Life Insurance Capital Adequacy Test (LICAT)

OSFI requires federally regulated life insurance companies to apply its Life Insurance Capital Adequacy Test ("LICAT"), as the capital adequacy guideline. Companies are required, at a minimum, to maintain a Core Ratio of 55% and a Total Ratio of 90%. OSFI has also established supervisory target ratio levels of 70% for Core and 100% for Total.

The following table provides LICAT-related information and ratios. The Company's LICAT Ratios have exceeded their Internal Targets and are well above OSFI's supervisory ratios in both periods.

(in thousands of dollars)	**December 31, 2023**	**December 31, 2022**
Available Capital		
Tier 1 Capital (A)	$ 1,330,592	$ 1,120,124
Tier 2 Capital (B)	474,861	436,259
Total (C)	$ 1,805,453	$ 1,556,383
Surplus Allowance (D)	$ 587,913	$ 859,472
Base Solvency Buffer (E)	$ 1,828,207	$ 1,662,918
Total Ratio ((C+D) / E) x 100	131%	145%
Core Ratio ((A + 70% D) / E) x 100	95%	104%

The Total Ratio and Core Ratio changes during 2023 are primarily attributed to the transition to the IFRS 17 accounting framework, and the associated adjustments to the LICAT guideline.

The combined Total Available Capital and Surplus Allowance are similar at around $2.4 billion for the two periods, although there are movements between the components due to the changes in accounting framework and capital formulas.

The largest change is in the Base Solvency Buffer where there is an increase in the lapse required capital from the increase in the calculation of the loss incurred by the company upon policy termination.

Definition of terms can be found in OSFI's Guideline: LICAT – Life Insurance Capital Adequacy Test.