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2022

Definity Financial Corporation: Climate Report

CAUTIONARY STATEMENTS ABOUT FORWARD-LOOKING INFORMATION

This report contains “forward-looking information” within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future business, the climate change outlook, and anticipated events or results, and may include information regarding our business strategies, addressable markets, operations, governance, climate-related risks and opportunities, investments, plans, objectives and performance. Particularly, information regarding our expectations of future insurance needs and claims; climate patterns and weather events; economic and societal shifts; climate-related risks and opportunities; risk management, opportunity analysis and modeling capabilities; and the influence of climate change risks on underwriting, claims, operations, reinsurance, and investments, as well as our ability to respond to those risks are all forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “targets”, “commitments”, “expects”, “estimates”, “strategy”, “intends”, or variations of such words, and phrases or statements that certain actions, events or results “may”, “could”, “would”, or “will”. In addition, any statements that refer to expectations, intentions, plans, projections or other characterizations of future events, achievements or circumstances contain forward-looking information; these include, among other things, statements concerning our emissions. Statements containing forward-looking information are not historical facts or promises of future performance but instead represent management’s expectations, estimates and projections regarding possible future events or circumstances. Certain statements made in this report use a greater number and level of assumptions and estimates, and are over longer time frames, than many of our required disclosures under applicable laws. These assumptions and estimates are highly likely to change over time.

Despite our careful preparation and review of the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions which are the basis of such information will prove to be correct. Forward-looking information is based on opinions, estimates and assumptions that we considered appropriate and reasonable as at the date such statements were made, and is subject to many factors that could cause our actual results, performance or achievements, or other future events or developments, to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: climate change dynamics; the availability of comprehensive and high-quality GHG emissions data; the evolution of ESG reporting standards and mandatory reporting requirements; economic and investment market conditions; the need for active and ongoing engagement with stakeholders, including businesses and governmental and non-governmental organizations; the development and deployment of new technologies and industry-specific solutions; evolutions in customer, community and other stakeholders’ expectations; legislative and regulatory developments; our ability to successfully implement various initiatives within expected time frames; and the other factors set out on page 22 of Definity’s 2022 Annual Report. These factors are not intended to represent a complete list, and there may be other factors that could also cause actual results, performance, achievements, or future events or developments 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; actual results and 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 and is subject to change after such date. We disclaim any intention, obligation or undertaking to update or revise any forward-looking information, except as required under applicable securities laws in Canada.

The forward-looking information in this report is expressly qualified by the foregoing cautionary statements.

ADDITIONAL INFORMATION REGARDING THIS REPORT

This report details Definity Financial Corporation's climate-related performance and activities for the fiscal year ended December 31, 2022. Unless otherwise noted, data is stated as of December 31, 2022, enterprise-wide, and may be rounded. Financials are stated in Canadian dollars.

Climate metrics, data and other information contained in this report, including but not limited to information relating to our net-zero related commitments, goals, and targets, including our interim targets, financed emissions, and emissions from our own operations, is or may be based on assumptions, estimates and judgements.

The commitments, goals and targets discussed in this report, including but not limited to the net-zero-related commitments, goals and targets, as well as our interim targets, are aspirational and may be changed as available data improves and as climate science, transition pathways and market practices regarding standards, methodologies, metrics and measurements evolve.

This publication and the information contained within it are unaudited. Certain performance metrics contained in this publication have been subjected to a limited assurance engagement by Ernst & Young LLP ("EY"), and the remainder of the information in this publication was not subject to limited assurance. More details about the nature and scope of the engagement with EY can be found on page 68 of Definity's 2022 ESG Report.

We published our last climate report in May 2022, and it is available at www.definityfinancial.com/ESGReports

ABOUT DEFINITY

WE'RE IN IT FOR GOOD

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

OUR PURPOSE

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

OUR AMBITION

To be one of Canada's leading and most innovative P&C insurers

OUR BRAND PROMISE

Making insurance better

BRANDS

economical INSURANCE

sonnet INSURANCE

petline INSURANCE

family INSURANCE

OFFICES

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A MESSAGE FROM OUR CEO

Climate change is the defining issue of our time. Over the last year, concerns and impacts about our climate only continued to increase, and with more urgency. The Intergovernmental Panel on Climate Change (IPCC) continued to issue publications as part of its Sixth Assessment Report, further emphasizing the need to reduce human-induced greenhouse gas emissions and the potential impacts on and vulnerabilities of the natural world and human society.

Nearly a decade has passed since the Paris Agreement was reached and yet emissions continue to rise. If we are to limit planetary warming to 1.5 degrees Celsius, far more investment in emissions abatement is required.

A whole-of-society approach is required for both mitigation, reducing emissions in the near term to limit the effects of global warming over the long term, and resilience, our ability to adapt to and withstand the impacts of climate change on our communities and our world. The insurance sector can and must play a meaningful role in both.

Here in Canada, the impacts of extreme weather events are also becoming starker and more challenging. In May 2022, a derecho caused extensive damage along the densely populated corridor between Windsor, Ontario and Québec City, Quebec with windspeeds estimated to have reached 190 km/h. In September, Hurricane Fiona struck the Maritime provinces, becoming the most intense tropical or post-tropical cyclone on record to affect Canada, and the costliest in the documented history of Atlantic Canada. In both cases, our National Catastrophe Response team was deployed and worked tirelessly to support our customers.

As we experience the impacts of the changing climate here and now, we also strive to understand the potential impacts in the future. This report summarizes recent work undertaken in partnership with the academic community to model the potential impacts of future climate scenarios on pluvial flooding (resulting from extreme and/or concentrated rainfall in a short timeframe) and fluvial flooding (resulting from riverine inundation that causes water to flow on surrounding land).

Definity is a member of Climate Proof Canada, a cross-sector coalition that successfully advocated for the creation of a federal approach to climate change adaption and resilience. We are encouraged by the recent release of the National Adaptation Strategy, which outlines measures related to disaster resilience, health and well-being, nature and biodiversity, infrastructure, and economy and workers.

Definity is also proud to support the work of the Canadian Biosphere Reserves Association to conserve and nurture Canada's thirteen biosphere reserves. We are also a proud member of The Nature Force, an insurance industry collaboration in partnership with Ducks Unlimited, to invest in natural solutions to mitigate flood risks to communities.

In these pages, you will read about Definity's commitment to managing climate change risks and opportunities including our ongoing initiatives to reduce the emissions associated with our operations and investment portfolio to net zero by 2040 or sooner, how we are supporting our clients and communities to understand, prepare for, and manage the risks that climate change presents, and how these efforts align to our purpose to build a better world by helping our clients and communities adapt and thrive.

We will remain a committed and constructive partner to our clients, communities, vendors, policymakers, and other stakeholders to support the transition to a lower-carbon and climate-resilient future.

ROWAN SAUNDERS

PRESIDENT AND CEO

Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Definity is a supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures and its recommendations for transparency on climate-related risks and opportunities in the financial system.

This report is structured to address the eleven recommendations of the TCFD in four thematic areas:

Governance

- Describe the board's oversight of climate-related risks and opportunities
- Describe management's role in assessing and managing climate-related risks and opportunities

Strategy

- Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term
- Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning
- Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Risk management

- Describe the organization's processes for identifying and assessing climate-related risks
- Describe the organization's processes for managing climate-related risks
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management

Metrics and targets

- Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process
- Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks
- Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets

Full implementation of the recommendations across Definity is a multi-year effort, and this is a report on our progress to-date. A summary of our implementation progress can be found on page 24.

GOVERNANCE

Climate change has profound implications across our society and economy. Definity is committed to supporting the transition to a net-zero emissions future and enabling greater resilience and adaptation capabilities.

Given that climate change has widespread implications for Definity's business operations, oversight of the risks and opportunities is the purview of the Board of Directors. The Board of Directors has reviewed and endorsed Definity's climate change strategy and targets and will review progress against key objectives at least annually. In addition, the following Board committees provide ongoing oversight over key aspects of the company's risk profile:

BOARD OF DIRECTORS

RISK REVIEW COMMITTEE:

Provides oversight to identify and develop strategies to mitigate key and emerging risks to the business, including those influenced by the changing climate

AUDIT COMMITTEE:

Provides oversight of the integrity of the company's financial disclosures, including those pertaining to climate-related matters

In May 2022, the Board of Directors received a progress update on the implementation of Definity's climate strategy. In July 2022, the Risk Review Committee conducted its annual review of top and emerging risks, including physical and transition risks to insurance, investments, and operations. Climate-related risks are also a standing item in the quarterly report by the Chief Risk Officer to the Risk Review Committee.

See "Section 11 - Risk Management and Corporate Governance" in our 2022 Annual Report for further detail on Definity's overall approach to corporate governance.

Definity's Executive Leadership Team (ELT) is supported by a cross-functional executive-level Environment, Social, and Governance (ESG) Steering Committee chaired by the Senior Vice-President, Legal and Strategy, which oversees the company's ESG strategies and execution, of which climate change is an integral component.

The Chief Risk and Actuarial Officer maintains oversight of all identified key and emerging risks and, supported by other members of senior management, has been assigned responsibility for our climate change strategy.

The Management Risk Committee (MRC) is a cross-functional executive committee which oversees the enterprise risk and control activities with a view to understanding the impact on the company's risk profile. The MRC is responsible for ensuring that the magnitude of core and emerging risks remains within the established Board-approved risk appetite and that adequate mitigation strategies are undertaken.

The Executive Investment Committee (EIC) is a cross-functional executive committee which oversees compliance with our Investment Policy Statement (which includes climate change considerations) and the performance of the investment portfolio. It assesses the impact of external, social, economic, capital markets, and regulatory environment influences on the company's investment portfolios, strategies, and operations.

A cross-functional Climate Change Working Group (CCWG) co-chaired by the heads of our Enterprise Risk and ESG functions has supported the development of the enterprise climate change strategy and is responsible for the ongoing execution of prioritized initiatives. It is responsible for enhancing and promoting existing climate-related offerings, as well as supporting the development of further climate-related offerings across the business.

EXECUTIVE LEADERSHIP TEAM (ELT)

ESG STEERCO | MRC | EIC | CCWG

STRATEGY

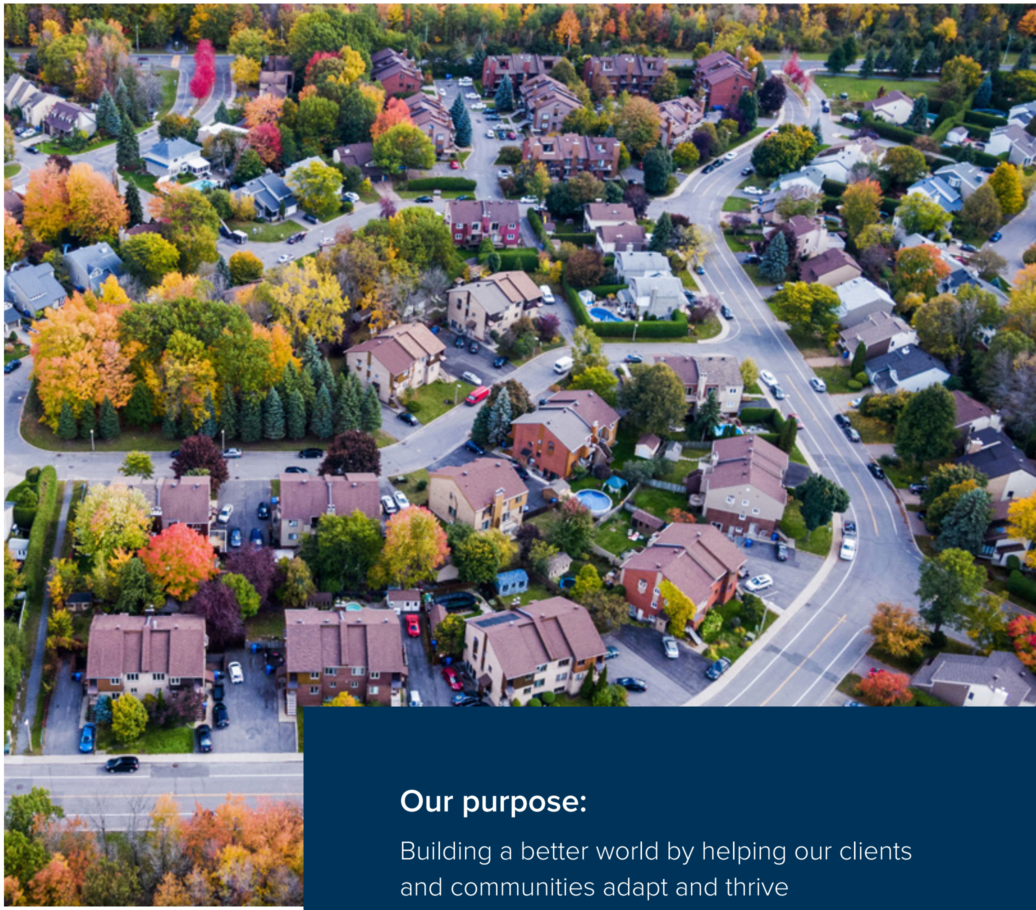
Definity's enterprise climate strategy is focused on:

- **Products, services, and claims:**
  Provision of insurance to reduce the impacts of climate change and enhance resiliency
- **Enterprise risk management and actuarial:**
  Managing climate-related risks to Definity's insurance operations, reserving, pricing, reinsurance, and capital
- **Operations:**
  Reducing the direct climate impacts of Definity's business operations
- **Investments:**
  Managing climate-related risks to and opportunities for Definity's investment portfolio
- **Advocacy and engagement:**
  Contributing as a progressive partner toward a net-zero emissions and climate-resilient future
- **Governance and reporting:**
  Ensuring diligent oversight and transparency concerning Definity's climate change strategy

Climate change is having and will continue to have profound effects on our society and economy, and therefore our business operations as an insurer.

Higher global average temperatures will result in more frequent and severe extreme weather events, which in turn present acute physical risks that are likely to result in more frequent and higher-value property and auto insurance claims. Climate patterns will also result in more chronic physical effects like drought, heat stress, and more rapid degradation of infrastructure that could change the amount and nature of insurance needs and claims. These factors could ultimately influence the insurability of certain regions or types of property and activity. Over time, it will become increasingly important for Definity to understand the potential impacts of the changing climate on our customers and operations, and take these factors into account in our underwriting, pricing, reserving, claims management, reinsurance, capital management, and operations.

A societal transition to net-zero implies policy and economic changes with impacts that are unpredictable and not yet quantifiable. Such changes could include a rising price on carbon emissions in Canada, more dynamic market and regulatory environments, more commercial liability claims, and heightened stakeholder expectations. Positioning our business strategically considering these transition risks — by decarbonizing our operations and investment portfolio, for example — may help mitigate their potential impacts over time.



Our purpose:

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

The following chart represents a qualitative assessment of the climate-related risks and opportunities to Definity's business lines, investments, and operations, updated at the end of 2022. These risks and opportunities are primarily identified on the basis of potential changes in asset values, operating revenues and costs, and the frequency and severity of insurance claims. In the qualitative analysis, a "business as usual" scenario is used to elucidate the maximum physical impacts, and a Paris-aligned scenario is used to elucidate maximum transition impacts.

Based on the qualitative analysis, the following climate-related risk and opportunities are identified for Definity:

	RISKS AND OPPORTUNITIES	IMPACT AREAS	SOURCES OF VULNERABILITY	TIME HORIZON
PHYSICAL RISKS	Flooding and extreme precipitation	• Personal Insurance • Commercial Insurance • Investments • Operations	• Climate change is expected to cause increased extreme precipitation events. • Increased extreme rainfall will cause increased overland and riverine flooding, leading to more frequent catastrophe loss events, potentially increasing claims for all insurance lines. Similarly, flooding may pose an operational risk to our office locations and financial risk to investment returns. • An increase in average temperatures may bring a higher frequency of ice storms.	Short-term and ongoing
	Wildfires	• Personal Insurance • Commercial Insurance • Investments • Operations	• Regions of Canada are at some of the highest increased risk of wildfires globally due to climate change. • Wildfires are a source of catastrophe losses, potentially triggering P&C claims across all insurance lines. Similarly, wildfires may pose financial risk to investment returns.	Short-term and ongoing
	Extreme wind events	• Personal Insurance • Commercial Insurance • Investments • Operations	• Climate change is increasing the occurrence of the conditions necessary for derechos to develop. • Warming ocean temperatures may see tropical and sub-tropical cyclones (including hurricanes) yielding higher windspeeds occur less frequently overall, but with greater intensity, and form and reach further away from the equator.	Short-term and ongoing

	Extreme temperatures	• Personal Insurance
		• Commercial Insurance
		• Investments
		• Operations
			• Many Canadian regions are expected to see significant increases in the number of heat waves and high temperature days.
			• High temperatures can lead to behaviours and impacts causing increased insurance claims, including:
			  • property damage from exterior façade and roof damage,
			  • air conditioner and/or refrigeration failure,
			  • increased ticks and tick-borne diseases impacting pet health, and
			  • increased driver fatigue and irritability leading to increased automobile accidents
			• Increased extreme temperatures may also affect overall economic productivity in all regions, potentially affecting our employees and investment portfolio returns.
				Long-term

	RISKS AND OPPORTUNITIES	IMPACT AREAS	SOURCES OF VULNERABILITY	TIME HORIZON
PHYSICAL RISKS	Water stress/drought	• Commercial Insurance • Operations	• A shift in precipitation patterns may negatively affect our agriculture portfolio. • Long-term water stress or drought in prairie provinces may also affect the Canadian economy and investment returns.	Long-term
	Ice storms and freeze-thaw cycles	• Personal Insurance • Commercial Insurance • Operations	• Freeze-thaw cycles lead to accelerated structural degradation for properties, as well as crop damage resulting in economic impact for the agricultural industry. • A business-as-usual scenario will result in up to 30% fewer freeze-thaw cycles, which may result in fewer associated claims.	Long-term
TRANSITION RISKS	Carbon pricing	• Personal Insurance • Commercial Insurance • Investments • Operations	• Climate policy, along with other societal factors such as remote work and public transit development, may decrease the number of people electing to own personal vehicles. This risk may be offset by customers choosing to drive electric vehicles. • Carbon-intensive businesses and industries may see decreased demand if certain sectors contract in a low-carbon scenario. • Carbon pricing may also impact investment returns for assets in emission-intensive industries.	Short-term and ongoing
	Market contraction	• Commercial Insurance • Investments	• Demand for emissions-intensive fuel sources and products may decline and therefore reduce market size in certain segments. • Lower demand for emissions-intensive fuels and products may cause a reduction in investment returns.	Medium-term to long-term
	Regulatory intervention	• Personal Insurance • Commercial Insurance	• Climate risks and impacts may lead regulators to impose requirements relating to coverage, pricing, capital, operations, disclosures, or otherwise.	Short-term and ongoing
	Stakeholder action	• Commercial Insurance • Investments • Operations	• Definity may face stakeholder pressure or protest related to its activity (customers, investments). • Definity may face negative impacts if we are perceived to not be adopting or executing against an adequate climate strategy.	Medium-term
	Liability	• Commercial Insurance • Investments	• Climate litigation may affect customers in emission-intensive industries, as well as investment returns from those industries.	Medium-term

	RISKS AND OPPORTUNITIES	IMPACT AREAS	SOURCES OF VULNERABILITY	TIME HORIZON
OPPORTUNITIES	Renewable energy	• Personal Insurance • Commercial Insurance • Investments	• Development of the renewable energy industry presents a market opportunity for residential and commercial installations. • Renewable energy development may provide an investment growth opportunity.	Short-term and ongoing
	Building Retrofits	• Personal Insurance • Commercial Insurance	• The drive to increase the energy efficiency of buildings through retrofits will likely increase their climate resilience, while also likely increasing property value. • Increasing property value can drive increased premiums, while increasing climate resilience can drive down claims. • Increased retrofits may also help drive increased construction insurance.	Short-term and ongoing
	Electric vehicles	• Personal Insurance • Commercial Insurance	• Growth of the electric vehicle segment presents an opportunity for market evolution and/or growth.	Short-term and ongoing
	Other products & services	• Personal Insurance • Commercial Insurance	• We have an opportunity to develop innovative product and service solutions that enable our clients to mitigate their climate impacts by lowering emissions, and to increase awareness and understanding of climate-related risks and reduce or prevent material and financial losses from climate-related weather events.	Current
	Climate-smart investment	• Investments	• We can incorporate climate transition as a factor in the investment process to identify growth and valuation opportunities for potential investee companies.	Short-term (1 to 3 years)
	Community investment for climate resilience	• Communities	• We can make grants and partner with charities, non-profit organizations and social enterprises that support community-level risk assessment, infrastructure improvements, capacity building, and tools for increasing community-level resilience and adaptation capacity to the effects of climate change.	Current
	Advocacy for climate solutions	• Personal Insurance • Commercial Insurance • Investments • Operations	• We can participate in collaborative efforts in support of public policy to advance climate change mitigation and adaptation policies and funding, including nature-based solutions.	Current
	Operational efficiency	• Operations	• We can invest in buildings, fleet, remote working, and virtual meeting capabilities that reduce greenhouse gas emissions and deliver cost savings and/or cost certainty.	Short-term (1 to 3 years)

In recognition of the urgency of the climate crisis and the risks and opportunities it presents for our business, Definity's business strategy incorporates a variety of climate considerations in our products and services, claims practices, actuarial and risk management practices, investment operations, stakeholder engagement, communication activity, and reporting.

Definity's customer offerings that help to reduce the impacts of climate change include, but are not limited to:

- Discounts to customers who install backwater valves and sump pumps, as they reduce the likelihood of water damage and claims
- A partnership between Sonnet and FLO, one of North America's largest electric vehicle (EV) charging networks, to offer discounts to FLO members who have an EV on their auto insurance policy
- Amending coverage for residential solar panels so that the customer can install solar panels and batteries to store energy and receive government or utility credits for installation and any surplus energy generated
- A variety of strategies in our claims processes to reduce waste and increase our clients' resilience to climate change, including a green endorsement that provides property claimants with additional funds to include what we consider to be more climate resilient or environmentally friendly solutions in their repairs
- A collection of educational materials and blog articles on how to reduce their impact on the environment and how to avoid property damage caused by severe weather resulting from climate change.

These offerings can help Definity build trust and loyalty with policyholders and brokers and attract new customers who seek to understand, manage, and mitigate the effects of climate change on their property or activities. Our Climate Change Working Group supports, through our lines of business, the enhancement and promotion of existing climate-related offerings as well as the development of further climate-related innovations and offerings across the business.

Our enterprise risk management framework includes climate change as a strategic risk that relates to insurance risk, financial risk, and operational risk. We plan to enhance our approach by further development of modelling capabilities to better understand changes in key climate risk exposures, and to ensure pricing, coverage options, risk accumulations, and claim liability estimates remain in our view appropriate. Our exposure to and/or concentrations of insured risks are actively monitored and managed with risk tolerance consideration given to expected loss exposures and the potential impact on our financial performance and capital position. We manage our exposure to catastrophe events by limiting underwriting of particular risks and/or regions, managing policy terms including deductibles, and purchasing reinsurance coverage.

Climate change risks may also influence the cost, coverage, and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. These risks could impair the ability or desire of reinsurers to provide us with reinsurance protection and could adversely impact our ability to obtain adequate reinsurance coverage on acceptable terms or at all. We have developed relationships with our reinsurers and have worked with them to help them understand the risk profile present in our book of business in relation to climate change risk. We believe that these relationships, along with proactive management of our reinsurance program, help us to maintain access to sufficient and cost-effective reinsurance. Reinsurers were hit particularly hard by capital markets conditions and global catastrophes in 2022, which has resulted in tightening capacity and an increased cost of reinsurance. This has led many primary insurers, including Definity, to increase their net retention to specific reinsurable events.

Climate change objectives are factored into Definity's capital and operating budget planning processes with a view to ensuring that our transition strategy is resourced effectively in the short and medium terms. For example, following the establishment of our target for net-zero emissions from our direct operations (Scope 1 and 2 — more detail in the "Metrics and targets" section that follows), Definity has continued its investments in building energy and fleet efficiencies for owned assets, and as of March 1, 2022, has procured renewable energy certificates to account for its total enterprise purchased electricity consumption as well as natural gas consumption from owned facilities. We will outline further capital and operating budget considerations related to our climate strategy and targets in subsequent ESG and climate-related financial disclosures.

Investment values and returns may also be affected by climate change risks. Weather-related losses or the transition to a low-carbon economy may impact the profit and prospects of an investee, and this, along with investor sentiment, could adversely affect the value of our investments. We seek to manage these risks by maintaining a highly liquid investment portfolio that is diversified across industries and regions. We have adopted targets to reduce the financed emissions intensity of our equity and corporate bond investments as a means of managing climate-related risk to our investments. Definity has integrated these and other ESG considerations into its investment process and Investment Policy Statement. We have conducted a qualitative risk assessment of the investment portfolio and conduct regular risk monitoring of physical and transition risks. The investment portfolio is heavily weighted toward sovereign bonds, is well diversified to climate risks and opportunities across regions and industries, and is liquid enough to enable rapid shifts, if necessary, in our view. Moving forward, we plan to calculate the financed emissions associated with sovereign bonds and incorporate this as a factor in our portfolio management strategy.

In 2022, Definity joined Climate Proof Canada, a cross-sector coalition that advocates for the creation of a federal approach to climate change adaption and resilience. We are encouraged by the recent release of the National Adaptation Strategy, which outlines measures related to disaster resilience, health and wellbeing, nature and biodiversity, infrastructure, and economy and workers. We believe that a whole-of-society approach is required for both mitigation and adaptation, and the insurance sector must play a meaningful role in both. We will continue to advocate for thoughtful and measured public policy and investment to support climate adaptation efforts across Canada.

Climate change has also been identified as a priority for our community investment and social impact strategy, and we plan for it to be an increasing area of focus for our non-profit and academic partnership development in the coming years.

Definity continues to deepen accountability for climate change throughout the organization. In July 2022, we announced the conversion of a five-year revolving credit facility to a sustainability-linked loan structure that ties borrowing costs directly to our performance on ESG targets, including achieving Scope 1 and Scope 2 operational greenhouse gas emissions targets.

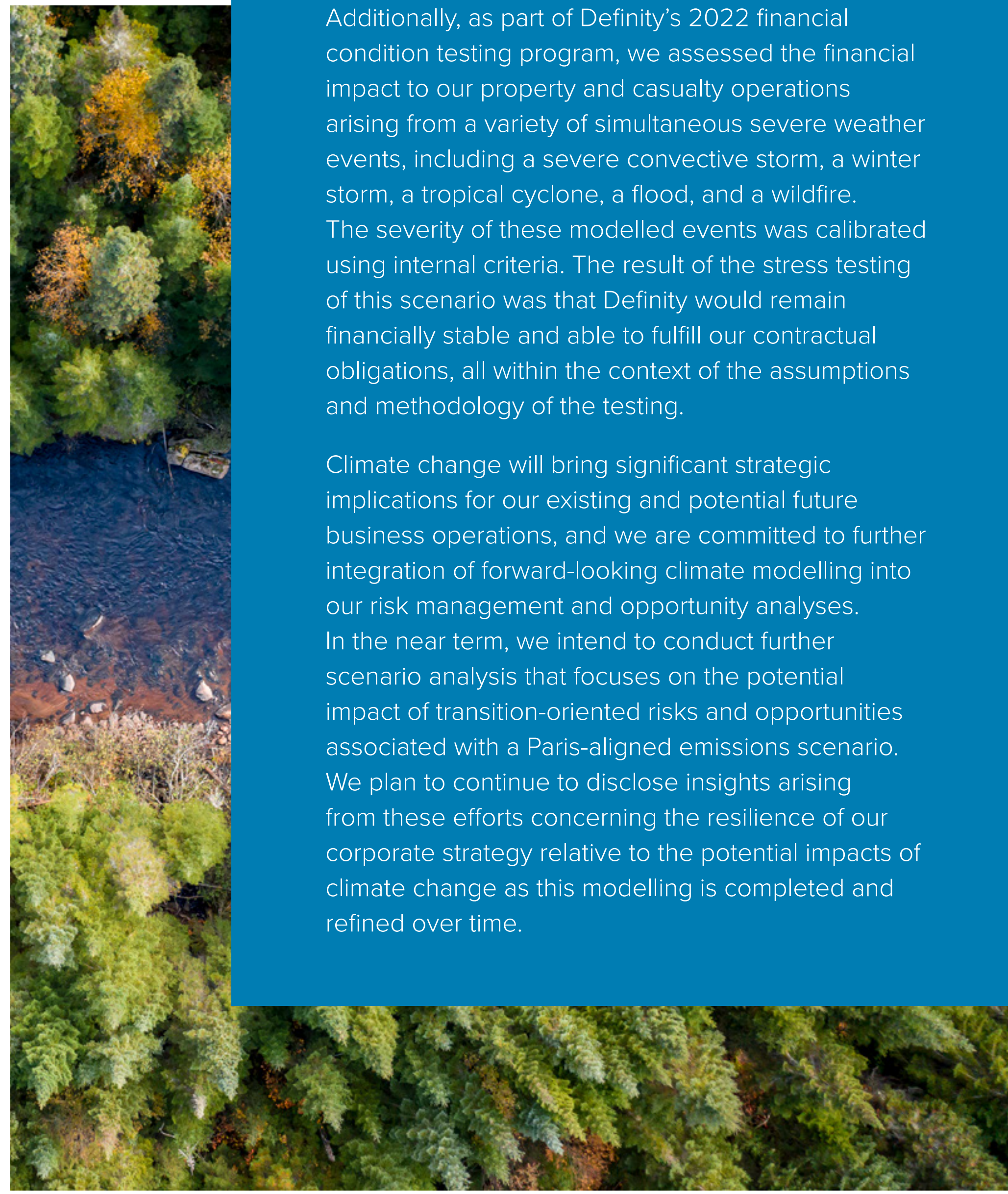
Definity continues to develop capabilities to evaluate the implications of various climate scenarios on its businesses and regions of operation. A previously conducted qualitative risk and opportunity scenario analysis was revisited in 2022 to assess considerations over the short, medium, and long term, and has been updated as is detailed from page 11.

In 2022, Definity formed research partnerships with two leading Canadian post-secondary institutions to model the potential physical risks and impacts of climate change on the insurance industry and, by extension, on Definity's insurance portfolio.

One research study focused on the potential effects of high-emissions scenarios on pluvial flooding (resulting from extreme and/or concentrated rainfall in a short timeframe) and fluvial flooding (resulting from riverine inundation that causes water to flow onto surrounding land) across Canada in future decades. To assess the potential impacts on future portfolio losses, the probabilities of future pluvial and fluvial flooding were overlaid on hypothetical but plausible future insurance portfolios.

Further modelling work has also been undertaken to examine potential effects of high-emissions scenarios on the frequency of various severe weather events in Canada's largest metropolitan areas, as well as on potential changes to tropical and sub-tropical cyclone activity in Atlantic Canada and the corresponding potential impacts to sample insurance portfolios.

The outputs of this modelling have provided Definity with useful insights that can be considered as our climate risk management approach evolves. Over time, development of these and further learnings could prove useful to our business decisions including individual risk selection, policy wording, pricing, insurance and investment portfolio strategy, reinsurance, broker management and customer communications.



Additionally, as part of Definity's 2022 financial condition testing program, we assessed the financial impact to our property and casualty operations arising from a variety of simultaneous severe weather events, including a severe convective storm, a winter storm, a tropical cyclone, a flood, and a wildfire. The severity of these modelled events was calibrated using internal criteria. The result of the stress testing of this scenario was that Definity would remain financially stable and able to fulfill our contractual obligations, all within the context of the assumptions and methodology of the testing.

Climate change will bring significant strategic implications for our existing and potential future business operations, and we are committed to further integration of forward-looking climate modelling into our risk management and opportunity analyses. In the near term, we intend to conduct further scenario analysis that focuses on the potential impact of transition-oriented risks and opportunities associated with a Paris-aligned emissions scenario. We plan to continue to disclose insights arising from these efforts concerning the resilience of our corporate strategy relative to the potential impacts of climate change as this modelling is completed and refined over time.

RISK MANAGEMENT

Definity regards climate change as a "core" strategic risk, which is defined as one that we are willing to accept in order to achieve our return expectations and business objectives. Our enterprise risk management (ERM) 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. As discussed in "Section 11 - Risk Management and Corporate Governance" of Management's Discussion and Analysis in our 2022 Annual Report, we take an integrated approach to the identification, assessment, monitoring, reporting, and mitigation of risks across the organization, including emerging risks. All identified key and emerging risks are assessed relative to their potential impact on our corporate strategy, competitive position, operational results, reputation, and financial condition.

Definity's Climate Change Working Group has conducted a qualitative assessment to create an inventory of climate-related risks relating to Definity's lines of business, operations, and investments. This assessment and inventory were key inputs to the table summarizing climate-related risks on page 11.

As mentioned in the previous section, in 2022, Definity established research partnerships with two leading Canadian post-secondary institutions to assess the potential impacts of various climate scenarios on severe weather events across Canada and the potential implications of those impacts for insurance claims. These insights can in turn inform Definity's products, pricing, underwriting, and more.

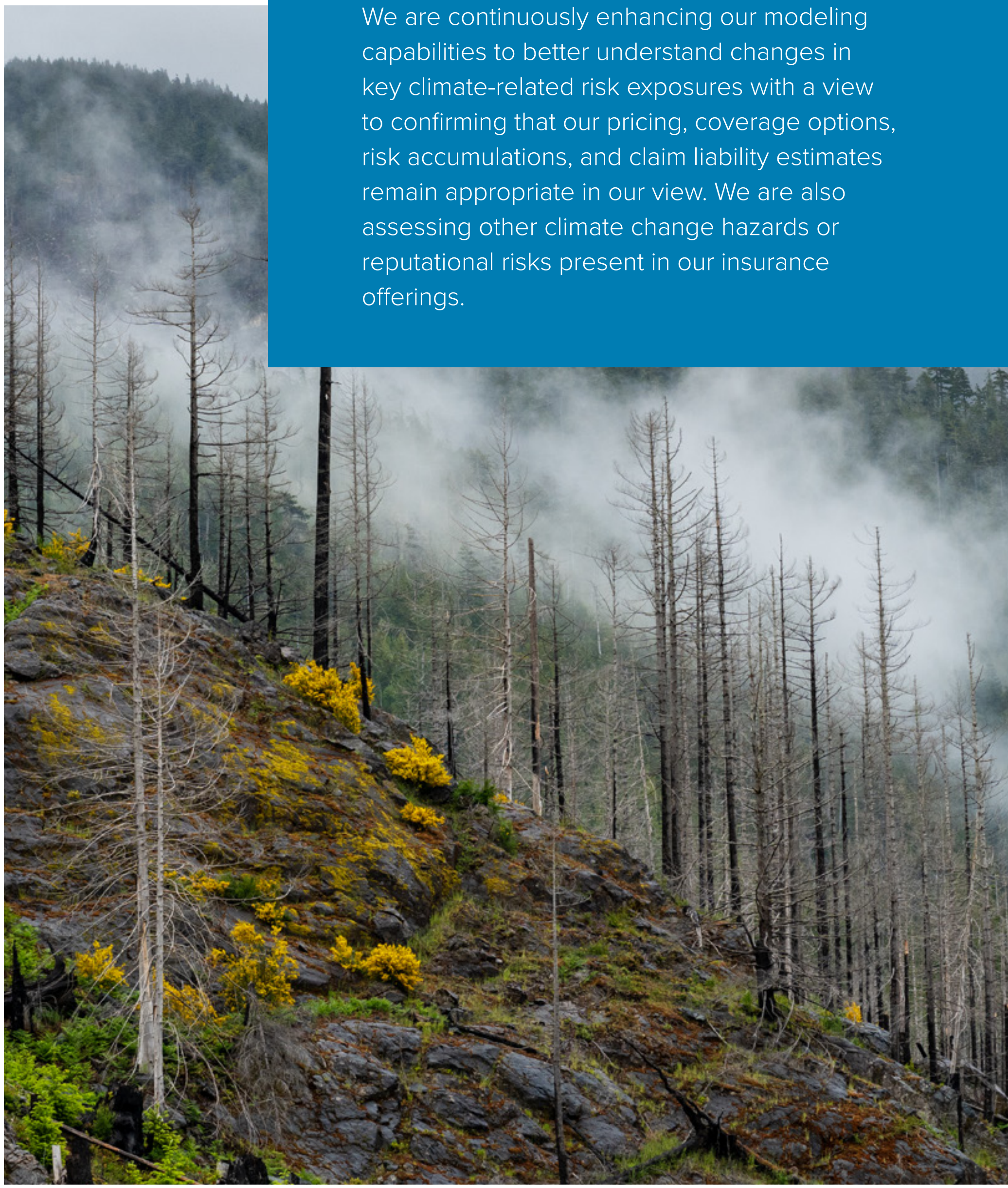
The impact of changing weather patterns arising from climate change and the implications of policies and commitments to mitigate climate change have significant risks for P&C insurers, including Definity. Climate change has implications for all aspects of the organization and is included in the top risks 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, as well as the potential to exacerbate other risks. 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 and on our own operations. We take steps to educate customers and employees on how to mitigate weather-related losses.

We mitigate our catastrophe loss exposure by monitoring exposure to concentrations of insured risks, by considering the potential impact on our capital position and our overall risk tolerances, through the deductibles charged to policyholders, by placing limitations on policy terms, by limiting underwriting capacity for particular risks or regions, and by purchasing reinsurance. We respond to claims caused by weather-related events through our catastrophe response teams, our reinsurance program, and our claims vendors, who are assessed with a view to whether they can offer quality service even when responding to the demands of natural catastrophe events.

Physical and transition risk considerations can also influence pricing, coverage options, product features, and services sought by customers or offered by our competitors. If we are unable to maintain competitive pricing, coverage options, product features, and services that are attractive to customers, our ability to grow or maintain our written premium levels and underwriting profitability may be affected.

We are continuously enhancing our modeling capabilities to better understand changes in key climate-related risk exposures with a view to confirming that our pricing, coverage options, risk accumulations, and claim liability estimates remain appropriate in our view. We are also assessing other climate change hazards or reputational risks present in our insurance offerings.



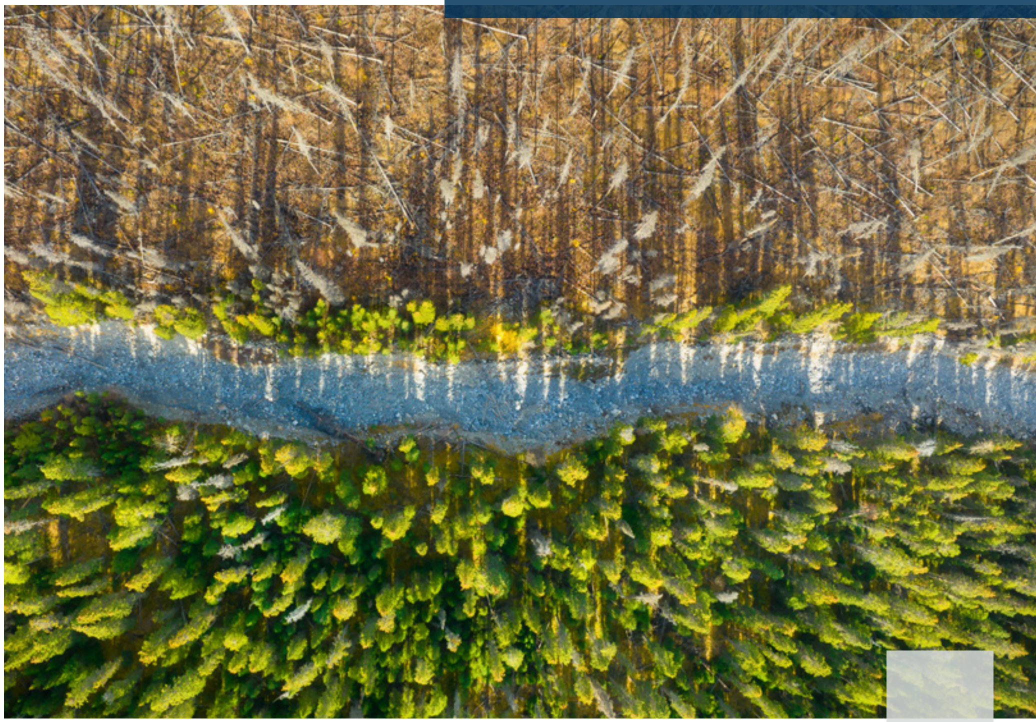
Definity identifies, assesses, and manages both physical and transition climate-related risks through our overall enterprise risk management framework.

- **Physical:** Relates to acute impacts of increasing frequency and severity of extreme weather events arising from changing climate patterns (e.g., floods, wildfires, tornadoes), as well as chronic changes in climate patterns that occur over time (e.g., degrading and/or overwhelming infrastructure, drought, sea-level rise, coastal erosion)
- **Transition:** Relates to economic, market, and policy changes associated with transitioning to a low-carbon economy, including reputational risks from stakeholders' views of our approach to climate change

Climate change risks may influence the cost, coverage, and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. These risks could impair the ability or desire of reinsurers to provide us with reinsurance protection and could adversely affect our ability to obtain adequate reinsurance coverage on acceptable terms or at all. We have developed relationships with our reinsurers and have worked with them to help them understand the risk profile present in our book of business. We believe that these relationships, along with proactive management of our reinsurance program, help us to maintain our access to sufficient and cost-effective reinsurance.

Investment values and returns may also be affected by climate change risks. Weather-related losses or the transition to a low-carbon economy may impact the profit and prospects of an investee, and this, along with investor sentiment, could adversely affect the value of our investment portfolio. We seek to manage these and other risks by maintaining a highly liquid investment portfolio that is diversified across industries and regions. We have adopted targets to reduce the financed emissions intensity of our equity and corporate bond portfolio as a means of managing climate-related risk to our investments.

Ultimately, our climate change strategy is integrated into our business strategy across the organization. We analyze and manage the implications of climate change on our underwriting and investment portfolios, we educate and engage with customers and employees on how to mitigate weather-related losses, and we are making investments to reduce the climate impacts of our own operations.



METRICS AND TARGETS

Definity's greenhouse gas inventory itemized below was prepared using the methodology prescribed by the GHG Protocol[1]. Due to the nature of Definity's operations as a property and casualty insurer, certain Scope 3 categories are deemed to be immaterial and have been omitted (e.g., upstream and downstream transportation and distribution; processing, use, and end-of-life treatment of sold products). Market-based Scope 2 emissions for 2022 reflect purchasing of renewable energy certificates through Bullfrog Power to account for total enterprise electricity consumption.

Financed emissions (Scope 3 Category 15 – Investments) from listed equities and corporate bonds were calculated using the methodology prescribed by the Partnership for Carbon Accounting Financials (PCAF)[2]. Definity's financial exposures for these calculations are as of December 31 of the reported year, while the Scope 1 and 2 emissions for portfolio companies are the most recent directly reported prior to that date, wherever available. Where portfolio company emissions data is unavailable, industry sector emissions intensity averages have been applied. The increased use of directly reported emissions from portfolio companies has resulted in a significantly improved data quality score year-over-year, as per the PCAF methodology.

[1] GHG Protocol: https://ghgprotocol.org
[2] Partnership for Carbon Accounting Financials (PCAF): https://carbonaccountingfinancials.com

	2022	2021	2020
SCOPE 1 EMISSIONS (t CO_2e)			
Stationary combustion	929	971	1,247
Refrigerants	157	137	142
Fleet	614	471	432
Total Scope 1 emissions	**1,700**[1]	**1,579**	**1,820**
GHG reductions from green natural gas purchasing	447	-	-
Total Scope 1 emissions with reductions from green natural gas (GNG) purchasing	**1,253**	**1,579**	**1,820**
SCOPE 2 EMISSIONS (t CO_2e)			
Electricity	298	340	387
Steam	48	45	39
Total Scope 2 location-based emissions	**346**[1]	**385**	**426**
GHG reductions from renewable energy certificates (RECs)	282	-	-
Total Scope 2 market-based emissions	**64**[1]	**385**	**426**
TOTAL SCOPE 1 AND 2 EMISSIONS (location-based)	**2,046**	**1,964**[2]	**2,246**
TOTAL SCOPE 1 AND 2 EMISSIONS (market-based)	**1,764**	**1,964**[2]	**2,246**
SCOPE 3 EMISSISONS (t CO_2e)			
Purchased goods and services	19,750	17,864	16,344
Capital goods	3,885	3,112	3,491
Fuel and energy activities	234	308	384
Waste generated in operations	84	182	180
Business travel	587	272	308
Employee commuting	568	553	542
Scope 3 emissions without investments	**25,108**	**22,291**	**21,249**
Scope 3 Category 15 – Investments (listed equities and corporate bonds only)	59,783[3]	47,729[4]	57,200[5]
Emissions intensity of investments – listed equities and corporate bonds (t CO_2e per million dollars invested)	23.16	18.19	26.14
Total Scope 3 emissions	**84,891**	**70,020**	**78,449**
TOTAL SCOPE 1, 2 AND 3 EMISSIONS (location-based)	**86,937**	**71,984**	**80,695**
TOTAL SCOPE 1, 2 AND 3 EMISSIONS (market-based)	**86,655**	**71,984**	**80,695**
TOTAL SCOPE 1, 2 AND 3 EMISSIONS NET OF REDUCTIONS FROM GNG AND RECs	**86,208**	**71,984**	**80,695**

[1] Included in the scope of limited assurance provided by EY. Significant contextual information necessary to understand how the data has been compiled has been disclosed in Definity's 2022 ESG Report.
[2] Scope 1 and 2 emissions for the 2021 fiscal year have been restated due to methodology improvements.
[3] Data quality score for 2022, as per PCAF methodology: 1.55
[4] Data quality score for 2021, as per PCAF methodology: 2.06
[5] Data quality score for 2020, as per PCAF methodology: 2.13

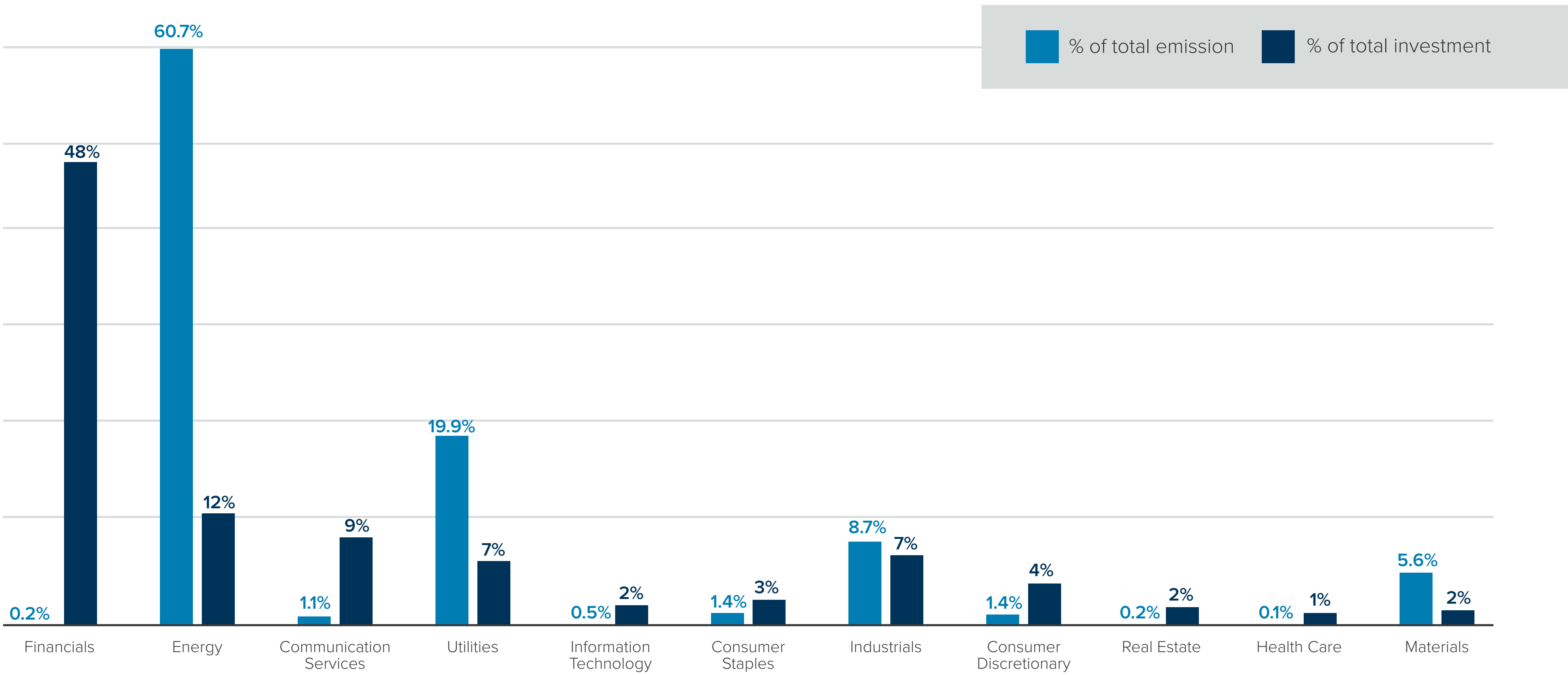
Note that because Definity's investment portfolio is heavily weighted towards bonds, our financed emissions calculations are particularly sensitive to fluctuations in the enterprise value of issuers in the portfolio. For example, if the share price of an emissions-intensive company were to rise substantially between reporting dates, this could significantly reduce the attribution factor of a corporate bond held by Definity (the relatively static book value of the debt as a percentage of the issuer's higher enterprise value), which is in turn multiplied against the issuer's emissions to determine Definity's financed emissions for that holding. If the share price of the same company were to fall significantly, this would reduce the enterprise value of the issuer and therefore increase the attribution factor of the bond held by Definity, resulting in higher financed emissions. Year-over-year development is primarily influenced by increased exposure to the energy sector and decreased exposure to financials.

Late 2022 saw the release of the second version of PCAF's Global GHG Accounting and Reporting Standard for Financed Emissions and the Global GHG Accounting and Reporting Standard for Insurance-Associated Emissions. We intend to apply these methodologies and expand the scope of our financed emissions reporting for these assets and activities as appropriate over time.

Below is a comparison of the share of investment emissions associated with Definity's holdings of listed equities and corporate bonds by industry sector versus the share of portfolio holdings in those sectors, as at December 31, 2022.

% INVESTMENT EMISSIONS VS. % INVESTMENT EXPOSURE, BY INDUSTRY SECTOR

(Listed equities and corporate bonds only)



Definity has established an ambition to achieve net-zero emissions in our operations and investment portfolio (listed equities and corporate bonds only) by the year 2040 or sooner. “Net zero” means that at that date of target achievement, any residual emissions (less than 10% of the baseline) are balanced by an equivalent amount of emissions removed from the atmosphere.

Our operational emissions target includes all Scope 1 and 2 emissions (tonnes of carbon dioxide equivalent) and is calculated on an absolute basis relative to a 2019 baseline that reflects operational conditions prior to the COVID-19 pandemic.

Our investment emissions target is on an intensity basis of GHG emissions (tonnes of carbon dioxide equivalent) per million dollars invested relative to a 2020 baseline and applies to listed equities and corporate bonds, according to the methodology developed by the Partnership for Carbon Accounting Financials (PCAF). This approach was applied to produce the investment emissions intensity calculation shown in the previous section (per million dollars invested).

Our interim targets for the areas noted above are as follows:

Year	Scope 1 and 2 (absolute tonnes CO_2e) – relative to 2019 baseline	Scope 3 – Investments (category 15) (tonnes CO_2e per million dollars invested) – relative to 2020 baseline
2025	-30%	-30%
2030	-50%	-65%
2035	-70%	-85%
2040	Net zero (-90% before removals)	Net zero (-90% before removals)

Sovereign bonds make up a substantial part of Definity’s investment portfolio, and we have begun to apply the corresponding PCAF methodology to measure the financed emissions associated with this asset class, may disclose these figures in the future, and may revisit our investment emissions targets to incorporate this asset class if deemed to be feasible and appropriate.

In early 2022, Definity committed to take part in the Science Based Targets initiative (SBTi) and has subsequently submitted for validation its above near-term and net-zero targets as per the requirements of SBTi.

The Intergovernmental Panel on Climate Change (IPCC) defines net zero as follows:

Net-zero emissions are achieved when anthropogenic (human-caused) emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period.[7]

[7] Glossary — Intergovernmental Panel on Climate Change (ipcc.ch): https://www.ipcc.ch/sr15/chapter/glossary/

TCFD implementation progress summary

	In place	In development	Future development
Governance	• Published enterprise statement, "Our Climate Commitment" • Physical and transition climate risk aspects (including insurance risks and investment risks) have been integrated into quarterly reporting to the Risk Review Committee of the Board • Ongoing engagement and education of the Board of Directors	• Semi-annual Board review of progress against enterprise climate change strategy	• Incorporate climate objectives into executive compensation program
Strategy	• Established models to assess the potential impacts of climate scenarios to pluvial and fluvial flooding risk in Canada on sample insurance portfolios • Established models to assess the potential impacts of climate scenarios on weather patterns in metropolitan areas • Embedded climate change targets and considerations into the Investment Policy Statement	• Modelling the potential impacts of tropical and post-tropical cyclones on sample insurance portfolios in Eastern Canada • Continued advocacy for climate action directly and through collaborative forums including the Insurance Bureau of Canada and Climate Proof Canada • Continued integration of climate into investment process	• Further climate scenario analysis including transition risk associated with a well-below 2°C scenario, potential physical impacts through various perils, and with more detail on potential financial impacts
Risk management	• Climate risk integrated into enterprise risk management framework and strategic planning process • Climate change factors integrated into cyclical capital adequacy assessments	• Establishment of Commercial Insurance working group to further integrate environmental factors into underwriting practices • Assessment of aggregate climate risk across insurance portfolio	• Establishment of climate change centre of excellence to assess, mitigate, and adapt to the impact of climate change on our profitability
Metrics and targets	• Established commitment to achieve net-zero emissions by 2040 or sooner for operations and investment portfolio (listed equities and corporate bonds)	• Annual review of and tracking against climate-related metrics and targets • Assessment of financed emissions associated with sovereign bonds	• Assessment of insured emissions of commercial portfolio • Insurance portfolio management with carbon intensity considerations

definity.