is cancelled.

Deferred policy acquisition expenses

The amount of deferred policy acquisition expenses (“DPAE”) represents the brokers’ commission, premium taxes, and certain direct expenses in respect of the Company’s digital direct business, all of which are associated with the unearned portion of the premiums written during the year to the extent they are considered recoverable. The costs are expensed in the year in which the related premiums are recognized as income. To the extent deferred commissions and premium taxes are considered non-recoverable, they are expensed as incurred in the consolidated statement of comprehensive income. The maximum deferrable amount is calculated through the liability adequacy test.

Liability adequacy test

Quarterly, an assessment is made of whether the policy liabilities are adequate, which includes both claim liabilities and premium liabilities. Claim liabilities are assessed using current estimates of future cash flows of unpaid claims and adjustment expenses, discounted to reflect the time value of money. If that assessment shows that the carrying amount of the claim liabilities is insufficient in light of the current expected future cash flows, the deficiency is recognized in the consolidated statement of comprehensive income. Premium liabilities are assessed using current estimates of the discounted future claims and expenses associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of DPAE to the extent that the unearned premiums are not considered adequate to cover DPAE and premium liabilities. If the premium deficiency is greater than DPAE, a liability is accrued for the excess deficiency.

Industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured by the Facility Association (“FA”). In addition, entities can choose to cede certain risks to industry risk sharing pools (“RSP”) administered by the FA, or in Quebec, to the Plan de Répartition des Risques (“PRR”) administered by the Groupement des assureurs automobiles (collectively “the pools”). The related risks associated with FA insurance policies and policies ceded by companies to the pools are aggregated and shared by the entities in the P&C insurance industry, generally in proportion to market share and volume of business ceded to the pools. In accordance with the OSFI guidelines, the Company applies the same accounting policies to FA and pool insurance it assumes and cedes as it does to insurance policies issued by the Company directly to policyholders. The Company’s share of the pool assets backing policy liabilities is included in “Reinsurance receivable and recoverable”.

Reinsurance

Reinsurance receivable and recoverable includes reinsurers’ share of UPR and claim liabilities. The Company presents third party reinsurance balances in the consolidated balance sheet on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders. The estimates for the reinsurers’ share of claim liabilities are determined on a basis consistent with the related claim liabilities. Reinsurance assets are reviewed at least quarterly for impairment.

Structured settlements

In the normal course of claims settlement, the Company enters into annuity agreements with various Canadian life insurance companies, that are required to have credit ratings of at least “A-” or higher, to provide for fixed and recurring payments to claimants in full satisfaction of the claim liability. Under such arrangements, the Company removes the liability from its consolidated balance sheet when the liability to its claimants is substantially discharged and legal release has also been obtained from the claimant, although the Company remains exposed to the credit risk that life insurers will fail to fulfil their obligations. See note 7 for further discussion of credit risk.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks, and term deposits having original maturities of ninety days or less. Fair values approximate carrying values for term deposits. The amount of cash not readily available for use by the Company is not significant.

(e) Financial instruments including investments

All of the Company's financial instruments are classified into one of the following four categories as defined below:

- available for sale ("AFS")
- financial assets and liabilities at fair value through profit or loss ("FVTPL")
- loans and receivables
- other financial liabilities

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Instruments voluntarily designated as FVTPL to support the claim liabilities may never be reclassified and, except in very limited circumstances, the reclassification of other financial instruments is not permitted subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a settlement-date basis. Transaction costs are expensed as incurred for FVTPL financial instruments. For other financial instruments, transaction costs are capitalized on initial recognition. The effective interest rate method of amortization is used to account for any transaction costs capitalized on initial recognition and purchased premiums or discounts earned on bonds.

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

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

Available for sale

All short-term investments, equities (including preferred stocks, common stocks, and pooled funds), and bonds, except those voluntarily designated as FVTPL, are designated as AFS. Short-term investments consist of term deposits having original maturities of greater than ninety days and less than one year. AFS financial instruments are carried at fair value. Changes in fair value are recorded, net of income taxes, in "Other comprehensive income" ("OCI") in the consolidated statement of comprehensive income until the disposal of the financial instrument, or when an impairment loss is recognized. When the financial instrument is disposed of, the gain or loss is reclassified from "Accumulated other comprehensive income" ("AOCI") to "Recognized gains on investments" in the consolidated statement of comprehensive income. Gains and losses on the sale of AFS financial instruments are calculated on an average cost basis.

The Company assesses its AFS financial instruments for objective evidence of impairment quarterly. Objective evidence of impairment exists for individual equities (including common stocks and pooled funds) when there has been a significant or prolonged decline in fair value or net asset value below cost. Objective evidence of impairment exists for individual bonds when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. Factors that are considered include, but are not limited to, a decline in current financial position, defaults on debt obligations, failure to meet debt covenants, significant downgrades in credit status, and severity and/or duration of the decline in value. For individual preferred stocks, the key features of the preferred stock are assessed to determine if the instrument is more characteristic of an equity instrument or a debt instrument and objective evidence of impairment is evaluated accordingly. Preferred stock that are redeemable at the Company's option, and perpetual preferred stock purchased to produce dividend income for the long-term, are assessed using the same methodology as the bond impairment analysis.

When objective evidence of impairment exists for a financial instrument, the impairment loss is measured as the difference between carrying value and fair value. Impairment losses on AFS financial instruments are reclassified from AOCI to "Recognized gains on investments" in the consolidated statement of comprehensive income in the period such criteria are met. Subsequent fair value increases on previously impaired individual equities and pooled funds are recognized directly in OCI and not reversed through net income, while subsequent fair value decreases are recognized directly in net income. For individual bonds or preferred stocks, subsequent fair value increases that can be attributed to an observable positive development are recognized directly in net income, but otherwise, are recognized directly in OCI. Any subsequent reversal of an impairment loss on a bond or preferred stock is recognized in net income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Fair value through profit or loss

The Company has voluntarily designated a portion of its bonds as FVTPL. Changes in fair values as well as gains and losses on disposal of FVTPL financial instruments are recorded in "Recognized gains on investments" in the consolidated statement of comprehensive income with the related tax impact included in "Income tax expense". Gains and losses on the sale of FVTPL financial instruments are calculated on an average cost basis. As changes in the fair value of FVTPL financial instruments are reflected directly within net income in the consolidated statement of comprehensive income, it is not necessary to record an impairment loss when there has been a significant or prolonged decline in the fair value of FVTPL financial instruments.

The designation of the FVTPL bond portfolio aims to reduce the accounting mismatch in net income that would otherwise be generated by the fluctuations in fair values of underlying claim liabilities due to changes in interest rates. In compliance with OSFI guidelines, the Company manages the FVTPL portfolio's quantum and duration so that the impact of changes in interest rates on claim liabilities and on the FVTPL portfolio reasonably offset each other.

Derivative financial instruments

Derivatives are financial instruments that have value derived from underlying interest rates or other financial instrument prices or indices. Derivatives are classified as FVTPL. There are currently no derivatives designated as a hedge for accounting purposes. Derivatives are initially measured at fair value at the settlement date and subsequently remeasured at fair value at the end of each reporting date. The gains and losses arising from remeasuring the derivatives at fair value are recognized in “Recognized gains on investments” in the consolidated statement of comprehensive income with the related tax impact included in “Income tax expense”.

Loans and receivables/Other financial liabilities

Financial instruments classified as loans and receivables, including commercial loans, and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value through “Recognized gains on investments” in the consolidated statement of comprehensive income.

Evidence of impairment exists for individual commercial loans when there is a deterioration in the counterparties’ financial performance to the extent that the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest.

Investment income recognition

Interest income is recognized on bonds and commercial loans on the accrual basis and includes the amortization of premiums and discounts over the life of the investment using the effective interest rate method. The treatment of recognized gains and losses on disposal of AFS and FVTPL investments is discussed in “Available for sale” and “Fair value through profit or loss” above.

Dividend income is recognized on the ex-dividend date.

(f) Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes amounts directly attributable to the acquisition of the items of property and equipment. Subsequent costs are added to the cost of the asset only when it is probable that economic benefits will flow to the Company in the future and the cost can be reliably measured.

Property and equipment are depreciated over their expected useful lives on a straight-line basis to their residual value. Each component of property and equipment with a cost that is significant in relation to the total cost of the asset is depreciated separately. Residual values, depreciation rates and useful lives are reviewed at least annually and adjusted, if appropriate, at the reporting date. Land is not subject to depreciation and is carried at cost.

Estimated useful lives are as follows:

Buildings - structure	50 years
Buildings - infrastructure	25 years
Buildings - fixtures	15 years
Furniture and equipment	5 years
Computer equipment	4 years
Right-of-use assets	Lesser of the lease term and useful life

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from their use or disposal. Gains and losses on disposal are calculated as the difference between proceeds and net carrying value and are recognized in “Operating expenses” in the consolidated statement of comprehensive income. Fully depreciated property and equipment are retained in cost and accumulated depreciation accounts until such assets are removed from service.

(g) Leases

The Company recognizes a right-of-use asset and a corresponding lease liability in the consolidated balance sheet with respect to all lease arrangements in which it is the lessee, except for short-term leases (leases with a lease term of 12 months or less) and leases of low value assets. For short-term and low value leases, the Company recognizes the lease payments in “Operating expenses” in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease unless another systemic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities are initially measured at the present value of the lease payments, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses an estimate of its incremental borrowing rate at the commencement of the lease. Lease payments are allocated between interest expense and a reduction of the outstanding lease liability. Lease liabilities are recognized in “Accounts payable and other liabilities” in the consolidated balance sheet.

At the commencement date of the lease, the cost of right-of-use assets comprise the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. These assets are depreciated over the shorter of the lease term or their useful life. Right-of-use assets are recognized in “Property and equipment” in the consolidated balance sheet. Incentives received from the lessor, such as rent-free periods, are recognized as part of the measurement of the right-of-use assets and lease liabilities.

Interest expense and depreciation expense are recognized in “Operating expenses” in the consolidated statement of comprehensive income.

(h) Intangible assets

Intangible assets include capitalized software costs, where the software is not integral to the hardware on which it operates. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition, and include assets such as brand, distribution network, and customer relationships. Costs that are directly attributable to the development and testing of identifiable and unique software products controlled by the Company are recognized in software when the criteria specified in International Accounting Standard (“IAS”) 38 – *Intangible Assets* (“IAS 38”) are met. Capitalized costs include employee costs for staff directly involved in software development and other direct expenditures related to the project. Other development expenditures that do not meet the capitalization criteria under IAS 38 are recognized as an expense as incurred. Following the initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful economic life. Amortization is recorded in “Operating expenses” in the consolidated statement of comprehensive income. The useful life for intangible assets with a finite useful life are reviewed at least annually. Intangible assets with indefinite lives and intangible assets which are under development are not amortized, but are tested at least annually for impairment.

Estimated useful lives are as follows:

Brand	Indefinite
Distribution network	11 years
Customer relationships	8 years
Software	1 - 10 years

(i) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that its non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company compares the asset’s recoverable amount to the asset’s carrying value. An asset’s recoverable amount is calculated based on its value-in-use (“VIU”) using a discounted cash flow model. For the purposes of testing, assets are grouped into the lowest level in which cash inflows are largely independent of those from other assets or groups of assets. The recoverable amount is determined for the cash-generating unit (“CGU”) to which the asset belongs.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Company’s CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units.

Goodwill relating to an associate is included in the carrying amount of the investment and is not tested separately for impairment.

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

Investments in associates

After application of the equity method, the Company determines whether there are any indicators of an impairment loss of the Company’s investments in associates. If there is objective evidence of impairment, the Company calculates the amount of impairment as the difference between the fair value of the associate and the carrying value, and recognizes this amount in the consolidated statement of comprehensive income in “Other expenses”.

(j) Income taxes

Income tax expense is comprised of current and deferred income tax. Income tax is recognized in net income except to the extent that it relates to items recognized in OCI or directly to retained earnings.

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Interest income or expenses arising on tax assessments, if any, are included in “Other expenses” in the consolidated statement of comprehensive income.

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their respective carrying amounts for financial reporting purposes at the reporting date. Deferred income tax is calculated using income tax laws and rates enacted or substantively enacted as at the reporting date, which are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.

(k) Pensions, other post-employment benefits and other employee benefits

The Company provides certain pension and other post-employment benefits to eligible participants upon retirement.

Pension benefits

The Company operates a defined benefit pension plan primarily for certain employees hired prior to January 1, 2002, which requires contributions to be made to a separately administered fund. The benefit is based on the employee's length of service and final average pensionable earnings. The cost of the defined benefits is actuarially determined and accrued using the projected unit credit valuation method pro-rated on service. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate, and management's best estimates concerning such factors as salary escalation and retirement ages of employees. Costs recognized in the consolidated statement of comprehensive income include the cost of pension benefits provided in exchange for employees' services rendered during the year, and the net interest cost calculated by applying a discount rate to the net defined benefit obligation. Actuarial gains and losses are recognized in full in OCI in the year in which they occur and then immediately in retained earnings. They are not reclassified to net income in subsequent years. Past service costs, which are a result of a plan amendment or curtailment, are recognized in "Other expenses" in the consolidated statement of comprehensive income when the amendment or curtailment has occurred.

The defined benefit asset or liability comprises the fair value of plan assets less the defined benefit obligation out of which the obligations are to be settled directly. This is recorded in the consolidated balance sheet in "Other assets" if the balance is in an asset position, and is recorded in "Accounts payable and other liabilities" if in a liability position. Plan assets are held by a long-term employee benefit fund and are not available to creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published closing price. The value of any defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company also has a defined contribution pension plan for certain employees, for which Company contributions are expensed in the year. The Company has no further payment obligations once the Company contributions and applicable administration fees have been paid.

Non-pension benefits

The Company provides other post-employment benefits for eligible employees hired prior to July 3, 2012. The Company accounts for the cost of all non-pension post-employment benefits, including medical benefits, dental care and life insurance for eligible retirees, their spouses, and qualified dependants, on an accrual basis. These costs are recognized in "Operating expenses" in the consolidated statement of comprehensive income in the year during which services are rendered and are actuarially determined using the projected unit credit valuation method pro-rated on service. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate, and management's best estimates concerning such factors as salary escalation, retirement ages of employees and expected health care costs. The impact of a plan curtailment is recognized in "Other expenses" in the consolidated statement of comprehensive income when an event giving rise to a curtailment has occurred.

Actuarial gains and losses, except for long-term disability benefits, are recognized in full in OCI in the year in which they occur and then immediately in retained earnings. They are not reclassified to net income in subsequent years. Actuarial gains and losses for long-term disability benefits are recognized in "Operating expenses" in the consolidated statement of comprehensive income.

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

Termination benefits

Termination benefits are payable when employment is terminated, without cause, by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Short-term incentive plan

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration various financial metrics and qualitative performance criteria. The Company recognizes a provision when contractually obliged or where there is a past practice that has created a reasonable expectation of a constructive obligation.

Medium-term incentive plan

Under the Medium-Term Incentive Plan ("MTIP" or "Plan"), notional units (hereinafter referred to as Restricted Units ("RUs") or Performance Units ("PUs")) are granted annually to certain members of management, with a unit value based on the book value of the Company. The value

of the RUs will fluctuate based solely on the book value of the Company, while the value of the PUs will fluctuate based on the book value of the Company and the Company's performance measured against certain performance criteria. The RUs and PUs vest over one to three years after the grant date, depending on the specific grant, and are then settled in cash. There are floor and ceiling mechanisms in place to ensure that the PUs do not pay when performance is below a minimum threshold and that the total Plan payout does not exceed the ceiling even in periods of significant outperformance.

The cost of the awards is recognized as an expense over the vesting period based on the estimated payout under the Plan at the end of the vesting period, with a corresponding financial liability recorded in "Accounts payable and other liabilities". The Company re-estimates the value of awards that are expected to vest at each reporting period. The ultimate liability for any payment of RUs and PUs is dependent on the book value of the Company at the vesting date. For PUs, the liability is also dependent on the Company's performance relative to the performance criteria.

(l) Provisions

Provisions are recognized when the Company determines that there is a present legal or constructive obligation as a result of a past event or decision, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(m) Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in millions of Canadian dollars, which is also the functional currency of the Company. Each entity within the consolidated group determines its own functional currency based upon the currency used in the entity's primary operating environment, and measures financial results based on that functional currency.

Translation of foreign subsidiaries' accounts

Assets and liabilities of the Company's foreign subsidiaries are translated from their functional currencies into Canadian dollars at the exchange rate in effect at the reporting date, except for goodwill acquired prior to the IFRS transition date of January 1, 2010 ("transition date").

Any goodwill arising on the acquisition of a foreign operation subsequent to the transition date and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenues and expenses are translated at the monthly weighted average rate prevailing during the year. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recorded in OCI. On the disposal of a foreign operation, the cumulative amount of exchange differences relating to that operation is recognized in net income.

Translation of foreign currency transactions

Transactions incurred in currencies other than the functional currency of the reporting entity are converted to the functional currency at the rate in effect on the transaction date. Monetary assets and liabilities denominated in a currency other than the functional currency are converted to the functional currency at the exchange rate in effect at the reporting date. Unrealized foreign currency gains and losses on AFS financial instruments are included in OCI. All other foreign currency gains and losses are included in net income.

(n) Embedded derivatives

At least annually, the Company conducts a search for embedded derivatives within its significant contracts. No material embedded derivatives were identified that required bifurcation.

(o) Comparative figures

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the current year's consolidated financial statements.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following IFRS standards have been issued but are not yet effective.

(a) Insurance contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 – *Insurance Contracts* ("IFRS 17"), which replaces IFRS 4 – *Insurance Contracts*. IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. There are two measurement methodologies under IFRS 17, the general model and the premium allocation approach. The general model requires insurance contracts to be measured using current estimates of discounted future cash flows, an adjustment for risk, and a contractual service margin representing the profit expected from fulfilling the contracts. The premium allocation approach is a simplified model that can be applied to insurance contracts with coverage periods of one year or less (which is the coverage period of many P&C insurance contracts), or where the premium allocation approach approximates the general model. Presentation changes in the consolidated balance sheet and the consolidated statement of comprehensive income are required in addition to new disclosures.

In June 2020, the IASB approved amendments to IFRS 17. The amendments, among other items, included deferring the effective date of IFRS 17 to be effective for annual reporting periods beginning on or after January 1, 2023; early adoption is permitted. Retrospective application is required unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The Company plans to adopt the new standard on the required effective date together with IFRS 9 – *Financial Instruments* (“IFRS 9”). The Company expects to apply the premium allocation approach to its insurance contracts. The disclosure and measurement differences on adoption are expected to be significant. The Company is currently analyzing the impact these standards, including the most recent amendments to IFRS 17, will have on its consolidated financial statements.

(b) Financial instruments: Classification and measurement

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) and all previous versions of IFRS 9. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This single, principle-based approach replaces existing rule-based requirements and is intended to improve and simplify the reporting for financial instruments.

Debt instruments are classified as amortized cost, fair value through other comprehensive income (“FVOCI”), or FVTPL 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 FVOCI. Gains or losses on equity instruments classified as FVOCI are not reclassified to profit and loss and are therefore not required to be reviewed for impairment. Impairment requirements for debt instruments classified as amortized cost or FVOCI are based on the expected credit loss model which is intended to recognize credit losses earlier compared to IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions.

An entity whose activities are predominantly connected with insurance at its annual reporting date that immediately precedes April 1, 2016 is eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. The Company has chosen to apply the temporary exemption from IFRS 9 to defer the application of IFRS 9 until the effective date of IFRS 17.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as at the reporting date, and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. The most complex and significant judgments, estimates and assumptions used in preparing the Company’s consolidated financial statements are discussed below.

Judgments

In the process of applying the Company’s accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements.

The Company has applied judgment in its assessment of control or significant influence over investees, of the identification of objective evidence of impairment for financial instruments, the recoverability and recognition of deferred tax assets, the determination of CGUs, the evaluation of current obligations requiring provisions, and the identification of the indicators of impairment for property and equipment, goodwill, and intangible assets.

Estimates and assumptions

Management has made a variety of estimates that have had a significant impact in the determination of the carrying amounts of certain key assets and liabilities including, but not limited to, the following:

(a) Valuation of claim liabilities

The Company is required by applicable insurance laws, regulations, and IFRS to establish liabilities for payment of claims and claims adjustment expenses that arise from the Company’s insurance products. These liabilities represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the reporting date. The Company establishes its claim liabilities by geographic region, product line, type and extent of coverage, and year of occurrence.

Claim liabilities fall into two categories: reserves for reported claims and provision for IBNR losses. Additionally, liabilities are held for claims adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

Determining the provision for unpaid claims and adjustment expenses, and the related reinsurers’ share involves an assessment of the future development of claims. The estimates are principally based on the Company’s historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information. This process takes into account the consistency of the Company’s claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting claims. Claim liabilities include estimates subject to variability, which could be material. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from past trends.

In general, the longer the term required for the settlement of a group of claims, the greater the potential for variability in the estimate. Any future changes in estimates would be reflected in the consolidated statement of comprehensive income in the year in which the change occurred. Note 9 contains additional analysis of the impact of the key assumptions on claim liabilities.

The principal assumptions made in establishing claim liabilities are best estimates. Claim liabilities have been discounted to reflect estimated future investment income in accordance with Canadian accepted actuarial practice. The rate used to discount the claim liabilities is based on the fair value yield of the bond portfolio supporting the claim liabilities. To increase the likelihood that the claim liabilities are adequate to pay future benefits, margins for adverse deviation are required to be included for assumptions regarding future claims development, interest rates, and reinsurance recoverables. The Canadian Institute of Actuaries recommends a range of appropriate margins for each of these variables. The combined effect of all the margins produces the PfAD.

Reinsurance recoverables include amounts for expected recoveries from reinsurers related to claim liabilities. Amounts recoverable from reinsurers are evaluated in a manner consistent with the provisions of the reinsurance contracts. The failure of reinsurers to honour their obligations could result in losses to the Company, as the ceding of insurance does not relieve the Company of its primary liability to its insured parties.

(b) *Impairment of long-lived assets*

The Company determines whether long-lived assets are impaired on an annual basis or more frequently if there are indicators of potential impairment. Impairment testing of long-lived assets requires an estimation of the recoverable amount of the CGUs to which the assets are allocated.

(c) *Impairment of financial assets*

The Company assesses its AFS financial instruments for objective evidence of impairment at each reporting date. Objective evidence of impairment includes a significant or prolonged decline in the fair value or net asset value below cost, or when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. Significance of the decline is evaluated against the original cost of the investment and prolonged decline is measured against the period in which the fair value has been below its original cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, a decline in current financial position, defaults on debt obligations, failure to meet debt covenants, significant downgrades in credit status, and severity and/or duration of the decline in value.

In 2020, given the significant volatility in the global equity markets due to the COVID-19 pandemic, the Company considered additional factors, including volatility, overall sector, and potential impacts from COVID-19, on each specific common stock in a loss position. For individual bonds and preferred stocks, the Company examined the potential impacts from COVID-19 on each security in a loss position in addition to reviewing commentary and ratings from credit rating agencies.

(d) *Valuation of post-employment benefits obligation*

The projected cost of defined benefit pension plans and other non-pension future benefits is determined using actuarial valuations performed by external pension actuaries. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rate, expected health care costs, inflation, and future pension increases. The details of the assumptions are disclosed in note 18. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual experience that differs from the assumptions will affect the amounts of the benefit obligation recognized in the consolidated balance sheet, the expense recognized in net income, and actuarial gains or losses recognized in OCI (or in operating expenses as discussed in note 2) in the consolidated statement of comprehensive income.

(e) *Measurement of income taxes*

The Company is subject to income tax laws in various federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect the risk of tax positions under discussion, audit dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty.

5. RISKS RELATED TO COVID-19 AND RELATED FINANCIAL IMPACTS

In March 2020, the World Health Organization declared COVID-19 a pandemic. A range of measures has been taken worldwide to reduce the spread of COVID-19. These actions have resulted in significant disruption and uncertainty in the global economic environment across various industries, and significant volatility in global capital markets. In response, governments and central banks have introduced numerous monetary and fiscal policy measures to help stabilize their respective economies.

The Company is continuing to monitor the evolving impact of COVID-19 to its operations and capital position. There is increased uncertainty impacting the valuation of claim liabilities due to changes in claims reporting and development. The ensuing market volatility has impacted the valuation of investments (refer to note 6) and the valuation of the discount rate used in measuring claim liabilities (refer to note 8). The Company manages the FVTPL bond portfolio's quantum and duration so that the impact of changes in interest rates on claim liabilities and on the FVTPL portfolio are expected to reasonably offset each other.

The Company recorded incurred losses of \$30.0 million in "Net claims and adjustment expenses" in the consolidated statement of comprehensive income (loss) in 2020 for potential exposures related to COVID-19.

The Company is continuing to respond to the hardships that COVID-19 has created for individuals, communities, and businesses across Canada with a mix of customer relief and community impact efforts to provide support for Canadians. The Company's support efforts include reductions of premiums for customers, flexible payment options for personal insurance customers, and solutions for brokers and business owners. The impact of these measures in 2020 resulted in a reduction in gross written premiums of approximately \$60 million and a reduction in net earned premiums of approximately \$25 million.

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 resulting from COVID-19.

Due to the significant uncertainties in the current business environment surrounding the duration of the pandemic and overall economic impact of COVID-19, the extent of the impact on the Company's financial condition and performance in the future remains uncertain.

Along with many other P&C insurers in Canada, the Company has been named as a defendant in uncertified class proceedings that together purport to be on behalf of all policyholders with business interruption coverage. The class actions seek damages for business interruption losses relating to the COVID-19 pandemic and other allegedly related damages. The Company denies liability and intends to vigorously defend these proceedings.

6. INVESTMENTS

(a) *Investment income and balances*

Investment income by financial instrument classification is as follows:

	2020			
	FVTPL	AFS	Loans and receivables	Total
	(in millions of dollars)			
Interest	\$ 41.2	\$ 32.7	\$1.4	\$ 75.3
Dividends	—	29.1	—	29.1
Investment expenses	—	—	—	(4.1)
Net investment income	41.2	61.8	1.4	100.3
Realized gains on sale of investments	0.2	12.6	—	12.8
Impairment losses on AFS investments	—	(17.6)	—	(17.6)
Unrealized gains on FVTPL investments	84.6	—	—	84.6
Recognized gains (losses) on investments	84.8	(5.0)	—	79.8
	<u>\$126.0</u>	<u>\$ 56.8</u>	<u>\$1.4</u>	<u>\$180.1</u>

	2019			
	FVTPL	AFS	Loans and receivables	Total
	(in millions of dollars)			
Interest	\$40.9	\$ 37.9	\$3.7	\$ 82.5
Dividends	—	27.0	—	27.0
Investment expenses	—	—	—	(4.1)
Net investment income	40.9	64.9	3.7	105.4
Realized gains on sale of investments	12.6	39.5	—	52.1
Impairment losses on AFS investments	—	(0.3)	—	(0.3)
Unrealized gains on FVTPL investments	16.5	—	—	16.5
Recognized gains on investments	29.1	39.2	—	68.3
	<u>\$70.0</u>	<u>\$104.1</u>	<u>\$3.7</u>	<u>\$173.7</u>

	2018			
	FVTPL	AFS	Loans and receivables	Total
	(in millions of dollars)			
Interest	\$ 34.2	\$ 33.4	\$4.2	\$ 71.8
Dividends	—	35.4	—	35.4
Investment expenses	—	—	—	(4.6)
Net investment income	34.2	68.8	4.2	102.6
Realized (losses) gains on sale of investments	(22.4)	74.6	—	52.2
Impairment losses on AFS investments	—	(15.7)	—	(15.7)
Unrealized gains on FVTPL investments	22.4	—	—	22.4
Recognized gains on investments	—	58.9	—	58.9
	\$ 34.2	\$127.7	\$4.2	\$166.1

The fair value yield as at December 31, 2020 for the FVTPL bond portfolio was 0.77% (2019: 2.18%, 2018: 2.33%) and for the AFS bond portfolio was 0.76% (2019: 2.12%, 2018: 3.02%).

Investment carrying values by financial instrument classification are as follows:

	2020			
	FVTPL	AFS	Loans and receivables	Total
	(in millions of dollars)			
Short-term investments	\$ 35.0	\$ 183.2	\$ —	\$ 218.2
Bonds	1,898.8	1,501.9	—	3,400.7
Preferred stocks	—	336.6	—	336.6
Common stocks	—	329.8	—	329.8
Pooled funds	—	43.4	—	43.4
Commercial loans	—	—	37.6	37.6
	<u>\$1,933.8</u>	<u>\$2,394.9</u>	<u>\$37.6</u>	<u>\$4,366.3</u>

	2019			
	FVTPL	AFS	Loans and receivables	Total
	(in millions of dollars)			
Short-term investments	\$ —	\$ 228.1	\$ —	\$ 228.1
Bonds	1,833.6	1,390.2	—	3,223.8
Preferred stocks	—	345.1	—	345.1
Common stocks	—	296.8	—	296.8
Pooled funds	—	44.4	—	44.4
Commercial loans	—	—	52.8	52.8
	<u>\$1,833.6</u>	<u>\$2,304.6</u>	<u>\$52.8</u>	<u>\$4,191.0</u>

The commercial loans have an amortized cost of \$37.6 million (2019: \$52.8 million) and fair value of \$35.8 million (2019: \$50.4 million).

The gross unrealized gains (losses) on AFS investments are detailed below. The cost of all AFS investments, except AFS bonds, is the purchase price less cumulative impairment losses, if applicable. The cost of all AFS bonds is the amortized cost adjusted for cumulative impairment losses.

2020				
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
	(in millions of dollars)			
Short-term investments	\$ 182.9	\$ 0.3	\$ —	\$ 183.2
Bonds:				
Government	920.4	34.8	(0.3)	954.9
Corporate	526.7	20.3	—	547.0
	1,447.1	55.1	(0.3)	1,501.9
Canadian preferred stocks	384.8	6.5	(54.7)	336.6
Common stocks:				
Canadian	231.7	37.5	(4.0)	265.2
Foreign	26.2	38.4	—	64.6
Foreign pooled funds	42.4	1.0	—	43.4
	300.3	76.9	(4.0)	373.2
	<u>\$2,315.1</u>	<u>\$138.8</u>	<u>\$(59.0)</u>	<u>\$2,394.9</u>
2019				
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
	(in millions of dollars)			
Short-term investments	\$ 226.2	\$ 1.9	\$ —	\$ 228.1
Bonds:				
Government	830.9	0.8	(6.1)	825.6
Corporate	559.5	5.5	(0.4)	564.6
	1,390.4	6.3	(6.5)	1,390.2
Canadian preferred stocks	403.7	0.7	(59.3)	345.1
Common stocks:				
Canadian	217.0	26.6	(1.4)	242.2
Foreign	26.1	28.6	(0.1)	54.6
Foreign pooled funds	43.2	1.2	—	44.4
	286.3	56.4	(1.5)	341.2
	<u>\$2,306.6</u>	<u>\$65.3</u>	<u>\$(67.3)</u>	<u>\$2,304.6</u>

(b) Financial instruments measured at fair value

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

- (i) Level 1 fair value measurements reflect unadjusted, quoted prices in active markets for identical assets, and liabilities that the Company has the ability to access at the measurement date. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1 and into Level 2 or Level 3 as appropriate. Included in the Level 1 category are exchange-traded derivatives and all stocks, except the pooled funds.
- (ii) Level 2 fair value measurements use inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable but are not prices such as interest rates and credit risks and inputs that are derived from or corroborated by observable market data. Included in the Level 2 category are all bonds which are valued on a discounted cash flow basis, the pooled funds which are valued based on quoted prices of the underlying securities in an active market, and short-term investments which are valued on a discounted cash flow basis. The inputs into the discounted cash flow model for the bonds and short-term investments are an estimate of the expected cash flows discounted at a pre-tax risk-free rate plus an appropriate adjustment for credit risk.
- (iii) Level 3 fair value measurements use significant non-market observable inputs, including assumptions about risk or liquidity. As at December 31, 2020, the Company has no financial instruments in this category (2019: nil).

Commercial loans are measured at cost, but fair value is disclosed. The fair value is measured on a discounted cash flow basis. The inputs into the discounted cash flow model are an estimate of the expected cash flows discounted at a pre-tax risk-free rate plus an appropriate adjustment for credit risk.

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

2020				
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Short-term investments	\$ —	\$ 218.2	\$—	\$ 218.2
Bonds	—	3,400.7	—	3,400.7
Preferred stocks	336.6	—	—	336.6
Common stocks	329.8	—	—	329.8
Pooled funds	—	43.4	—	43.4
	<u>\$666.4</u>	<u>\$3,662.3</u>	<u>\$—</u>	<u>\$4,328.7</u>

2019				
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Short-term investments	\$ —	\$ 228.1	\$—	\$ 228.1
Bonds	—	3,223.8	—	3,223.8
Preferred stocks	345.1	—	—	345.1
Common stocks	296.8	—	—	296.8
Pooled funds	—	44.4	—	44.4
	<u>\$641.9</u>	<u>\$3,496.3</u>	<u>\$—</u>	<u>\$4,138.2</u>

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

(c) *Impairment review*

Impairment reclassification of unrealized losses from AOCI to net income (loss) is as follows:

	2020	2019	2018
	(in millions of dollars)		
Common stocks:			
Canadian	\$15.4	\$0.2	\$15.2
Foreign	2.2	0.1	0.5
	<u>\$17.6</u>	<u>\$0.3</u>	<u>\$15.7</u>

Global equity markets have experienced significant volatility in 2020, largely due to the COVID-19 pandemic (as discussed in note 5), leading to an impairment charge of \$17.6 million primarily on domestic common stocks in 2020. The remaining gross unrealized losses of \$59.0 million (2019: \$67.3 million) on the AFS investments have not been recognized in net income (loss) as the Company does not believe there is currently objective evidence of impairment.

The Company has determined that there is no evidence of significant impairment of any individual commercial loan because all balances are current, and a review of the financial condition of the debtors and pledged collateral indicates that there is reasonable assurance of timely collection of the full amounts of principal and interest.

(d) *Securities lending*

The Company participates in a securities lending program managed by a major financial institution, whereby the Company lends securities it owns to borrowers to allow them to meet delivery commitments. The lending agents assume the risk of borrower default associated with the lending activity. As at December 31, 2020, securities with an estimated fair value of \$607.8 million (2019: \$597.5 million) have been loaned and securities with an estimated fair value of \$628.4 million (2019: \$617.4 million) have been received as collateral from the financial institutions. Lending collateral as at December 31, 2020 was 100.0% (2019: 100.0%) held in cash and government-backed securities. The securities loaned under this program have not been removed from "Investments" in the consolidated balance sheet because the Company retains the risks and rewards of ownership.

The financial compensation the Company receives in exchange for securities lending, amounting to \$0.7 million (2019: \$0.6 million, 2018: \$0.8 million), is reflected in the consolidated statement of comprehensive income (loss) in "Net investment income".

(e) *Derivative financial instruments*

The Company holds futures contracts, which are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organized market. The futures contracts are exchange-traded and collateralized by cash. As at December 31, 2020, the Company had derivative financial assets with a notional amount of \$102.5 million (2019: \$22.0 million). These derivatives have an expected maturity date within the next year. The fair value of the derivative financial instruments is not significant.

Fair values of exchange-traded derivatives are based on quoted market prices. Equity or bond index futures are standardized contracts transacted on an exchange. They are based on an agreement to pay or receive a cash amount based on the difference between the contracted price level of an underlying stock or bond index and its corresponding market price level at a specified future date. There is generally no actual delivery of stocks or bonds that comprise the underlying index. These contracts are in standard amounts with standard settlement dates.

7. FINANCIAL RISK MANAGEMENT

The Company's financial instruments, including investments, are exposed to interest rate risk (including the impact of credit spreads), equity market price risk and preferred stock price risk, credit risk, foreign exchange risk, and liquidity risk. The Company's Investment Policy Statement ("IPS") establishes asset mix parameters and risk limits which minimize undue exposure to these risks in the investment portfolio. The IPS is reviewed at least annually by the Investment Committee of the Board of Directors. Compliance with the IPS is monitored quarterly by the Investment Committee.

(a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of assets and liabilities as they either mature or are contractually repriced. Changes in interest rates can occur from both changes in the Government of Canada yield curve and changes in relevant market credit spreads. Typically, interest income will be reduced during sustained periods of declining interest rates, but this will also generally increase the fair value of the bond portfolio. The opposite is true during a sustained period of increasing interest rates.

Interest rate risk is a significant risk to the Company due to the nature of its investments and claim liabilities. Accordingly, a portion of the Company's bond portfolio has been voluntarily designated as FVTPL financial assets which, together with a portion of AFS bonds, is managed to offset the effect that interest rate changes have on the Company's claim liabilities. The effect of interest rate risk associated with discounting claim liabilities is disclosed in note 9.

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

<u>Impact on:</u>	2020		2019	
	+ 1%	- 1%	+ 1%	- 1%
	(in millions of dollars)			
Fair value of FVTPL bonds and income before income taxes	\$(77.0)	\$85.5	\$(72.7)	\$82.8
Fair value of AFS bonds and OCI before income taxes	\$(60.8)	\$69.8	\$(52.8)	\$59.8

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

Economic trends, investee performance, the political environment, and other factors can positively or adversely impact the equity markets and, consequently, the value of equity investments the Company holds. The Company's AFS portfolio includes Canadian common stocks with fair value movements that are benchmarked against movements in the Toronto Stock Exchange 60 Index, and foreign stocks and pooled funds with fair values that are benchmarked against movements in the MSCI World Index. Also included in the AFS portfolio are the Company's holdings of preferred stocks. Economic trends, interest rates, credit conditions, regulatory changes, and other factors can positively or adversely impact the value of preferred stocks that the Company holds. The fair value sensitivity of the Company's preferred stocks is assessed against movements in the S&P Preferred Share Index.

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

<u>Impact on:</u>	2020		2019	
	+ 10%	- 10%	+ 10%	- 10%
	(in millions of dollars)			
Fair value of Canadian stocks and OCI before income taxes	\$26.6	\$(26.6)	\$23.0	\$(23.0)
Fair value of foreign stocks, pooled funds and OCI before income taxes	\$11.0	\$(11.0)	\$10.0	\$(10.0)
Fair value of preferred stocks and OCI before income taxes	\$36.5	\$(36.5)	\$31.7	\$(31.7)

(c) Credit risk

Credit risk is the risk of financial loss caused by the Company's counterparties not being able to meet payment obligations as they become due. The Company's credit risk arises primarily in the bond, preferred stock and commercial loan portfolios, the securities lending program, premiums receivable, amounts owing from reinsurers, and structured settlements. Unless otherwise stated, the Company's credit exposure is limited to the carrying amount of these assets. The Company's principal approach to mitigate credit risk is to maintain high credit quality standards and to diversify credit exposures by limiting single name concentrations. Concentration risk also exists where multiple counterparties may be financially affected by changing economic conditions in a similar manner. As noted below, the Company has a concentration of investments in Canada and within the financial sector. These risk concentrations are regularly monitored and adjusted as deemed necessary.

Bonds and preferred stocks

The Company invests in bonds and preferred stocks of high credit quality, and limits exposure with respect to any one issuer. On a regular basis, the Company also monitors publicly available information referencing the investments held in the investment portfolio to determine whether there are investments which require closer monitoring of the credit risk. Of the bonds held as at December 31, 2020, 92.0% (2019: 91.1%) were rated "A-" or better and 81.1% (2019: 83.6%) of the preferred stocks were rated "P2". "A-" and "P2" represent the ratings provided by two recognized rating services for high-grade bonds and preferred stocks, respectively, where both asset and earnings protection are well assured.

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

	<u>2020</u>	<u>2019</u>
Financial services	61.3%	62.4%
Utilities	10.0%	6.0%
Energy	9.4%	9.9%
Industrials	7.1%	6.6%
Communication services	3.6%	5.3%
Other	8.6%	9.8%
	<u>100.0%</u>	<u>100.0%</u>

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

	<u>2020</u>	<u>2019</u>
Canada	99.8%	99.8%
United States	0.1%	0.1%
Other	0.1%	0.1%
	<u>100.0%</u>	<u>100.0%</u>

Securities lending

As disclosed in note 6, the Company participates in a securities lending program. The Company manages credit risk associated with this program by obtaining indemnification against security borrower counterparty default from the major financial institution and by obtaining collateral with a fair value in excess of the value of the securities loaned under the program. The ratio of fair value of collateral obtained in excess of the fair value of the securities loaned as at December 31, 2020 is 103.4% (2019: 103.3%).

Premiums receivable

The Company's credit exposure to any one individual policyholder or broker included in premiums receivable is not significant. The Company regularly monitors amounts due from policyholders and follows up on all overdue accounts. As permitted by legislation, when premiums are overdue for an extended period of time the Company cancels the insurance coverage under the applicable policy. Before a broker is granted a contract, due diligence reviews are conducted by the Company. Delinquent accounts are regularly monitored, and the Company takes action against non-payment. The allowance for doubtful accounts in the current and comparative periods is insignificant as overdue receivables are not material.

Commercial loans

The Company periodically issues commercial loans to brokers. Collateral, principally in the form of security over a borrowing brokerage's operating assets, is held to protect the Company against loss in the event of a default of any of these loans. Annually, and where required more frequently, financial reviews are undertaken to determine if the broker is expected to be able to make the payments required by the loan as and when due. The Company's gross credit exposure on these commercial loans is limited to their carrying value as disclosed in note 6. Management does not consider any of these current commercial loans to be impaired as at December 31, 2020.

Reinsurance receivable and recoverable

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

Currently, 97.3% of the Company's reinsurers have a credit rating of "A-" or better as determined by independent rating agencies. Where appropriate, the Company obtains collateral for outstanding balances in the form of cash, letters of credit, offsetting balances payable, guarantees, or assets held under reinsurance security agreements. The Company has recorded an allowance for losses on reinsurance receivable and recoverable of \$0.5 million (2019: \$0.5 million).

Structured settlements

The Company has purchased annuities from life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, the Company is exposed to credit risk to the extent to which any of the life insurers fail to fulfil their obligations. This risk is

managed by acquiring annuities from multiple life insurers with proven financial stability, all of which are rated “A-” or better by independent rating agencies. As at December 31, 2020, no information has come to the Company’s attention that would suggest any weakness or failure in life insurers from which it has purchased annuities. Consequently, no provision for credit risk was recorded (2019: nil). The original purchase price of the outstanding annuities is \$318.4 million (2019: \$313.3 million).

(d) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates relative to the Canadian dollar. The Company’s foreign exchange risk relates primarily to its foreign common stock and pooled fund holdings in the AFS portfolio which are denominated in various foreign currencies.

The Company’s largest foreign currency exposure is to the US dollar. The impact on the fair value of US dollar foreign stocks, pooled funds, and OCI before income taxes from a 10% change in the US dollar relative to the Canadian dollar is \$7.0 million (2019: \$6.3 million). Under this same scenario, the impact on the fair value of non-US dollar foreign stocks, pooled funds, and OCI before income taxes is \$1.5 million (2019: \$1.3 million) assuming historical correlations between currency pairs remain intact. The estimated impact on income taxes would be calculated at the statutory rate of 26.5% (2019: 26.8%).

(e) Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations, particularly those related to claim payments. The liquidity requirements of the Company’s business are met primarily by funds generated from operations, asset maturities, and investment returns. Liquidity risk arises in relation to each of those funding sources. Cash provided from these sources normally exceeds cash requirements to meet claim payments and operating expenses.

As at December 31, 2020, the Company has \$510.3 million (2019: \$94.7 million) of cash and cash equivalents and \$218.2 million (2019: \$228.1 million) of short-term investments. The Company also has a highly liquid investment portfolio. As at December 31, 2020, Canadian fixed income investments issued or guaranteed by domestic governments, investment-grade corporate bonds, publicly traded Canadian and foreign equities and the pooled funds have a fair value of \$4,046.9 million (2019: \$3,853.5 million).

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

For claim liabilities and reinsurance receivable and recoverable, maturity profiles are determined based on estimated timing of net cash flows on an undiscounted basis. DPAE, UPR, and the reinsurers’ share of UPR have been excluded from the analysis as they are not of themselves contractual obligations. Included in accounts payable and other liabilities are undiscounted lease payments of \$5.6 million (2019: \$6.1 million) (< 1 year), \$14.6 million (2019: \$17.6 million) (Over 1 to 5 years), \$5.0 million (2019: \$7.6 million) (Over 5 to 10 years), and nil (2019: nil) (> 10 years).

	2020				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
	(in millions of dollars)				
Assets:					
Cash and cash equivalents	\$ 510.3	\$ —	\$ —	\$ —	\$ 510.3
Short-term investments	218.2	—	—	—	218.2
FVTPL bonds	229.6	856.4	789.0	23.8	1,898.8
AFS bonds	246.8	548.4	686.6	20.1	1,501.9
Preferred stocks	58.9	270.0	7.7	—	336.6
Commercial loans	3.9	18.7	15.0	—	37.6
Accrued investment income	16.8	—	—	—	16.8
Premiums receivable	958.7	—	—	—	958.7
Income taxes receivable	2.1	—	—	—	2.1
Reinsurance receivable and recoverable	17.5	27.3	9.4	1.3	55.5
	<u>\$2,262.8</u>	<u>\$1,720.8</u>	<u>\$1,507.7</u>	<u>\$ 45.2</u>	<u>\$5,536.5</u>
Liabilities:					
Claim liabilities	\$ 881.9	\$1,402.8	\$ 420.2	\$114.8	\$2,819.7
Accounts payable and other liabilities	261.9	22.9	14.6	28.3	327.7
Income taxes payable	18.7	—	—	—	18.7
	<u>\$1,162.5</u>	<u>\$1,425.7</u>	<u>\$ 434.8</u>	<u>\$143.1</u>	<u>\$3,166.1</u>

	2019				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
	(in millions of dollars)				
Assets:					
Cash and cash equivalents	\$ 94.7	\$ —	\$ —	\$ —	\$ 94.7
Short-term investments	228.1	—	—	—	228.1
FVTPL bonds	199.1	825.1	750.5	58.9	1,833.6
AFS bonds	107.6	653.3	624.3	5.0	1,390.2
Preferred stocks	97.7	238.4	9.0	—	345.1
Commercial loans	13.4	18.3	21.1	—	52.8
Accrued investment income	18.8	—	—	—	18.8
Premiums receivable	850.7	—	—	—	850.7
Income taxes receivable	3.0	—	—	—	3.0
Reinsurance receivable and recoverable	34.8	22.4	3.8	0.6	61.6
	<u>\$1,647.9</u>	<u>\$1,757.5</u>	<u>\$1,408.7</u>	<u>\$ 64.5</u>	<u>\$4,878.6</u>
Liabilities:					
Claim liabilities	\$ 821.7	\$1,363.9	\$ 420.7	\$111.1	\$2,717.4
Accounts payable and other liabilities	176.7	25.6	16.8	26.3	245.4
Income taxes payable	2.2	—	—	—	2.2
	<u>\$1,000.6</u>	<u>\$1,389.5</u>	<u>\$ 437.5</u>	<u>\$137.4</u>	<u>\$2,965.0</u>

Note 18(c) contains the maturity profile for other post-employment benefit obligations.

The Company believes that it currently has the flexibility to obtain the funds needed to meet cash requirements on an ongoing basis.

8. POLICY LIABILITIES

These consolidated financial statements contain an actuarial estimate of the policy liabilities of the Company. Policy liabilities represent the amount of the obligation of the Company on account of policies effective on or before the reporting date and consist of premium and claim liabilities. Claim liabilities are associated with claims that have occurred on or before the reporting date, whether the claim has been reported to the Company at that time or not, whereas premium liabilities are associated with claims that may occur in the future on policies in force on the reporting date.

(a) Premium liabilities

Premium liabilities are represented by the amount of net UPR less the amount of net DPAE. Generally, broker commissions, premium taxes, and certain direct expenses in respect of the Company's digital direct business, corresponding to the net UPR are deferrable; however, this amount is written down if the resulting expected future net policy costs are greater than the net UPR. No such write-down to DPAE was considered necessary for the year ended December 31, 2020 (2019: nil).

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

	2020	2019
	(in millions of dollars)	
DPAE, beginning of year	\$ 235.6	\$ 230.1
Acquisition costs deferred	465.9	422.7
Amortization of acquisition costs	(441.3)	(417.2)
DPAE, end of year	<u>\$ 260.2</u>	<u>\$ 235.6</u>

The following changes have occurred in UPR during the year:

	2020			2019		
	Gross	Ceded (Note 10)	Net	Gross	Ceded (Note 10)	Net
	(in millions of dollars)					
UPR, beginning of year	\$ 1,294.5	\$ 47.2	\$ 1,247.3	\$ 1,268.5	\$ 9.0	\$ 1,259.5
Premiums written during year	2,814.7	174.9	2,639.8	2,511.0	180.0	2,331.0
Premiums earned during year	(2,676.1)	(167.4)	(2,508.7)	(2,485.0)	(141.8)	(2,343.2)
UPR, end of year	<u>\$ 1,433.1</u>	<u>\$ 54.7</u>	<u>\$ 1,378.4</u>	<u>\$ 1,294.5</u>	<u>\$ 47.2</u>	<u>\$ 1,247.3</u>

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

	2020		
	Gross UPR	Ceded UPR	Net UPR
	(in millions of dollars)		
Personal lines:			
Auto	\$ 695.6	\$25.9	\$ 669.7
Property	373.4	13.5	359.9
Commercial lines	364.1	15.3	348.8
	<u>\$1,433.1</u>	<u>\$54.7</u>	<u>\$1,378.4</u>
	2019		
	Gross UPR	Ceded UPR	Net UPR
	(in millions of dollars)		
Personal lines:			
Auto	\$ 665.0	\$25.0	\$ 640.0
Property	311.8	11.7	300.1
Commercial lines	317.7	10.5	307.2
	<u>\$1,294.5</u>	<u>\$47.2</u>	<u>\$1,247.3</u>

(b) Claim liabilities

Claim liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the end of the year, including IBNR. The ultimate cost of these liabilities may vary from the best estimate made at any point in time. Note 4 contains additional information on the judgments, estimates and assumptions used in determining claim liabilities. The discount rate as at December 31, 2020 used to discount the claim liabilities was 0.82% (2019: 2.16%).

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

	2020		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
	(in millions of dollars)		
Claim liabilities, beginning of year	\$2,808.2	\$65.3	\$2,742.9
Current year claims incurred	1,641.8	49.9	1,591.9
Prior year (favourable) adverse claims development	(29.1)	0.5	(29.6)
Claims and adjustment expenses	1,612.7	50.4	1,562.3
Increase due to discounting (including PfAD)	116.0	2.0	114.0
Claims and adjustment expenses, discounted	1,728.7	52.4	1,676.3
Claims paid during the year	1,510.6	48.5	1,462.1
Claim liabilities, end of year	<u>\$3,026.3</u>	<u>\$69.2</u>	<u>\$2,957.1</u>
	2019		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
	(in millions of dollars)		
Claim liabilities, beginning of year	\$2,670.6	\$55.4	\$2,615.2
Current year claims incurred	1,812.0	60.2	1,751.8
Prior year favourable claims development	(45.4)	(7.5)	(37.9)
Claims and adjustment expenses	1,766.6	52.7	1,713.9
Increase due to discounting (including PfAD)	29.0	—	29.0
Claims and adjustment expenses, discounted	1,795.6	52.7	1,742.9
Claims paid during the year	1,658.0	42.8	1,615.2
Claim liabilities, end of year	<u>\$2,808.2</u>	<u>\$65.3</u>	<u>\$2,742.9</u>

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

	2020		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
	(in millions of dollars)		
Personal lines:			
Auto	\$1,945.3	\$41.3	\$1,904.0
Property	171.2	4.6	166.6
Commercial lines	909.8	23.3	886.5
	<u>\$3,026.3</u>	<u>\$69.2</u>	<u>\$2,957.1</u>
	2019		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
	(in millions of dollars)		
Personal lines:			
Auto	\$1,763.5	\$28.3	\$1,735.2
Property	150.1	3.7	146.4
Commercial lines	894.6	33.3	861.3
	<u>\$2,808.2</u>	<u>\$65.3</u>	<u>\$2,742.9</u>

9. INSURANCE RISK MANAGEMENT

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

(a) Underwriting risk

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

The concentration of gross written premiums, claims and adjustment expenses, and other underwriting expenses (the sum of net commissions, operating expenses, premium taxes, and net of other underwriting revenues) by line of business is as follows:

	Gross written premiums			Claims and adjustment expenses			Underwriting expenses		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Personal auto	47.4%	50.3%	49.8%	54.2%	58.0%	51.5%	44.3%	45.7%	46.8%
Personal property	26.7%	25.2%	22.6%	22.1%	19.2%	18.6%	28.1%	25.6%	24.2%
Commercial lines	25.9%	24.5%	27.6%	23.7%	22.8%	29.9%	27.6%	28.7%	29.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

	2020	2019	2018
Ontario	58.3%	60.3%	61.2%
Alberta and Prairies	14.2%	14.2%	14.4%
British Columbia	10.4%	10.1%	10.7%
Atlantic	8.7%	8.2%	7.7%
Quebec	8.4%	7.2%	6.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

A financial loss occurs when the liabilities assumed exceed the expectation reflected in the pricing of an insurance product. The Company prices its products by taking into account numerous factors including product design and features, claim frequency and severity trends, product line expense ratios, special risk factors, capital requirements, regulatory requirements, and expected investment returns. These factors are reviewed and adjusted on an ongoing basis to ensure they are reflective of current trends and market conditions. The Company endeavours to maintain pricing levels that produce an acceptable return by appropriately measuring and incorporating these factors into its pricing decisions. Pricing segmentation and risk selection are used together with a view to attracting and retaining risks at acceptable return rates. The process of calculating pricing involves the use of models, which exposes the Company to model risk in the event that actual results differ from those modelled, due to model limitations, data issues, human error, or other factors.

New products and product changes are subject to a detailed review by management, including the Company's actuarial specialists, prior to their launch in order to mitigate the risk that they are priced at an inadequate level. The performance and pricing of all of the Company's products are regularly monitored, and corrective action is taken as considered necessary, including re-pricing of the products, modification of product terms, conditions, eligibility requirements, modification of the level of capacity provided, the use of reinsurance, and eliminating the offering of some products.

To minimize the risk arising from underwriting, the Company has policies that set out the underwriting risk appetite and criteria, as well as specified tolerances for maximum financial risk retention and management processes to monitor compliance with these limits. The Company utilizes reinsurance in order to manage its exposure to insured risks. Once the retention limits are reached, reinsurance is utilized with the aim of covering the excess risk.

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

In the normal course of business, the Company is, from time to time, subject to a variety of legal and regulatory actions relating to its operations. In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative and regulatory activity may increase the Company's exposure to these types of legal claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. When necessary, claims reserves are adjusted to reflect potential legal defence costs and potential settlements.

Quality review procedures seek to ensure that the Company's underwriting and claim activities fall within established guidelines, expected practices, and pricing structures. Centralized and field level reviews are conducted on a test basis. The results of these quality reviews are shared with the appropriate management and staff with the intention that any issues identified can be promptly addressed.

The Company uses reinsurance to manage its exposure to insurance risks. Reinsurance coverage risk arises because reinsurance terms, conditions, availability, and pricing may change on renewal, particularly during times of high levels of catastrophe events, either in Canada or globally, or as a result of higher than expected claims activity on non-catastrophe reinsurance treaties. In addition, reinsurers may seek to impose terms that are inconsistent with corresponding terms in the policies written by the Company. Ceding risk to reinsurers does not relieve the Company of the obligation to its policyholders for claims; therefore, the Company manages the level of credit risk associated with reinsurers and the Company's recoverable balances. Management reviews the Company's reinsurance program with the intention of ensuring its cost effectiveness and that adequate coverage is obtained, which reflects the Company's risk tolerances, underwriting practices, and financial strength, while at the same time complying with its reinsurance and capital risk management policies.

The P&C insurance industry is subject to significant government regulation. As a result, it is possible that future regulatory changes or changes in interpretations may limit the Company's ability to adjust prices, adjudicate claims, or take other actions that would impact operating results. The Company seeks to mitigate this risk through regular discussions with regulators and P&C insurance industry groups to ensure the Company is aware of proposed changes and by providing feedback to regulators on proposed changes. The Company monitors compliance with relevant regulations and considers the implications of potential changes in regulation or interpretation on future results. Note 19 provides information on regulatory capital requirements. Note 21 provides additional details on rate regulation.

(b) Reserve estimate risk

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

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

Individual claims estimates are determined by claims adjusters on a case-by-case basis in accordance with documented policies and procedures. These specialists apply their experience, knowledge, and expertise, after taking into account available information regarding the circumstances of the claim to set individual case reserve estimates. Uncertainty exists on reported claims in that all information may not be available at the valuation date. Uncertainty also exists regarding the number and size of claims not yet reported as well as the timing of when the claims will be reported. Accordingly, the IBNR provision is intended to cover future additional costs emerging on both reported claims and claims that have occurred but have not yet been reported.

The valuation of claim liabilities is based on estimates derived by geographical region and line of business using generally accepted actuarial techniques. Numerous individual assumptions that impact average claim costs or frequency of late reported claims are made for each line of business. The main assumption in the majority of actuarial techniques employed is that future claims development will follow a pattern similar to recent historical experience. However, there are times where historical experience is deemed inappropriate for evaluating future development because there is insufficient credible data, or because changes in claims handling practices, changes in climate patterns, recent judicial decisions, changes to legislation or major shifts in a book of business indicate a departure from historical trends. Such instances can require significant actuarial judgment, often supported by industry benchmarks and studies, in establishing an adequate provision for claim liabilities.

As the outstanding claim liabilities are intended to represent payments that will be made in the future, they are discounted to reflect the time value of money. The discount rate used to discount the actuarial value of claim liabilities is based on the fair value yield of the Company's bond investments that support the claim liabilities (note 6). In assessing the risks associated with investment income and therefore the discount rate, the Company considers the nature of the bond portfolio and the timing of claim payments, and the extent to which they match, to expected investment cash flows. Future changes in the bond portfolio could change the value of claim liabilities by impacting the fair value yield.

The following table presents the interest rate sensitivity analysis for a one percentage point change in interest rates on the net claim liabilities:

Impact on:	2020		2019	
	+ 1%	- 1%	+ 1%	- 1%
	(in millions of dollars)			
Net claim liabilities	<u>\$ (83.6)</u>	<u>\$ 89.6</u>	<u>\$ (75.1)</u>	<u>\$ 80.4</u>

Establishing an adequate provision for claim liabilities is an inherently uncertain process and is closely monitored by the Company's corporate actuarial department. Claim liabilities, including the provision for IBNR as established by the Company's corporate actuaries, are subject to an internal and external peer review process to assess the adequacy of the provision for claim liabilities. The sheer volume and diversity of considerations makes it impracticable to measure the impact on the Company's insurance contracts resulting from a change in a particular assumption or group of assumptions. The analysis below demonstrates the impact of changing assumptions for all lines of business and geographical regions in such a way that the average claim severity and frequency is altered significantly. The analysis below also isolates the impact within the average claims severity of a change in internal claims expenses on claim liabilities. The impacts below are on the reported claim liabilities as at December 31.

Impact of change in net claim liabilities due to:	2020		2019	
	+5%	-5%	+5%	-5%
	(in millions of dollars)			
Change in average claims severity	\$140.0	\$ (140.0)	\$129.5	\$ (129.5)
Change in frequency on unreported claims	\$ 12.5	\$ (12.5)	\$ 13.0	\$ (13.0)
Change in internal claims expenses	<u>\$ 7.6</u>	<u>\$ (7.6)</u>	<u>\$ 7.5</u>	<u>\$ (7.5)</u>

Assumptions and methods of estimation have been used that the Company believes produce reasonable results given current information. As additional experience and other data become available, the estimates could be revised. Any future changes in estimates would be reflected in the consolidated statement of comprehensive income (loss) in the year in which the change occurred.

The following table shows the development of claims over a period of time. The table reflects development for net claims, which is gross claims less reinsurance recoveries. The triangle in the table ("Estimate of ultimate claims") shows how the ultimate estimates of total claims for each accident year develop over time as more information becomes known regarding individual claims and overall claims frequency and severity. Each column tracks the claims relating to a particular "accident year" which is the year in which such loss events occurred, regardless of when they were reported. The rows reflect the estimates in subsequent years for each accident year's claims. Claims are presented on an undiscounted basis in the triangle. "Cumulative claims paid" in the table presents the cumulative amounts paid for claims for each accident year as at December 31, 2020.

The claims development table excludes the FA, RSP/PRR and the effect of discounting (including PfAD), which are shown as separate reconciling items below the table.

Claims development table, net of reinsurance:

	Accident Year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	(in millions of dollars)										
Estimate of ultimate claims											
At end of accident year	\$1,129.6	\$1,058.6	\$1,225.0	\$1,258.5	\$1,273.5	\$1,425.5	\$1,602.6	\$1,686.9	\$1,704.0	\$1,550.6	
1 year later	1,038.7	1,005.6	1,211.9	1,241.1	1,248.0	1,445.0	1,586.3	1,672.1	1,681.0		
2 years later	1,031.5	1,003.5	1,211.5	1,238.1	1,278.9	1,448.9	1,581.3	1,664.9			
3 years later	1,050.9	1,003.4	1,225.1	1,245.2	1,277.0	1,446.7	1,549.3				
4 years later	1,047.5	1,010.5	1,234.6	1,252.7	1,273.6	1,430.1					
5 years later	1,045.8	1,014.6	1,232.9	1,252.9	1,281.1						
6 years later	1,042.2	1,015.0	1,228.7	1,264.8							
7 years later	1,040.4	1,016.3	1,233.0								
8 years later	1,042.9	1,021.4									
9 years later	1,046.5										
Adverse (favourable)											
development recognized in the											
year, undiscounted	3.6	5.1	4.3	11.9	7.5	(16.6)	(32.0)	(7.2)	(23.0)		\$ (46.4)
Adverse development recognized											
from 2010 and prior accident											
years											14.1
Adverse development recognized											
from FA and RSP/PRR ceded											
and assumed in the year											2.7
Total favourable development											\$ (29.6)
recognized in the year											
Reconciliation to the											
consolidated balance sheet											
Current estimate of ultimate											
claims	1,046.5	1,021.4	1,233.0	1,264.8	1,281.1	1,430.1	1,549.3	1,664.9	1,681.0	1,550.6	\$13,722.7
Cumulative claims paid	1,022.5	986.5	1,182.0	1,171.4	1,143.8	1,226.3	1,242.9	1,233.9	1,163.9	742.6	11,115.8
Current unpaid and unreported											
claims before											
discounting	24.0	34.9	51.0	93.4	137.3	203.8	306.4	431.0	517.1	808.0	2,606.9
Current unpaid and unreported											
claims before discounting											
pertaining to 2010 and prior											
accident years											101.1
Impact of discounting (including											
PfAD)											203.0
FA and RSP/PRR ceded and											
assumed, unpaid and											
unreported											46.1
Unpaid and unreported claims,											
net of reinsurance											\$ 2,957.1

(c) *Catastrophe risk*

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

The Company manages its catastrophe events exposure through the deductibles charged to policyholders, by limitations on policies, by purchasing reinsurance, by monitoring exposure to concentrations of insured risks, and by monitoring the impact on capital position and overall risk tolerances.

10. REINSURANCE CONTRACTS

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

	<u>2020</u>	<u>2019</u>
	<u>(in millions of dollars)</u>	
Individual loss		
Property		
Net company retention ¹	\$ 3.0	\$ 3.0
Maximum limit	100.0	60.0
Auto and general liability		
Net company retention	4.0	4.0
Maximum limit	40.0	40.0
Catastrophe – primary		
Net company retentions ²	30.0	30.0
Maximum limit	<u>1,050.0</u>	<u>1,100.0</u>

1 In addition to the property net retention, the Company had a maximum \$1.8 million (2019: nil) per loss participation in lower layers of the treaty.

2 In addition to the catastrophe net retention, the Company had a maximum \$64.9 million (2019: \$64.9 million) participation in higher layers of the treaty. If a catastrophe breaches the retention level, the Company is required to pay an automatic reinstatement premium commensurate with the reinsurance coverage utilized. Further reinstatement coverage may be sought by the Company at an additional cost.

The Company participates in a quota share treaty ceding a proportion of certain broker personal lines business to facilitate overall growth levels. The Company also has a catastrophe aggregate treaty to provide protection against the potential for increased frequencies of smaller value catastrophe losses. In addition, the Company purchases facultative reinsurance coverage as required in line with its underwriting guidelines.

(a) Underwriting impact of reinsurance contracts

The following amounts relate to reinsurance ceded recorded in the consolidated statement of comprehensive income (loss):

	<u>Notes</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
		<u>(in millions of dollars)</u>		
Premiums written	8,20	\$174.9	\$180.0	\$75.6
Premiums earned	8	167.4	141.8	74.6
Claims and adjustment expenses	8	50.4	52.7	28.8
Commissions		<u>34.8</u>	<u>28.4</u>	<u>3.6</u>

(b) Reinsurance receivable and recoverable

The amounts presented under reinsurance receivable and recoverable in the consolidated balance sheet represent the Company's contractual rights under reinsurance contracts and are evaluated in a manner consistent with the gross liabilities.

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
		<u>(in millions of dollars)</u>	
Reinsurers' share of UPR	8	\$ 54.7	\$ 47.2
Reinsurers' share of claim liabilities	8	69.2	65.3
Reinsurer receivables		14.7	12.8
Reinsurer payables		(24.7)	(14.8)
Unearned reinsurance commissions		<u>(18.3)</u>	<u>(15.4)</u>
		<u>\$ 95.6</u>	<u>\$ 95.1</u>

11. PROPERTY AND EQUIPMENT

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

	2020						
	Land and building structure	Building infrastructure	Building fixtures	Furniture and equipment	Computer equipment	Right-of- use assets	Total
	(in millions of dollars)						
Cost:							
Balance, beginning of year	\$35.2	\$15.2	\$ 9.2	\$19.7	\$11.6	\$31.0	\$121.9
Additions	0.2	2.2	3.5	0.1	1.1	—	7.1
Disposals	—	—	—	(0.2)	(2.4)	—	(2.6)
Balance, end of year	<u>\$35.4</u>	<u>\$17.4</u>	<u>\$12.7</u>	<u>\$19.6</u>	<u>\$10.3</u>	<u>\$31.0</u>	<u>\$126.4</u>
Accumulated depreciation:							
Balance, beginning of year	\$13.6	\$ 8.8	\$ 7.7	\$16.5	\$ 9.0	\$ 5.2	\$ 60.8
Depreciation charge	1.7	0.5	0.5	1.7	1.5	5.4	11.3
Depreciation on disposals	—	—	—	(0.2)	(2.4)	—	(2.6)
Balance, end of year	<u>\$15.3</u>	<u>\$ 9.3</u>	<u>\$ 8.2</u>	<u>\$18.0</u>	<u>\$ 8.1</u>	<u>\$10.6</u>	<u>\$ 69.5</u>
Net book value, end of year	<u>\$20.1</u>	<u>\$ 8.1</u>	<u>\$ 4.5</u>	<u>\$ 1.6</u>	<u>\$ 2.2</u>	<u>\$20.4</u>	<u>\$ 56.9</u>

	2019						
	Land and building structure	Building infrastructure	Building fixtures	Furniture and equipment	Computer equipment	Right-of- use assets	Total
	(in millions of dollars)						
Cost:							
Balance, beginning of year	\$34.5	\$14.4	\$10.9	\$20.2	\$13.5	\$28.6	\$122.1
Additions	1.1	0.8	—	0.3	0.6	2.4	5.2
Disposals	(0.4)	—	(1.7)	(0.8)	(2.5)	—	(5.4)
Balance, end of year	<u>\$35.2</u>	<u>\$15.2</u>	<u>\$ 9.2</u>	<u>\$19.7</u>	<u>\$11.6</u>	<u>\$31.0</u>	<u>\$121.9</u>
Accumulated depreciation:							
Balance, beginning of year	\$12.2	\$ 8.3	\$ 9.3	\$15.1	\$ 9.6	\$ —	\$ 54.5
Depreciation charge	1.8	0.5	0.1	2.2	1.8	5.2	11.6
Depreciation on disposals	(0.4)	—	(1.7)	(0.8)	(2.4)	—	(5.3)
Balance, end of year	<u>\$13.6</u>	<u>\$ 8.8</u>	<u>\$ 7.7</u>	<u>\$16.5</u>	<u>\$ 9.0</u>	<u>\$ 5.2</u>	<u>\$ 60.8</u>
Net book value, end of year	<u>\$21.6</u>	<u>\$ 6.4</u>	<u>\$ 1.5</u>	<u>\$ 3.2</u>	<u>\$ 2.6</u>	<u>\$25.8</u>	<u>\$ 61.1</u>

12. INCOME TAXES

(a) Income tax expense (recovery)

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 consolidated statement of comprehensive income (loss) is provided in the table below:

	2020		2019		2018	
	(in millions of dollars)					
Income tax expense (recovery) calculated based on statutory tax rates	26.5%	\$53.1	26.8%	\$ 5.7	26.9%	\$(31.6)
Canadian dividend income not subject to tax	(3.5%)	(7.0)	(31.3%)	(6.6)	6.9%	(8.1)
Effect of change in tax rates	0.1%	0.2	3.0%	0.6	0.2%	(0.2)
Non-deductible expenses	0.1%	0.1	1.3%	0.3	(0.2%)	0.2
Other	0.1%	0.3	18.2%	3.8	4.1%	(4.8)
Income tax expense (recovery) recorded in net income (loss)	<u>23.3%</u>	<u>\$46.7</u>	<u>18.0%</u>	<u>\$ 3.8</u>	<u>37.9%</u>	<u>\$(44.5)</u>

	2020	2019	2018
	(in millions of dollars)		
Current income taxes	\$24.9	\$(0.2)	\$ (7.1)
Deferred income taxes	<u>21.8</u>	<u>4.0</u>	<u>(37.4)</u>
Income tax expense (recovery)	<u>\$46.7</u>	<u>\$ 3.8</u>	<u>\$(44.5)</u>

The major components of the current income tax expense (recovery) are as follows:

	2020	2019	2018
	(in millions of dollars)		
Income taxes related to current year	\$26.1	\$(1.5)	\$(4.1)
Income taxes related to prior years	(1.2)	1.3	(3.0)
	<u>\$24.9</u>	<u>\$(0.2)</u>	<u>\$(7.1)</u>

Income taxes included in OCI are as follows:

	2020	2019	2018
	(in millions of dollars)		
Income tax on items that may be reclassified subsequently to net income (loss):			
Net unrealized gains (losses) on AFS investments	\$20.2	\$ 20.3	\$(24.3)
Reclassification to net income (loss) of net recognized losses (gains) on AFS investments	1.4	(10.7)	(15.9)
	<u>21.6</u>	<u>9.6</u>	<u>(40.2)</u>
Income tax on items that will not be reclassified subsequently to net income (loss):			
Post-employment benefit obligation (loss) gain	(2.2)	1.3	6.1
Income tax expense (recovery)	<u>\$19.4</u>	<u>\$ 10.9</u>	<u>\$(34.1)</u>

(b) Deferred income taxes

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

	2020	2019
	(in millions of dollars)	
Net claim liabilities	\$ 38.9	\$36.3
Post-employment benefit plans	11.0	8.7
DPAE	0.2	0.2
Property and equipment	(2.8)	(4.1)
Intangible assets	(21.2)	(8.4)
Investments	(0.3)	(0.3)
Income tax loss carryforwards	—	40.4
Unused tax credits	1.1	6.1
Other	13.3	10.9
	<u>\$ 40.2</u>	<u>\$89.8</u>

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

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

	2020	2019
	(in millions of dollars)	
Balance, beginning of year	\$ 89.8	\$105.0
Income tax expense:		
Recorded in net income (loss)	(21.8)	(4.0)
Recorded in other comprehensive income (loss)	(27.8)	(11.2)
Balance, end of year	<u>\$ 40.2</u>	<u>\$ 89.8</u>

13. GOODWILL AND INTANGIBLE ASSETS

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

	2020	2019
	(in millions of dollars)	
Goodwill	\$ 46.1	\$ 46.1
Intangible assets	165.5	164.8
	<u>\$211.6</u>	<u>\$210.9</u>

(a) *Goodwill*

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

	2020	2019
	(in millions of dollars)	
Economical Mutual Insurance Company	\$26.9	\$26.9
Petline	19.2	19.2
	<u>\$46.1</u>	<u>\$46.1</u>

Goodwill is subject to an impairment test that is performed at least annually. When testing for impairment, the recoverable amount of the CGU is determined based on VIU calculations using a discounted cash flow model based on financial forecasts approved by management covering a five-year period and an estimate of the terminal values for the period beyond the five-year forecast.

The key assumptions used for the impairment calculations are as follows:

- Growth rates represent the rates used to extrapolate new business contributions beyond the business plan period. The growth rates are based on historic performance adjusted for management expectations. The growth rates used for current year impairment calculations of 2.0% (2019: 2.0%) for Economical Mutual Insurance Company and 4.0% (2019: 4.0%) for Petline do not exceed the historic long-term average growth rates.
- Pre-tax, market adjusted discount rates of 7.8% (2019: 9.4%) for Economical Mutual Insurance Company and its subsidiaries are used to discount expected profits from future new business.

Management does not believe that a reasonable change in these assumptions would result in the carrying value of the CGUs exceeding the recoverable amounts.

The goodwill impairment testing for the current year determined that there was no evidence of impairment (2019: nil).

(b) *Intangible assets*

	2020			
	Brand	Software	Other intangible assets	Total
	(in millions of dollars)			
Cost:				
Balance, beginning of year	\$4.2	\$235.8	\$11.9	\$251.9
Additions	—	41.5	—	41.5
Disposals	—	(12.9)	—	(12.9)
Balance, end of year	<u>\$4.2</u>	<u>\$264.4</u>	<u>\$11.9</u>	<u>\$280.5</u>
Accumulated amortization:				
Balance, beginning of year	\$ —	\$ 83.2	\$ 3.9	\$ 87.1
Amortization expense	—	39.2	1.3	40.5
Amortization on disposals	—	(12.6)	—	(12.6)
Balance, end of year	<u>\$ —</u>	<u>\$109.8</u>	<u>\$ 5.2</u>	<u>\$115.0</u>
Net book value, end of year	<u>\$4.2</u>	<u>\$154.6</u>	<u>\$ 6.7</u>	<u>\$165.5</u>
	2019			
	Brand	Software	Other intangible assets	Total
	(in millions of dollars)			
Cost:				
Balance, beginning of year	\$4.2	\$222.0	\$11.9	\$238.1
Additions	—	19.1	—	19.1
Disposals	—	(5.3)	—	(5.3)
Balance, end of year	<u>\$4.2</u>	<u>\$235.8</u>	<u>\$11.9</u>	<u>\$251.9</u>
Accumulated amortization:				
Balance, beginning of year	\$ —	\$ 56.0	\$ 2.6	\$ 58.6
Amortization expense	—	32.5	1.3	33.8
Amortization on disposals	—	(5.3)	—	(5.3)
Balance, end of year	<u>\$ —</u>	<u>\$ 83.2</u>	<u>\$ 3.9</u>	<u>\$ 87.1</u>
Net book value, end of year	<u>\$4.2</u>	<u>\$152.6</u>	<u>\$ 8.0</u>	<u>\$164.8</u>

Included in software is \$3.6 million (2019: \$3.5 million) that has not yet commenced being amortized as the assets are still under development. Other intangible assets include the distribution network and customer relationships arising from the acquisition of Petline.

14. OTHER ASSETS

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

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
		(in millions of dollars)	
Investments in associates	15	\$ 81.8	\$ 80.2
Pension asset	18	6.6	12.7
Prepaid expenses and other		13.2	12.9
		<u>\$101.6</u>	<u>\$105.8</u>

15. INVESTMENTS IN ASSOCIATES

The Company has only individually immaterial associates. Key financial information about the Company's investments in immaterial associates is shown below, on a gross basis in aggregate:

	<u>2020</u>	<u>2019</u>
	(in millions of dollars)	
Total assets	\$548.4	\$897.5
Total liabilities	338.4	684.5
Total revenue	192.5	190.7
Total net income (loss)	<u>17.6</u>	<u>(0.9)</u>

The Company's share of the comprehensive income of individually immaterial associates is \$2.8 million (2019: loss of \$0.7 million, 2018: income of \$4.4 million).

Impairment testing for the Company's investments in associates determined that an impairment loss was not required in 2020 or 2019. In 2018, an impairment loss of \$1.7 million was recorded in the consolidated statement of comprehensive income (loss).

16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
		(in millions of dollars)	
Accounts payable and other		\$164.3	\$ 97.9
Commissions payable		61.1	46.4
Pension and non-pension benefit obligations	18	48.3	45.6
Premium and other taxes payable		28.8	24.2
Lease liabilities		21.7	26.5
		<u>\$324.2</u>	<u>\$240.6</u>

17. MEDIUM-TERM INCENTIVE PLAN

Restricted units

The following table shows the outstanding units and current estimated liability pertaining to the RUs issued under the Company's incentive plan as at December 31:

	<u>2020</u>	
<u>Performance cycles</u>	<u>Number of units</u>	<u>Liability</u>
	(in millions of dollars)	
2018-2020	210,876	\$ 3.9
2019-2021	301,170	3.9
2020-2022	368,521	2.6
	<u>880,567</u>	<u>\$10.4</u>

Performance cycles	2019	
	Number of units	Liability
	(in millions of dollars)	
2017-2019	104,011	\$1.7
2018-2020	263,823	3.1
2019-2021	320,732	1.9
	<u>688,566</u>	<u>\$6.7</u>

The following table shows the movements in the RUs during the year:

	2020	2019
	Number of units	Number of units
Outstanding, beginning of year	688,566	575,553
Awarded	379,647	332,992
Cancelled	(27,132)	(41,317)
Settled	(160,514)	(178,662)
Outstanding, end of year	<u>880,567</u>	<u>688,566</u>

A reconciliation of the RU liability is provided below:

	2020	2019
	(in millions of dollars)	
Balance, beginning of year	\$ 6.7	\$ 5.7
Provisions made during the year	6.2	3.8
Payments made during the year	(2.5)	(2.8)
Balance, end of year	<u>\$10.4</u>	<u>\$ 6.7</u>

Performance units

The following table shows the outstanding units and current estimated liability pertaining to the PUs issued under the Company's incentive plan as at December 31:

Performance cycles	2020	
	Number of units	Liability
	(in millions of dollars)	
2018-2020	177,294	\$ 4.6
2019-2021	273,841	4.8
2020-2022	343,431	3.0
	<u>794,566</u>	<u>\$12.4</u>

Performance cycles	2019	
	Number of units	Liability
	(in millions of dollars)	
2017-2019	140,773	\$ 2.4
2018-2020	177,294	2.1
2019-2021	276,674	1.7
	<u>594,741</u>	<u>\$ 6.2</u>

The following table shows the movements in the PUs during the year:

	2020	2019
	Number of units	Number of units
Outstanding, beginning of year	594,741	519,192
Awarded	346,188	287,012
Cancelled	—	(24,338)
Settled	(146,363)	(187,125)
Outstanding, end of year	<u>794,566</u>	<u>594,741</u>

A reconciliation of the PU liability is provided below:

	2020	2019
	(in millions of dollars)	
Balance, beginning of year	\$ 6.2	\$ 5.5
Provisions made during the year	8.7	3.4
Payments made during the year	(2.5)	(2.7)
Balance, end of year	<u>\$12.4</u>	<u>\$ 6.2</u>

The liability for the RUs and PUs is recorded in “Accounts payable and other liabilities”. The amount charged to “Operating expenses” for the MTIP was \$14.9 million for the year ended December 31, 2020 (2019: \$7.2 million).

18. POST-EMPLOYMENT BENEFITS

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

The contributory defined benefit pension plans provide pension benefits based on length of service and final average pensionable earnings. The most recent actuarial valuation was prepared as of January 1, 2020. The contribution to be paid by the Company is determined each year by the Company’s pension actuaries. The Company’s funding policy is to make contributions in amounts that are required to discharge the benefit obligations over the life of the plan. Based on the latest actuarial valuations of all its plans, the total required contributions by the Company to the pension plans are expected to be \$1.6 million in 2021. The contributions are expected to be made in the form of cash. Discretionary pension contributions for the year ended December 31, 2020 were nil (2019: nil). Pension plan matters are regulated by the Financial Services Regulatory Authority.

Plan assets associated with the pension plans are funded pursuant to a trust agreement through a trust company as selected by the Company. The Investment Committee and the Human Resources and Compensation Committee assist the Company’s Board of Directors in fulfilling its responsibility for governance of the plans. Regular administration duties are delegated to the Management Pension Committee as appropriate.

Under the defined contribution component of the pension plan, the Company contributes a fixed percentage of an employee’s pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan totalled \$13.5 million (2019: \$11.9 million).

(a) Plan movements

The following table presents the movement of the Company’s pension plan and other benefit plan obligations and plan assets during the year:

	2020				
	Amounts recognized in net income	(Gains) losses recognized in OCI	Present value of benefit plan obligations		Fair value of plan assets
			Other benefit plans	Pension plans	Pension plans
	(in millions of dollars)				
Balance, beginning of year			\$45.6	\$221.3	\$234.0
Current service cost	\$ 3.8	\$ —	0.6	3.2	—
Interest cost	8.1	—	1.4	6.7	—
Interest income	(7.1)	—	—	—	7.1
Return on plan assets excluding interest income	—	(11.9)	—	—	11.9
Actuarial (gains) losses					
Due to changes in demographic assumptions	—	—	—	—	—
Due to changes in financial assumptions	—	21.5	3.4	18.1	—
Due to changes in experience losses	(0.6)	(0.8)	(1.4)	—	—
Contributions by employer	—	—	—	—	3.5
Administration cost	0.6	—	—	—	(0.6)
Contributions by plan participants	—	—	—	0.3	0.3
Benefits paid	—	—	(1.3)	(10.8)	(10.8)
Balance, end of year	<u>\$ 4.8</u>	<u>\$ 8.8</u>	<u>\$48.3</u>	<u>\$238.8</u>	<u>\$245.4</u>

2019					
	Amounts recognized in net income	(Gains) losses recognized in OCI	Present value of benefit plan obligations		Fair value of plan assets
			Other benefit plans	Pension plans	Pension plans
(in millions of dollars)					
Balance, beginning of year			\$41.9	\$206.2	\$213.0
Current service cost	\$ 3.1	\$ —	0.3	2.8	—
Interest cost	8.8	—	1.5	7.3	—
Interest income	(7.5)	—	—	—	7.5
Return on plan assets excluding interest income	—	(20.2)	—	—	20.2
Actuarial losses (gains)					
Due to changes in demographic assumptions	0.1	—	0.1	—	—
Due to changes in financial assumptions	0.1	16.6	2.8	13.9	—
Due to changes in experience losses	1.0	(0.6)	0.4	—	—
Contributions by employer	—	—	—	—	2.7
Administration cost	0.5	—	—	—	(0.5)
Contributions by plan participants	—	—	—	0.3	0.3
Benefits paid	—	—	(1.4)	(9.2)	(9.2)
Balance, end of year	<u>\$ 6.1</u>	<u>\$ (4.2)</u>	<u>\$45.6</u>	<u>\$221.3</u>	<u>\$234.0</u>

The amounts recognized in net income were recorded in "Operating expenses".

The actual return on plan assets was a gain of \$19.0 million (2019: \$27.7 million).

(b) Funding status of defined benefit plans

The amounts recognized for pension plans in the consolidated balance sheet in "Other assets" at the reporting date are as follows:

	2020	2019
(in millions of dollars)		
Defined benefit obligation	\$(238.8)	\$(221.3)
Fair value of plan assets	245.4	234.0
Net defined benefit asset	<u>\$ 6.6</u>	<u>\$ 12.7</u>
Actuarial gains on plan assets	\$ (11.9)	\$ (20.2)
Actuarial losses on plan liabilities	<u>\$ 18.1</u>	<u>\$ 13.9</u>

The amounts recognized for other benefit plans in the consolidated balance sheet in "Accounts payable and other liabilities" at the reporting date are as follows:

	2020	2019
(in millions of dollars)		
Defined benefit obligation	<u>\$(48.3)</u>	<u>\$(45.6)</u>
Actuarial losses on plan liabilities	<u>\$ 2.0</u>	<u>\$ 3.3</u>

(c) Maturity analysis of defined benefit obligations

The weighted average duration of the pension plan obligation is 14 years (2019: 14 years) and the weighted average duration of the other benefit plans obligation is 14 years (2019: 14 years).

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

	2020				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
(in millions of dollars)					
Pension plans	\$10.3	\$52.3	\$49.0	\$127.2	\$238.8
Other benefit plans	2.1	8.3	9.6	28.3	48.3
	<u>\$12.4</u>	<u>\$60.6</u>	<u>\$58.6</u>	<u>\$155.5</u>	<u>\$287.1</u>

	2019				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
	(in millions of dollars)				
Pension plans	\$ 9.6	\$49.1	\$46.1	\$116.5	\$221.3
Other benefit plans	2.1	8.0	9.2	26.3	45.6
	<u>\$11.7</u>	<u>\$57.1</u>	<u>\$55.3</u>	<u>\$142.8</u>	<u>\$266.9</u>

(d) *Pension plan asset allocation*

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

	2020		2019	
	(in millions of dollars)			
Cash	\$ 8.9	3.6%	\$ 8.7	3.7%
Canadian fixed income securities (investment grade)				
Government of Canada	17.5	7.1%	35.3	15.1%
Provincial and municipal	48.8	19.9%	41.8	17.9%
Corporate	57.9	23.6%	45.4	19.4%
Pooled equity funds				
Canadian	29.2	11.9%	28.2	12.1%
Foreign	74.4	30.3%	66.6	28.4%
Other	8.7	3.6%	8.0	3.4%
	<u>\$245.4</u>	<u>100.0%</u>	<u>\$234.0</u>	<u>100.0%</u>

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

	2020	2019
Financial services	39.0%	37.0%
Utilities	19.0%	12.5%
Energy	14.3%	15.7%
Communication services	7.5%	4.5%
Real estate	7.2%	2.2%
Consumer staples	5.6%	4.6%
Industrials	5.0%	11.8%
Consumer discretionary	1.7%	6.2%
Other	0.7%	5.5%
	<u>100.0%</u>	<u>100.0%</u>

The Company undertakes an asset-liability study as deemed necessary. The goal of the asset-liability study is to balance the expected long-term cost of the plan with the risk tolerance of the Company. To achieve this balance, the assets in the plan are allocated to fixed income securities, foreign equities, and Canadian equities.

(e) *Assumptions applied*

The principal actuarial assumptions used in determining the defined benefit obligations for the Company's pension plans and other benefit plans are as follows:

	Other benefit plans		Pension plans	
	2020	2019	2020	2019
To determine benefit obligation, end of year:				
Discount rate	2.5%	3.1%	2.5%	3.1%
Future salary increases	—	—	2.5%	2.5%
Inflation assumption	—	—	2.0%	2.0%
Prescription drug cost increase	6.6%	6.7%	—	—
Medical claims cost increase	4.0%	4.0%	—	—
To determine benefit expense for the year:				
Discount rate	3.1%	3.6%	3.1%	3.6%
Future salary increases	—	—	2.5%	2.5%
Inflation assumption	—	—	2.0%	2.0%
Prescription drug cost increase	6.7%	6.9%	—	—
Medical claims cost increase	4.0%	4.0%	—	—

The mortality assumptions used to assess the Company's defined benefit obligations for the pension and other post-employment benefit plans as of December 31, 2020 are based on the Canadian Pensioners' Mortality – Private Sector mortality tables as established by the Canadian Institute of Actuaries.

The discount rate is the assumption that has the largest impact on the value of these obligations. The impact of a 1% change in this rate is as follows:

<u>Impact on:</u>	<u>2020</u>		<u>2019</u>	
	<u>+ 1%</u>	<u>- 1%</u>	<u>+ 1%</u>	<u>- 1%</u>
	(in millions of dollars)			
Defined benefit obligation – pension plans	\$(29.0)	\$35.9	\$(26.6)	\$32.8
Defined benefit obligation – other benefit plans	<u>\$ (5.9)</u>	<u>\$ 7.2</u>	<u>\$ (5.5)</u>	<u>\$ 6.7</u>

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

<u>Impact on:</u>	<u>2020</u>		<u>2019</u>	
	<u>+ 1%</u>	<u>- 1%</u>	<u>+ 1%</u>	<u>- 1%</u>
	(in millions of dollars)			
Defined benefit obligation – other benefit plans	\$7.3	\$(6.1)	\$6.5	\$(5.4)
Aggregate of total service cost and interest cost	<u>\$0.2</u>	<u>\$(0.2)</u>	<u>\$0.2</u>	<u>\$(0.2)</u>

(f) Risks arising from post-employment benefits

The key risks to which the Company is exposed to as a result of sponsoring the defined benefit pension plans and other post-employment benefit plans include inflation risk, interest rate risk, equity market price risk, foreign exchange risk, and life expectancy risk.

19. CAPITAL MANAGEMENT

Management develops the capital strategy for the Company and supervises the capital management processes. The Board of Directors is responsible for overseeing management's compliance with the capital management policies. As a federally regulated P&C insurance company, the Company's capital position is monitored by OSFI. OSFI evaluates the Company's capital adequacy through the Minimum Capital Test ("MCT"), which measures available capital against required risk-weighted capital. Available capital comprises total equity plus or minus adjustments prescribed by OSFI. Capital required is calculated by applying risk factors to the assets and liabilities of the Company. As at December 31, 2020, the Company's capital available is \$1,477.8 million and capital required is \$550.8 million. The Company's MCT ratio of 268.3% as at the reporting date exceeds the minimum capital ratio of 150% required by OSFI.

Management actively monitors the MCT and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the estimated impact on capital before entering into any significant transactions to seek to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels. The Board of Directors reviews the MCT on, at least, a quarterly basis. In accordance with regulatory requirements and the Company's capital management policies, the Board of Directors has set internal targets at levels higher and more stringent than OSFI's minimum requirements. Management also conducts its own risk and solvency assessment on at least an annual basis and provides regular updates to its Management Risk Committee, the Risk Review Committee, and the Board of Directors.

Reinsurance is also used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for financial risk retention. Once the retention limits are reached, as disclosed in note 10, reinsurance is utilized to cover the excess risk.

On May 4, 2020, the Company entered into a \$100 million unsecured committed credit facility to enhance the Company's financial flexibility during periods of significant uncertainty. The facility has a two-year term and contains certain financial covenants. As at December 31, 2020, the Company is in compliance with these covenants and no amounts have been drawn under this facility.

On at least an annual basis, the Company performs stress testing, including Financial Condition Testing, on the Company's capital position to ensure that the Company has sufficient capital to withstand a number of significant adverse scenarios.

20. PREMIUMS

Net written premiums and net earned premiums, as presented in the consolidated statement of comprehensive income (loss), are composed of the following:

	<u>Notes</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
		(in millions of dollars)		
Direct written premiums		\$2,812.4	\$2,511.0	\$2,456.3
Premiums assumed from other companies		<u>2.3</u>	<u>—</u>	<u>—</u>
Gross written premiums		2,814.7	2,511.0	2,456.3
Premiums ceded to other companies	10	<u>(174.9)</u>	<u>(180.0)</u>	<u>(75.6)</u>
Net written premiums		2,639.8	2,331.0	2,380.7
Change in gross unearned premiums		<u>(138.6)</u>	<u>(26.0)</u>	<u>(137.1)</u>
Change in ceded unearned premiums		<u>7.5</u>	<u>38.2</u>	<u>1.0</u>
Net earned premiums		<u>\$2,508.7</u>	<u>\$2,343.2</u>	<u>\$2,244.6</u>

21. RATE REGULATION

In common with the P&C insurance industry in general, the Company is subject to regulation in certain jurisdictions whereby rates charged to customers for certain automobile insurance policies must be approved by the applicable regulatory body. This type of business comprises 49.7% (2019: 51.9%) of the Company's total direct written premiums during the year. The Company is subject to three types of regulatory processes as follows:

Category	Description
File and use	Insurers file their rates with the regulatory authority and wait for a certain amount of time before implementing them.
File and approve	Insurers file their rates with the regulatory authority and wait for approval before implementing them.
Use and file	Insurers file their rates with the regulatory authority within a specified period after they are implemented.

The following table outlines the jurisdictions, regulatory authorities, and regulatory processes that the Company is subject to:

Jurisdiction	Regulatory authority	Regulatory process
Alberta	Alberta Automobile Insurance Rate Board	File and approve
New Brunswick	New Brunswick Insurance Board	File and approve
Nova Scotia	Nova Scotia Utility and Review Board	File and use or file and approve
Ontario	Financial Services Regulatory Authority	File and use or file and approve
Prince Edward Island	Island Regulatory and Appeals Commission	File and approve
Quebec	Autorité des Marchés Financiers	Use and file

22. COMMITMENTS AND CONTINGENCIES

Commitments

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

	2020	2019
	(in millions of dollars)	
Within 1 year	\$36.5	\$33.1
Later than 1 year but not later than 5 years	41.9	40.4
Later than 5 years	12.0	13.8

Under certain circumstances, the Company may be required to acquire outstanding share ownership of various strategically aligned brokers in accordance with the terms of the Company's contracts with those brokers.

Contingencies

In addition to litigation relating to claims made in respect of insurance policies written, the Company is subject to other litigation arising in the normal course of conducting its business. The Company is of the opinion that this non-claims litigation will not have a significant effect on its financial position, results of operations, or cash flows. The Company's process for ensuring appropriate provisions are recorded for reported and unreported claims is discussed in note 9.

23. DEMUTUALIZATION

Demutualization is the process whereby a mutual company converts into a share company. On November 3, 2015, the Company's Board of Directors announced its decision to proceed with demutualization within the federal demutualization regulatory framework. At the first special meeting on demutualization held on December 14, 2015, the Company's eligible mutual policyholders passed a special resolution to authorize the start of negotiations of the allocation of demutualization benefits with eligible non-mutual policyholders. Following the completion of those negotiations, a second special meeting was held on March 20, 2019 where eligible mutual policyholders passed a special resolution that amended company by-laws in a targeted manner to permit eligible non-mutual policyholders to participate in a third, and final, special meeting on demutualization.

If there is a successful outcome at that third special meeting, the Company will be in a position to apply to the federal Minister of Finance for approval to demutualize. The Company will continually evaluate market conditions, company performance, the impact of the COVID-19 pandemic, and other relevant factors that may impact the timing and success of an initial public offering and, by extension, the demutualization process.

Demutualization costs of \$3.8 million (2019: \$4.8 million, 2018: \$9.7 million) are included in "Other expenses" in the consolidated statement of comprehensive income (loss).

24. RELATED PARTY TRANSACTIONS

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<u>(in millions of dollars)</u>		
Salaries	\$ 5.3	\$ 4.9	\$ 4.7
Short-term and medium-term incentive plans	14.4	7.7	8.0
Retention and signing bonuses	2.3	2.6	1.1
Post-employment defined contribution pension benefits	0.6	0.6	0.5
Other short-term employment benefits	0.1	0.1	0.1
Directors' fees*	1.7	1.6	1.5
	<u>\$24.4</u>	<u>\$17.5</u>	<u>\$15.9</u>

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

Post-employment benefit plans

The Company makes contributions to post-employment benefit plans on behalf of its employees, including both defined contribution and defined benefit plans. Information regarding transactions with the plans is included in note 18.

Associates

At the reporting date, commercial loans of \$10.9 million (2019: \$11.8 million) are due from companies subject to significant influence. The loans are included in "Investments" in the consolidated balance sheet and are initially measured at the exchange amount. The loans are subsequently measured in accordance with the accounting policy for loans and receivables (note 2).

25. OPERATING SEGMENTS

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

APPENDIX A – MANDATE OF THE BOARD OF DIRECTORS

BOARD OF DIRECTORS MANDATE

This mandate provides the terms of reference for the Boards of Directors (each a “Board”) of Definity Financial Corporation (the “Company”).

PRIMARY RESPONSIBILITIES OF THE BOARD

(a) General

The Board is responsible for the stewardship of the Company and for supervising the management of the business and affairs of the Company. In doing so, each director must act honestly and in good faith with a view to the best interests of the Company, and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board must stay informed of the Company’s affairs, be actively engaged in the development of the Company’s strategic direction and oversee how management executes direction. In doing so, the Board is responsible for appointing a competent executive management team and for monitoring the management of the business of the Company by that team.

This mandate sets out the primary responsibilities of the Board, but shall in no way be construed as limiting the matters that the Board may consider in the course of discharging its duties or as limiting the exercise of a director’s independent judgment.

The Board will carry out its mandate either directly or through the following standing committees of the Board: Audit Committee, Human Resources and Compensation Committee, Corporate Governance Committee and Risk Review Committee. Subject to applicable law, the Board may establish other Board committees on a temporary or permanent basis or merge or dispose of any Board committee.

Each such committee will be governed by a written mandate outlining the committee’s purpose and responsibilities, committee membership criteria, structure and operations (including any authority of the committee to delegate powers to individual members, subcommittees and management), and the manner in which the committee will report to the Board.

(b) Integrity of management

The Board will satisfy itself that management is acting in the best interests of the Company, upholding the highest standards of ethical behavior, and creating a culture of integrity throughout the Company. The Board will satisfy itself that management is striving to enhance the financial value and the long-term sustainability of the Company.

The Board will satisfy itself as to the integrity of the president and chief executive officer, senior management and employees of the Company through monitoring compliance with the Company’s Code of Business Conduct (the “Code”) and its ethics reporting procedures. The Board will satisfy itself that the president and chief executive officer and senior management create and maintain a culture of integrity throughout the organization.

(c) Strategic planning and execution

The Board will:

- require the president and chief executive officer to develop and present to the Board the objectives and strategies which the president and chief executive officer proposes to pursue in managing the business and affairs of the Company, together with an implementation plan, which takes into account, among other things, the Company’s strengths and weaknesses, the opportunities for and threats to the Company’s business and the Company’s risk tolerance level established by the Board;
- assess the appropriateness of the Company’s objectives, whether the strategies are reasonably capable of being executed successfully, and whether its strategies, if successfully executed, are reasonably likely to achieve the stated objectives;
- monitor management’s implementation of the strategies and the Company’s progress toward achieving its objectives; and
- ensure that all significant corporate transactions are submitted for its approval.

(d) Principal risks and risk management systems

The Board will:

- review with management the principal business risks to the Company and gain and maintain reasonable assurance that appropriate procedures are implemented to identify, monitor, manage and mitigate those risks;
- gain and maintain reasonable assurance that effective systems are in place to monitor the integrity of the Company's internal controls and management information systems;
- gain and maintain reasonable assurance that management processes are in place to address and comply with applicable laws and regulations, including applicable corporate, securities and regulatory requirements; and
- confirm and monitor that processes are in place to comply with the Company's bylaws, Code of Conduct and ethics reporting program.

(e) Financial reporting, controls and public disclosure

The Board will gain reasonable assurance that the Company has a system in place for communicating to its members and, where appropriate, to the public, including processes for consistent, transparent and timely public disclosure. In doing so, the Board will:

- gain and maintain reasonable assurance that the Company maintains the communications systems to effectively communicate with its stakeholders and provide full, accurate and timely public disclosure where appropriate;
- gain and maintain reasonable assurance that the Company has information and reporting systems that are reasonably designed to provide timely accurate information sufficient to allow management and the Board to reach informed decisions;
- gain and maintain reasonable assurance as to the integrity, comprehensiveness and effectiveness of the Company's internal control environment;
- nominate a firm of public accountants for appointment as the external auditor by the members of the Company and fix the compensation and engagement terms for the external auditor;
- when appropriate, pre-approve all non-audit services proposed to be provided to the Company or its subsidiary entities by the external auditor, or adopt specific policies and procedures for the engagement of such services;
- establish policies regarding the hiring of partners, employees and former partners and employees of the present and any former external auditor;
- appoint, direct and oversee the work of the Company's internal audit function;
- review the Company's financial statements, management's discussion and analysis and related disclosures, including financial information extracted or derived from the Company's financial statements, before such information is released to the Company's members or the public;
- gain and maintain reasonable assurance that the Company complies with applicable laws, regulations, rules, policies and other regulatory requirements; and
- receive reports from the chair of the Board regarding the reasonableness of expenses incurred by the president and chief executive officer and receive reasonable assurance from the internal auditors that expenses of all senior executives conform to Company policy.

(f) Investment management

The Board will gain and maintain reasonable assurance:

- that the assets of the Company are invested in compliance with applicable law, including the *Insurance Companies Act* (Canada) (the "Act");
- that the Company's Investment Policy Statement ("IPS") is prudent and aligns with the risk appetite established by the Board;

- as to the Company's investment performance and compliance with the IPS;
- that the investment management and performance of the Company's pension plans are appropriately monitored, including as to compliance with the Pension Plan Statement of Investment Policies and Procedures;
- as to the work of investment managers for the pension plans; and
- as to management's assessment of the economic, capital markets and regulatory environments and the impact of these influences on the Company's investment portfolios, strategies and operations.

(g) People

The Board will:

- select and appoint a president and chief executive officer;
- establish a written position description for the president and chief executive officer, which reflects the Board's delegation to the president and chief executive officer of powers and authority to manage the business and affairs of the Company and which delineates the president and chief executive officer's responsibilities;
- approve the terms and conditions of the president and chief executive officer's employment by the Company, including any changes to such terms and conditions;
- establish, maintain and implement a process for annually assessing the performance of the president and chief executive officer, taking into account the president and chief executive officer's position description and the goals and objectives of the Company which have been approved by the Board and which the president and chief executive officer is responsible for meeting;
- be responsible for approving the compensation of the president and chief executive officer;
- receive the recommendation of the president and chief executive officer regarding the appointment of all other senior officers and other senior executives of the Company who head a business unit or significant corporate function or who are responsible for a corporate oversight function and, upon agreement, approve such appointments;
- review and approve the terms and conditions of each such senior officer's and senior executive's employment by the Company, including any material changes to such terms and conditions;
- review and approve all written employment contracts of such senior officers and senior executives;
- approve any termination of the president and chief executive officer;
- receive the recommendation of the president and chief executive officer concerning the designation of corporate officers and approve all such designations; and
- review and oversee the Company's succession plans for senior management.

In addition, the Board will gain and maintain reasonable assurance regarding the adequacy and effectiveness of:

- the Company's policies and practices to attract, develop and retain the human resources required by the Company to meet its objectives;
- the Company's staff-level and executive compensation and incentive programs;
- the design, operation and governance of the Company's benefit programs and pension plans;
- the Company's policies and processes relating to the health and safety of the Company's employees; and
- the Company's policies and practices for monitoring and developing the skills of management and employees.

(h) Corporate governance

To support the Company's high standard in governance practices, the Board will:

- establish an appropriate framework to allow the Board to function independently of management;

- appoint a Corporate Governance Committee composed of independent directors;
- clearly articulate what is expected from a director by developing position descriptions for directors, the Board chair, and the chair of each Board committee;
- establish limits of authority delegated to management;
- periodically review Board compensation and succession planning;
- review and assess the adequacy of the mandates of the Board and each Board committee and determine on an annual basis the degree to which those mandates have been fulfilled;
- promote among its directors a culture that embodies:
 - acceptance of the Board's accountability for the Company's performance;
 - the conviction that directors owe each other their best efforts in carrying out their duties and exercising their authority;
 - the highest level of honesty and integrity in all actions of the Board, management and other senior managers and employees of the Company;
 - open sharing of all relevant information among directors and among directors and management; and
 - trust, respect and the acceptance and respect of differing opinions; and
- gain and maintain reasonable assurance regarding the adequacy and effectiveness of the Company's corporate social responsibility initiatives.

BOARD ORGANIZATION

(a) Qualifications

The Board will determine Board member qualifications from time to time, taking into consideration the Company's strategic direction, the competencies and skills the Board as a whole is expected to possess, and the competencies and skills possessed by existing directors with a view to optimizing the contribution that each director makes to the Board. The Board will only recruit Board members who have sufficient time and energy to devote to the task of being a director.

Each director must have an understanding of the Company's principal operational and financial objectives, plans and strategies, and financial position and performance. Directors must have sufficient time to carry out their duties and not assume responsibilities that would materially interfere with, or be incompatible with, Board membership. Directors who experience a significant change in their personal circumstances, including a change in their principal occupation, are expected to advise the chair of the Corporate Governance Committee.

(b) Composition

The Board will consist of directors who represent a range of personal experiences and backgrounds. At a minimum, each director candidate will have demonstrated: the highest personal and professional integrity; significant achievement in his or her field; experience and expertise relevant to the Company's business; a reputation for sound and mature business judgment; the commitment to devote the necessary time and effort to conduct his or her duties effectively; and, where required, financial literacy. The Board will also ensure that at least a majority of its members are residents of Canada (so long as this is required under applicable law).

(c) Size

The Board will periodically review the size of the Board with a view to ensuring that it reflects applicable independence requirements, facilitates effective decision-making and complies with the Company's constating documents.

(d) Term of office

The Board has not established a specific number of years a director may serve on the Board. Directors are generally elected for a term of three years and may stand for re-election at the end of each term upon approval by the Board based on the recommendation of the Corporate Governance Committee.

(e) Board chair

The directors will select from among their number a Board chair who will assume responsibility for providing leadership to enhance the effectiveness and independence of the Board. The Board chair also manages the affairs of the Board so as to assist the directors in carrying out their responsibilities with a view to enhancing the effectiveness of the Board as a whole. The Board chair will be an independent, non-management director. If in any year, the Board does not appoint a chair, the incumbent chair will continue in office until a successor is appointed.

(f) Board committees and selection

The Board shall approve mandates for each Board committee. The Board has delegated to the applicable committee those duties and responsibilities set out in each committee's mandate. At least once every three years, each mandate shall be reviewed by the Corporate Governance Committee and any suggested amendments brought to the Board for consideration and approval.

The Corporate Governance Committee, in consultation with the Board chair as well as with the committee chairs in respect of the committees which they respectively chair, will annually recommend to the Board those directors it considers qualified for appointment, or reappointment as the case may be, to each Board committee. Committee assignments will be reviewed annually and rotation of assignments will be considered periodically, taking into account the special expertise and knowledge required for each position, applicable regulatory requirements, directors' interests, abilities and prior committee service, and the directors' available time to devote for committee service. When a vacancy occurs at any time in the membership of any Board committee, the Corporate Governance Committee will recommend to the Board, in consultation with the Board chair as well as with the chair of such committee, a director to fill such vacancy.

In addition, the Board will select, upon recommendation from the Corporate Governance Committee, from among committee members a chair for each committee who will assume responsibility for providing leadership to enhance the effectiveness and independence of his or her committee. Each such Committee chair will be an independent director. If in any year, the Board does not appoint a chair for a particular committee, the incumbent chair of that committee will continue in office until a successor is appointed.

(g) Independent directors

The Board will ensure that director candidates presented for election by members or appointed by the Board to fill vacancies are such that, after giving effect to such election or appointment, the Board is composed of a majority of independent directors.

In addition, every member of the Human Resources and Compensation Committee, the Corporate Governance Committee, the Audit Committee and the Risk Review Committee shall be an independent director. Each member of the Audit Committee shall also be financially literate and shall have such accounting or financial management expertise as may be required to comply with applicable regulations as may be in effect from time to time.

For these purposes, director independence and financial literacy will be determined in relation to Canadian securities legislation and stock exchange rules which would apply to the Company as a publicly-traded company in Canada.

(h) Change of occupation, directorships or independence

Directors may serve on the boards of other companies so long as these commitments do not materially interfere and are compatible with their ability to fulfill their duties as a member of the Board. Directors must advise the Board chair in advance of accepting an invitation to serve on the board of any public company.

Each director shall promptly advise the Company's corporate secretary in writing of each directorship held in relation to a public company in any jurisdiction, and any material change in their principal employment (including retirement from their principal employment). In addition, directors have an ongoing obligation to inform the Board (by advising the chair of the Corporate Governance Committee) of any changes in their circumstances or relationships that may affect the Board's determination as to their independence.

(i) Conflicts of interest

A director's business or personal relationships may occasionally give rise to a personal interest in a material business matter or relationship of the Company that conflicts, or appears to conflict, with the interests of the Company. In such circumstances, the issue should be raised with the Board chair. Appropriate steps will then be taken to determine whether an actual or apparent conflict exists, and in accordance with statutory requirements, determine whether it is necessary for the director to be excused from discussions on the issue.

In addition, each director must ensure that he or she is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests and relationships arising from holding shares or insurance policies of the Company.

BOARD AND COMMITTEE MEETINGS

The Board will meet as often as the Board considers appropriate to fulfill its duties. The chair of any committee may, at any time but with appropriate notice, call a meeting of the Board to consider any matter of concern to it.

The chair of the Board is responsible, in consultation with the president and chief executive officer and the corporate secretary, for establishing the agenda for each Board meeting. Each director may suggest items for inclusion on the agenda, and may raise at any Board meeting, subjects that are not on the meeting agenda.

Directors are expected to regularly attend Board meetings and committee meetings (as applicable) and to review in advance all materials for such meetings. The corporate secretary, his or her delegate or any other person requested by the Board or a committee shall act as secretary of Board meetings and committee meetings, as applicable, and shall record minutes for such meetings.

The Board shall be entitled to meet in private session or, at its option, with one or more members of management, other employees of the Company or its subsidiaries, and/or the Company's appointed actuary, external auditor, internal auditor, counsel or other advisor(s). Unless the relevant chair determines otherwise, the agenda for each Board meeting (and each committee meeting to which members of management have been invited) will afford an opportunity for the independent directors to meet separately without management at its beginning and its end.

With limited exceptions, in camera sessions should not be used to conduct Board business and are generally not minuted. The chair of the Board should discuss relevant follow up items and other issues raised in camera with the appropriate member(s) of senior management without attribution as soon as practicable following the meeting.

Board committees shall conduct themselves in accordance with the Committee Operating Procedures set out in Appendix A.

ETHICAL BUSINESS CONDUCT

To encourage and promote a culture of ethical business conduct throughout the Company, the Board will establish, maintain and monitor compliance with the Code, which applies to all directors, officers and employees of the Company and addresses (at a minimum):

- conflicts of interest, including transactions and agreements in respect of which a director or member of management has a material interest;
- protection and proper use and exploitation of the Company's assets and opportunities;
- confidentiality of private information relating to the business and affairs of the Company;
- fair and ethical dealing with the Company's members, customers, suppliers, competitors and employees;
- compliance with applicable laws, rules and regulations; and
- reporting of any illegal or unethical behavior or other breaches of the Code.

Waivers of compliance with the Code granted for the benefit of any director or member of management are to be granted only by the Board or an appropriately empowered committee of the Board.

INDEPENDENT ADVICE

Any director may, in consultation with the chair of the Corporate Governance Committee and at the Company's expense, engage and terminate independent counsel or other advisors to provide advice to him or her with respect to the discharge of his or her duties as a director. In addition, each Board committee shall have the authority to engage and terminate independent counsel and such other outside advisors as the committee deems necessary to carry out its duties, and to set and (at the expense of the Company) pay the compensation for any independent counsel or other outside advisor engaged by the committee.

EVALUATION

The Board will establish appropriate processes for the regular evaluation of:

- the effectiveness and performance of the Board, Board committees, the Board chair, Committee chairs and individual directors; and
- the adequacy and effectiveness of the Board and committee mandates, and the position descriptions applicable to the Board chair, Committee chairs and individual directors.

ORIENTATION AND CONTINUING EDUCATION

The corporate secretary will make arrangements for the orientation and education of new directors. New directors will be provided with written materials that outline the organization of the Board and its committees, the powers and duties of directors, the required standards of performance for directors, the Code (including its ethics reporting program) and this mandate.

The corporate secretary, in consultation with the president and chief executive officer, will arrange private meetings with members of senior management.

All directors shall be provided with continuing education opportunities to maintain and enhance directors' skills and abilities as directors and to permit directors' knowledge and understanding of the Company's business and affairs to remain current. These may include, among other things, presentations from management, site visits and/or presentations from industry experts.

MEASURES FOR RECEIVING FEEDBACK FROM STAKEHOLDERS

The Company endeavors to keep its stakeholders informed of its progress through its public disclosure and regulatory filings. Directors and management meet with the Company's mutual policyholders at the annual meeting and are available to respond to questions at that time.

Interested stakeholders are invited, after all significant public announcements including the release of interim and annual financial information, to discuss with designated spokespersons the impact of such information on the Company. Members may also contact the Board with any questions or concerns regarding the Company by contacting the corporate secretary at:

111 Westmount Road South
Waterloo Ontario N2J 4S4
Tel: (519) 570-8200
Toll-free: 1-800-265-2180
Fax: (519) 570-8389

All such correspondence will, when received, be promptly reviewed by the corporate secretary, who will determine whether the correspondence should be forwarded immediately to the Board as a whole or any particular member or whether the correspondence should be presented to the Board at its next regular meeting. The corporate secretary will consult with the chair of the Board if there is a question concerning the need for immediate review by the Board or by any member of the Board.

NO RIGHTS CREATED

This mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Board, assisted by its committees, directs the affairs of the Company. While it should be interpreted in the context of all applicable laws, regulations and listing requirements (if any), as well as in the context of the Company's letters patent and bylaws, it is not intended to establish any legally binding obligations.

APPENDIX A

COMMITTEE OPERATING PROCEDURES

The following operating procedures apply to each committee (each a “Committee”) of the Boards of Directors of Definity Financial Corporation (the “Company”).

Frequency of meetings. The Committee shall meet as frequently as applicable regulatory requirements or circumstances dictate. Regular meetings of the Committee shall be held in accordance with a schedule prepared by the corporate secretary in consultation with the chair of the Board of Directors of the Company (the “Board Chair”) and the Committee chair. Additional meetings of the Committee may be called at any time by the Board Chair or by the Committee chair, upon the request of any Committee member (a “Member”). In addition, meetings of the Audit Committee and/or the Risk Review Committee may be called at any time by the Board Chair or by the Committee chair upon the request of the external auditor, the appointed actuary, the chief risk officer, or the chief financial officer.

Notice of meetings. Notice of the time and place of each meeting of the Committee shall be given to each Member not less than 48 hours before the time when the meeting is to be held. Notwithstanding the foregoing, in the event that the Board or the Committee fixes by resolution the time and place of one or more meetings of the Committee and a copy of such resolution is sent to each Member, no notice shall be required to be given to the Members for the meeting(s) whose times and places are so fixed.

Meeting agendas. Committee meeting agendas shall be prepared in consultation with the Committee chair, in all cases having regard to the matters required to be considered by the Committee under its mandate and/or pursuant to a request of the Board, one or more individual directors, the Committee, or, in the case of the Audit Committee and/or the Risk Review Committee, the external auditor, the appointed actuary, the chief risk officer, or the chief financial officer. Unless the Committee chair determines otherwise, the agenda for each meeting will also afford an opportunity for Members to meet separately, without management, at its beginning and its end.

Transaction of business. The powers of the Committee may be exercised at a meeting of the Committee at which a quorum is present or by resolution in writing signed by all of the Members who would have been entitled to vote on that resolution at a meeting of the Committee.

Meetings by telephone or electronic means. If all of the Members present at or participating in a meeting consent, then any Member may participate in such meeting by means of telephone, electronic or other communication facilities that permit all persons participating in the meeting to communicate simultaneously and instantaneously.

Quorum. A majority of the Members shall constitute a quorum for the transaction of business at all meetings of the Committee, except where the Committee has four members, in which case a quorum shall be two members. Meetings of the Committee shall be constituted so that Canadian residency requirements of the *Insurance Companies Act* (Canada) are met.

Votes to govern. At all meetings of the Committee, any question shall be decided by a majority of the votes cast on the question and in the case of an equality of votes the matter shall be referred to the Board as a whole. Any question at a meeting of the Committee shall be decided by a show of hands unless a ballot is required or demanded.

Attendance by other directors. Any director of the Company, whether or not he or she is a Member, shall be entitled to be present at and to participate in all meetings of the Committee as a non-voting participant.

Secretary of meetings. Unless the Committee otherwise specifies, the corporate secretary shall act as secretary of all meetings of the Committee.

Chair of meetings. The Committee chair shall act as chair of all meetings of the Committee at which the Committee chair is present. In the absence of the Committee chair at any meeting of the Committee, the Members shall appoint a Member to serve as acting chair at the meeting.

Work plans. Each Committee shall be provided with: (i) a work plan listing the duties of the Committee, (ii) prompt updates to such work plan describing any proposed or actual changes to it, and (iii) at each Committee meeting, assurance as to compliance with the work plan.

Reports to the Board. The chair of each meeting of the Committee shall report on the matters considered at that meeting to the next-following regularly-scheduled meeting of the Board.

Co-ordination with executive management. Each Committee shall have a designated executive sponsor with whom the Committee chair shall work to develop meeting agendas and monitor the execution of the Committee's workplan. The chair of each meeting of the Committee shall discuss relevant follow up items and other issues raised with the appropriate member(s) of senior management as soon as practicable following the meeting.

In camera sessions. The Committee shall be entitled to meet in private session or, at the option of the Committee, with one or more members of Management, other employees of the Company or its subsidiaries, and/or the Company's appointed actuary, external auditor, internal auditor, counsel or other advisor(s). With limited exceptions, in camera sessions should not be used to conduct Committee business and are generally not minuted. The Committee chair should discuss relevant follow up items and other issues raised in camera with the appropriate member(s) of senior management without attribution as soon as practicable following the meeting.

APPENDIX B – AUDIT COMMITTEE MANDATE

AUDIT COMMITTEE MANDATE

This mandate provides terms of reference for the Audit Committee of Definity Financial Corporation (the “**Company**”).

PURPOSE

The Company’s Board of Directors (the “**Board**”) has established the Audit Committee (the “**Committee**”) to assist the Board in fulfilling its oversight responsibilities by gaining and maintaining reasonable assurance in relation to:

- the integrity of the Company’s financial statements and related disclosure provided to members, regulators and others;
- the qualifications, independence and appointment by the members of the Company of a firm of chartered accountants as the external auditor of the Company;
- the design, implementation and evaluation of internal controls over financial reporting and disclosure controls;
- the performance of the Company’s internal audit function and external auditor; and
- the additional matters described herein or as may be delegated to the Committee by the Board from time to time.

MEMBERS AND CONDUCT

The Board shall appoint a minimum of three directors to be members of the Committee. The members of the Committee will be selected by the Board on the recommendation of the Corporate Governance Committee. Each year, the Board will appoint one member of the Committee to serve as Chair of the Committee. If, in any year, the Board does not appoint a chair, the incumbent chair will continue in office until a successor is appointed.

All of the members of the Committee will meet the criteria for independence referred to in the Board mandate. In addition, every member of the Committee will be financially literate within the meaning of Canadian securities legislation and stock exchange rules. Members have a duty to immediately notify the Chair of the Board if he or she ceases to meet the qualifications for Committee membership for any reason.

Any member may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to meet the qualifications set out above. The Board will fill vacancies on the Committee by appointment from among qualified members of the Board on the recommendation of the Corporate Governance Committee. If a vacancy exists on the Committee, the remaining members will exercise all of its powers so long as there is a quorum.

The Committee shall conduct itself in accordance with the committee operating procedures prescribed by the Board from time to time. At least quarterly the Committee shall meet, at the Committee’s discretion, in separate in camera sessions with each of the Appointed Actuary, external auditor, the internal auditor and the CFO. In camera meetings with the CEO may also be requested at the Committee’s discretion.

This mandate does not impose on any Committee member a standard of care or diligence that is in any way more onerous or extensive than the standard of care applicable to the Company’s directors generally.

SPECIFIC RESPONSIBILITIES

The Committee is responsible for performing the duties set out below as well as any other duties delegated to the Committee by the Board from time to time, bearing in mind the duties required of an audit committee by any exchange upon which securities of the Company are traded, or any governmental or regulatory body exercising authority over the Company, as are in effect from time to time (collectively, the “**Applicable Requirements**”).

Appointment, engagement and review of the external auditor

The external auditor is ultimately accountable to the Committee and reports directly to the Committee. Accordingly, the Committee will directly oversee and be responsible for the Company's relationship with each external auditor engaged for the purpose of preparing or issuing an external auditor's report or performing other audit, review or attest services for the Company. Specifically, the Committee will:

- use its best efforts to resolve any disagreements between management and the external auditor regarding financial reporting;
- at least annually, discuss with the external auditor its internal independence and quality control procedures, such matters as are required by applicable auditing standards to be discussed by the external auditor with committee, and any material issues raised by the most recent peer review;
- select, evaluate and recommend to the Board the external auditor to be proposed for appointment or reappointment, as the case may be, by the Company's members and, where appropriate, recommend to the Company's members that the external auditor be removed from office;
- prior to recommending the external auditor's appointment or reappointment:
 - obtain reasonable assurance that the firm possesses and will make available to the Company the personnel required to efficiently, cost-effectively and expertly execute its engagement with the Company;
 - review the independence, experience, qualifications and performance of the external auditor, including the lead audit partner,
 - consider whether the external auditor's quality controls are adequate and the external auditor's provision of any permitted non-audit services is compatible with maintaining its independence;
- review and approve the audit plans, including proposed scope of the audit, the proposed areas of special emphasis to be addressed in the audit, the materiality levels which the external auditor proposes to employ, and any material changes to such plan, as well as the external auditor's engagement letter, fee proposals and engagement terms;
- oversee and regularly assess the quality of the work of the external auditor in preparing or issuing an audit or other report in respect of audit, review or attest services for the Company; and
- annually review the effectiveness of the external audit process and report the Committee's findings to the Board.

Oversight and review of the internal auditor

The Committee will oversee the Company's relationship with each internal auditor engaged for the purpose of providing services for the Company. Specifically, the Committee will:

- use its best efforts to resolve any disagreements between management and the internal auditor regarding control expectations;
- at least annually, discuss with the internal auditor its internal independence and quality control procedures and any material issues raised by the most recent peer review;
- obtain reasonable assurance that the firm possesses and will make available to the Company the personnel required to efficiently, cost-effectively and expertly execute its engagement with the Company;
- review the independence, experience, qualifications and performance of the internal auditor, including the lead audit partner,
- consider whether the internal auditor's quality controls are adequate and the internal auditor's provision of any permitted non-audit services is compatible with maintaining its independence;
- review and approve at least every three years, the Internal Audit Charter, and annually the proposed scope of the internal auditor's work, including the proposed areas of special emphasis to be addressed, as well as the internal auditor's fee proposals;

- review with the internal auditor any significant reports to management prepared by the internal auditor, management's responses thereto, and any problem or difficulty the internal auditor may have encountered in connection therewith including, without limitation, any restrictions on the scope of activities or access to required information;
- oversee and regularly assess the quality of the work of the internal auditor in preparing or issuing an audit or other report in relation to the Company;
- regularly meet with the internal auditor to discuss the effectiveness of the internal control procedures established for the Company;
- annually review the effectiveness of the internal audit process and report the Committee's findings to the Board;
- appoint an internal auditor; and
- where appropriate and in conjunction with management, remove the internal auditor from office.

Confirmation of auditor independence

At least annually, and before the external auditor issues its report on the annual financial statements, the Committee will:

- obtain from the Company's external auditor a written report in relation to the Company's most recently completed financial year
 - (i) listing all fees paid by the Company or its affiliate(s) to the external auditor or its affiliate(s); and
 - (ii) describing all relationships of any kind between the external auditor or its affiliate(s) and the Company or its affiliate(s);
- obtain written confirmation from the external auditor that it is objective within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Professional Accountants to which it belongs and is an independent public accountant within the meaning of the Independence Standards of the Chartered Professional Accountants of Canada ("CPA Canada");
- obtain written confirmation from the internal auditor as to its independence in relation to the Company and its affiliates;
- discuss with the internal auditor and external auditor any disclosed relationships or services that may affect their respective objectivity and independence;
- obtain confirmation that the Board and the Committee, and not management, are the clients of the internal auditor and external auditor in relation to the audit services they provide to the Company; and
- satisfy itself that management has placed no restrictions on the scope or extent of the internal or external auditors' audit examinations or reviews or the internal or external auditors' reporting of their respective findings to the Board or the Committee.

At least every three years, the Committee will review and approve the Company's hiring policies for hiring partners and employees and former partners and employees of the present and any former external auditor of the Company.

Pre-approval of non-audit services

The Committee must pre-approve any non-audit service to be provided to the Company or any of its subsidiaries by the Company's internal or external auditors or the internal or external auditors of any of the Company's subsidiaries, provided that it will not approve any service that is prohibited under the rules of the Canadian Public Accountability Board, the Independence Standards of the CPA Canada, or Applicable Requirements.

The Committee will establish a written policy for the pre-approval of all non-audit services to be provided to the Company and its subsidiaries by the internal or external auditors and will review the policy periodically. In addition,

the Committee may delegate to one or more of its members the authority to pre-approve the appointment of the internal or external auditors for any non-audit service to the extent permitted by applicable law, provided that any pre-approvals granted pursuant to such delegation shall be reported to the full Committee at its next scheduled meeting.

The Committee shall be informed by management of each non-audit service provided to the Company in accordance with the pre-approval policy.

Audited financial statements – Corporate

The Committee will gain reasonable assurance as to whether the audited financial statements of the Company (including all returns prescribed by the *Insurance Companies Act* (Canada) (the “**Act**”)) present fairly, in all material respects, the financial position of the Company, the results of its operations and its cash flows in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board (“**IFRS**”). Specifically, the Committee will:

- review the Company’s financial statements with management, the Appointed Actuary and the external auditor;
- assess the reasonableness, and the effect upon the Company’s financial position and the results of the Company’s operations, of
 - significant estimates, accruals and provisions employed by management in preparing the current year comparative financial statements of the Company, and
 - the aggregate amount of all significant estimates, accruals and provisions employed by management in preparing the current year comparative financial statements of the Company;
- review all unresolved items identified by the external auditor in conducting its audit;
- review the critical accounting and other significant estimates and judgments underlying the financial statements;
- review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under IFRS;
- review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements;
- review management’s report on the effectiveness of internal controls over financial reporting;
- review the factors identified by management as factors that may affect future financial results;
- obtain confirmation from the external auditor as to:
 - its views on the accounting policies, practices, estimates, judgments or disclosure practices employed in preparing the Company’s financial statements, including any significant changes from the prior year and the degree of consistency relative to those employed by others in the Canadian property and casualty insurance industry;
 - immaterial items in the Company’s financial statements of which it is aware that are treated in a manner which would have to be changed if such items became material in future years, or
 - whether there is any accounting principle, policy, practice, estimate, judgment or disclosure practice employed in preparing the Company’s financial statements of which it is aware that is not in accordance with IFRS but the use of which is justified on the basis of immateriality;
- in connection with the review of the annual audited financial statements, obtain a report from the external auditor comparing (i) the extent of the external auditor’s reliance on the Company’s internal financial controls in auditing the current year comparative financial statements of the Company to (ii) the extent of the external auditor’s reliance on the Company’s internal financial controls in auditing the preceding year’s financial statements;
- review at least quarterly with management, the external auditor and the Company’s legal counsel all material non- claims litigation or other contingencies affecting the Company to gain reasonable assurance that all such

claims and contingencies which could have a material effect on the financial position or results of operations of the Company have been reflected to the extent appropriate in the Company's financial statements;

- obtain from management appropriate representations relating to the Company's financial statements; and
- review any other matters, related to the financial statements, that are brought forward by the auditors or management, or which are required to be communicated to the Committee under accounting policies, auditing standards or Applicable Requirements.

Audited financial statements – pension plan

The Committee will gain reasonable assurance as to whether the audited financial statements of the Company's defined benefit pension plan(s) (the "**Plan**") present fairly, in all material respects, the financial position of the Plan in accordance with Part IV of the CPA Canada Handbook (the "**CPA Handbook**") and applicable pension legislation. Specifically, the Committee will:

- review the Plan's financial statements with management and the Plan's external auditor;
- assess the reasonableness, and the effect upon the Plan's financial position, of
 - each significant estimate, accrual and provision employed by management in preparing the Plan's financial statements, and
 - the aggregate amount of all significant estimates, accruals and provisions employed by management in preparing the Plan's financial statements;
- review all unresolved items identified by the external auditor in conducting its audit;
- obtain confirmation from the external auditor as to:
 - its views on the accounting policies, practices, estimates, judgments or disclosure practices employed in preparing the Plan's financial statements, including any significant changes from the prior year;
 - immaterial items in the Plan's financial statements of which it is aware that are treated in a manner which would have to be changed if such items became material in future years, or
 - whether there is any accounting principle, policy, practice, estimate, judgment or disclosure practice employed in preparing the Plan's financial statements of which it is aware that is not in accordance with the CPA Handbook but the use of which is justified on the basis of immateriality; and
- obtain from management appropriate representations relating to the Plan's financial statements.

Review of other financial information

The Committee will:

- before the Company publicly discloses such information, review the Company's interim unaudited and annual audited financial statements and related management's discussion and analysis with management and the external auditor;
- review each management's discussion and analysis to gain reasonable assurance that the statements and disclosures made therein are consistent with the Committee's knowledge of the Company's operations, financial condition and performance;
- obtain from the external auditor their views on whether the financial information included in each management's discussion and analysis is consistent with the related current year comparative financial statements of the Company;
- review earnings news releases and other news releases containing financial information based on the Company's interim and annual financial statements prior to their release. The Committee will also review the manner in which the Company uses references to "pro forma", "adjusted" and other information and metrics that are not defined by generally accepted accounting principles in such news releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;

- review all other financial statements of the Company that require approval by the Board before they are released to the public, including, without limitation, financial statements for use in prospectuses or other offering or public disclosure documents, financial statements required by regulatory authorities, and any other material financial disclosure, including financial guidance provided to analysts, rating agencies or otherwise publicly disseminated;
- review all issues and statements related to a change of the auditor and the steps planned by management for an orderly transition; and
- if advisable, approve and recommend for Board approval such financial statements, reports, management's discussion and analysis, news release and/or other public disclosure.

Policy liabilities

For the purpose of ensuring that the Company's policy liabilities are fairly stated and that the present and future solvency of the Company is regularly assessed, the Committee shall:

- annually review with the external auditor the audit work carried out and their conclusions as to the adequacy of the Company's policy liabilities and consistency with the methodology and practices of the prior year;
- annually monitor the work of the Appointed Actuary of the Company through review of the reports of the Appointed Actuary, including the report on expected future financial condition (Financial Condition Testing "FCT"), and meet with him or her to discuss the Company's annual statement and those portions of the annual return filed with the Office of the Superintendent of Financial Institutions Canada ("OSFI") pursuant to the Act prepared by the Appointed Actuary;
- appoint, every three years, a peer review actuary to review and opine on the adequacy of the assumptions and processes used by the Company's Appointed Actuary in the Appointed Actuary Reports for OSFI and the FCT report;
- Review every three years, the results of the full review of the peer review actuary on the adequacy of the assumptions and methodology used by the Company's Appointed Actuary in the valuation of policy liabilities and take appropriate action in relation to any recommendations. In other years, review the results of the limited review of the peer review actuary on the appropriateness and extent of internal and external material changes affecting the valuation of policy liabilities and take appropriate action in relation to any recommendations; and
- Review every three years, the results of the full review of the peer review actuary on the methodology, assumptions and scenarios used in the FCT report and take appropriate action in relation to any recommendations. In other years, review the results of the limited review of the peer review actuary on the appropriateness of the FCT scenarios and take appropriate action in relation to any recommendations.

Oversight of internal controls and disclosure controls and procedures

The Committee will:

- require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure and to review and evaluate these procedures;
- at least annually, or more frequently as required in the circumstances, consider and review with management and the auditors:
 - (i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Company's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial, disclosure and non-financial controls;
 - (ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Company's periodic regulatory filings;

- (iii) the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses;
- (iv) any related significant issues and recommendations of the auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls;
- on a timely basis, consider and review with management and the auditors:
 - (i) the impact of any identified weaknesses in internal controls; and
 - (ii) any material issues raised by any inquiry or investigation by the Company's regulators affecting the Company's financial disclosure;
- periodically review with senior management the controls and procedures that have been adopted by the Company to confirm that financial information extracted or derived from the financial statements and other material information about the Company and its subsidiaries that is required to be publicly disclosed under applicable law or stock exchange rules is so disclosed in an accurate and timely manner;
- gain reasonable assurance as to the quality, timeliness and accuracy of all public disclosure of financial information of the Company and that it is complete, fairly represents material information and complies with all applicable laws and stock exchange rules;
- review reports to management by the internal and/or external auditors with respect to weaknesses or deficiencies in Internal Financial Controls, and review the adequacy and appropriateness of management's responses to such external auditor's recommendations; review any special audit steps adopted in light of material control deficiencies; and
- require timely reports from management and the internal and external auditors on any indication or detection of fraud, including the corrective activity undertaken in respect thereto.

Taxation matters

The Committee will review with senior management the status of significant taxation matters of the Company.

Relations with senior management

Committee members will meet privately with senior management of the Company periodically and as frequently as the Committee feels is appropriate to fulfill its responsibilities, which will not be less frequently than annually, and to discuss any areas that are of concern to the Committee or senior management.

Other matters

The Committee will:

- at least once every three years, review, and upon agreement approve, the statement of mandatory responsibility and authority of the CFO concerning oversight functions, or any changes thereto;
- at least once every three years, review, and upon agreement approve, the statement of mandatory responsibility and authority of the Chief Actuarial Officer and the Appointed Actuary concerning oversight functions, or any changes thereto;
- annually assess the sufficiency of the Company's accounting and financial personnel;
- provide input to the Human Resources and Compensation Committee on the potential appointment of a new CFO or executive head of internal audit, and to the Board on the potential appointment of a new Appointed Actuary;
- review such investments and transactions that could adversely affect the well-being of the Company as the external auditor or any officer of the Company may bring to the attention of the Committee;
- prepare, review and approve any audit committee disclosures required by Applicable Requirements in the Company's disclosure documents; and
- provide oversight over the corporate policies delegated to the Committee by the Board from time to time.

COMPLAINTS PROCEDURE

The Committee will establish policies and procedures for the receipt, retention and treatment of complaints received by the Company and its subsidiaries regarding accounting or auditing matters, internal controls with respect to financial reporting and disclosure controls and procedures.

The Committee will also establish procedures for the confidential, anonymous submission by employees of the Company and its subsidiaries of concerns regarding questionable accounting or auditing matters, internal controls with respect to financial reporting and disclosure controls and procedures.

Any such complaints or concerns that are received shall be reviewed by the Audit Committee and, if the Committee determines that the matter requires further investigation, it will direct the Chair of the Committee who may engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management (including internal counsel) where appropriate to reach a satisfactory conclusion. The Committee will receive periodic reports from the Committee Chair regarding complaints and concerns made under such procedures, if any.

REPORTING

The Committee will regularly report to the Board on, among other matters:

- the independence of the external auditor;
- the performance of the external auditor and the Committee's recommendations regarding its reappointment or termination;
- the adequacy of the Company's internal controls and disclosure controls;
- its recommendations regarding the annual and interim financial statements of the Company, including any issues with respect to the quality or integrity of the financial statements;
- its review of the annual and interim management's discussion and analysis;
- the Company's compliance with legal and regulatory requirements related to financial reporting;
- the effectiveness of the external audit process; and
- all other significant matters it has addressed and with respect to such other matters that are within its responsibilities.

ASSESSMENT

At least annually, the Corporate Governance Committee will review the effectiveness of the Committee in fulfilling the responsibilities and duties set out in this mandate, in accordance with the evaluation process approved by the Board.

The Committee will review and assess the adequacy of this mandate at least once every three years and submit it to the Corporate Governance Committee for approval together with amendments as it deems necessary and appropriate. The Corporate Governance Committee will review this mandate and submit it to the Board for approval with such further amendments as it deems necessary and appropriate. Minor technical amendments to this mandate may be made by the corporate secretary of the Company, who will report any such amendments to the Board at its next regular meeting.

ACCESS TO RECORDS AND OUTSIDE ADVISORS; RELIANCE ON EXPERTS

In carrying out its responsibilities, the Committee:

- is empowered to investigate any matter with full and unrestricted access to all books, records, facilities and personnel of the Company and its subsidiaries;
- may retain, remove, instruct and pay any outside advisor, including independent counsel, at the expense of the Company without Board approval at any time;

- has the sole authority to determine such advisor's fees and other retention terms;
- may communicate directly and privately with the internal auditor, the external auditor and any other advisor engaged by the Committee at any time;
- shall be entitled to rely in good faith upon:
 - financial statements of the Company, or any other report of the Company represented to him or her by an officer of the Company or in a written report of the external auditor to present fairly the financial position of the Company in accordance with the accounting and financial reporting standards applicable to the Company,
 - a report or advice of an officer or employee (including the Appointed Actuary) of the Company, where it is reasonable in the circumstances to rely on the report or advice, and
 - a report of an actuary, lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by such a person.

NO RIGHTS CREATED

This mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Board, assisted by its committees, directs the affairs of the Company. While it should be interpreted in the context of all applicable laws, regulations and listing requirements (if any), as well as in the context of the Company's letters patent and bylaws, it is not intended to establish any legally binding obligations.

CERTIFICATE OF THE ISSUER

Dated: November 17, 2021

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

(Signed) Rowan Saunders

President and Chief Executive Officer

(Signed) Philip Mather

Executive Vice-President and Chief Financial Officer

On behalf of the Board of Directors

(Signed) John Bowey

Director

(Signed) Richard (Dick) Freeborough

Director

CERTIFICATE OF THE UNDERWRITERS

Dated: November 17, 2021

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

**BMO NESBITT
BURNS INC.**

(Signed) Bradley J.
Hardie

**RBC DOMINION
SECURITIES
INC.**

(Signed) John
Bylaard

**BARCLAYS
CAPITAL
CANADA INC.**

(Signed) Erik
Charbonneau

**SCOTIA
CAPITAL INC.**

(Signed) Joe
Kulic

**TD SECURITIES
INC.**

(Signed) R. Geoff
Bertram

**CIBC WORLD
MARKETS INC.**

(Signed) Richard
Finkelstein

**NATIONAL
BANK
FINANCIAL INC.**

(Signed) Maude
Leblond

**UBS SECURITIES
CANADA INC.**

(Signed) Ben
Metzler

**DESJARDINS
SECURITIES INC.**

(Signed) William
Tebbutt

**RAYMOND
JAMES LTD.**

(Signed) Sean
C. Martin

**CANACCORD
GENUITY CORP.**

(Signed) Michael
Shuh

**CORMARK
SECURITIES
INC.**

(Signed) Alfred
Avanessy

definity.