

Definity Financial Corporation
Management's Discussion and Analysis
For the year ended December 31, 2021

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INTRODUCTION

February 10, 2022

The following Management's Discussion and Analysis ("MD&A") is the responsibility of management and has been approved by the Board of Directors ("Board"). This MD&A is intended to enable the reader to assess our financial position and results of operations as at and for the three and twelve-month periods ended December 31, 2021, compared to the corresponding periods in 2020. This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2021. All dollar amounts are in Canadian dollars. Certain totals, subtotals, and percentages may not reconcile due to rounding. Unless otherwise noted in this MD&A, all information was prepared as at February 10, 2022.

As used in this MD&A, references to "Definity", "the Company", "we", "us", and "our" refer to Definity Financial Corporation, and, unless the context otherwise requires or is otherwise expressly stated, its consolidated subsidiaries.

The Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). 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 MD&A, 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 MD&A 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 MD&A 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, book value per share, financial capacity, leverage capacity, and certain other ratios.
Non-GAAP Financial Measures:	Operating net income, operating income, and non-operating gains (losses), and underwriting expenses (net of other underwriting revenues)/operating expenses (net of other underwriting revenues)
Non-GAAP Ratios:	Combined ratio, expense ratio, return on equity ("ROE"), operating return on equity ("operating ROE"), and operating earnings per common share

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 Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

This MD&A may include product and brand names, trade names, and trademarks of Definity, our subsidiaries and other companies, each of which is the property of its respective owners.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A 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.

Forward-looking information in this MD&A is 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. 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 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:

- Definity's ability to appropriately price its insurance products to produce an acceptable return;
- Definity's ability to accurately assess the risks associated with the insurance policies that it writes;
- Definity's ability to assess and pay claims in accordance with its insurance policies;
- litigation and regulatory actions, including potential claims in relation to demutualization and our IPO, and COVID-19-related class-action lawsuits that have arisen and which may arise, together with associated legal costs;
- Definity's ability to obtain adequate reinsurance coverage to transfer risk;
- Definity's ability to accurately predict future claims frequency or severity, including the frequency and severity of weather-related events and the impact of climate change;
- the occurrence of unpredictable catastrophe events;
- unfavourable capital market developments, interest rate movements, changes to dividend policies or other factors which may affect our investments or the market price of our common shares;
- changes associated with the transition to a low-carbon economy, including reputational and business implications from stakeholders' views of our climate change approach or that of our industry;
- Definity's ability to successfully manage credit risk from its counterparties;
- foreign currency fluctuations;
- Definity's ability to meet payment obligations as they become due;
- Definity's ability to maintain its financial strength rating or credit rating;
- Definity's dependence on key employees;
- Definity's ability to attract, develop, motivate, and retain an appropriate number of employees with the necessary skills, capabilities, and knowledge;
- Definity's ability to appropriately manage and protect the collection and storage of information;
- Definity's reliance on information technology systems, internet, network, data centre, voice or data communications services and the potential disruption or failure of those systems or services, including as a result of cyber security risk;

- failure of key service providers or vendors to provide services or supplies as expected, or comply with contractual or business terms;
- Definity's ability to obtain, maintain and protect its intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology;
- compliance with and changes in legislation or its interpretation or application, or supervisory expectations or requirements, including changes in effective income tax rates, risk-based capital guidelines, and accounting standards;
- failure to design, implement and maintain effective control over financial reporting which could have a material adverse effect on our business;
- deceptive or illegal acts undertaken by an employee or a third party, including fraud in the course of underwriting insurance or settling insurance claims;
- Definity's ability to respond to events impacting its ability to conduct business as normal;
- Definity's ability to implement its strategy or operate its business as management currently expects;
- the impact of public-health crises, such as pandemics or other health risk events including the COVID-19 pandemic and their associated operational, economic, legislative and regulatory impacts, including impacts on Definity's ability to maintain operations and provide services to customers and on the expectations of governmental or regulatory authorities concerning the provision of customer relief;
- general economic, financial, and political conditions, particularly those in Canada;
- the competitive market environment and cyclical nature of the P&C insurance industry;
- the introduction of disruptive innovation;
- distribution channel risk, including Definity's reliance on independent brokers to sell its products;
- Definity's dividend payments being subject to the discretion of the Board and dependent on a variety of factors and conditions existing from time to time;
- Definity's dependence on the results of operations of its subsidiaries and the ability of the subsidiaries to pay dividends;
- Definity's ability to manage and access capital and liquidity effectively;
- Definity's ability to successfully identify, complete, integrate and realize the benefits of acquisitions or manage the associated risks;
- periodic negative publicity regarding the insurance industry or Definity; and
- the completion and timing of the Continuance (as defined herein).

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 Section 11 – "Risk Management and Corporate Governance" should be considered carefully by readers.

Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, the factors above are not intended to represent a complete list and there may be other 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 MD&A represents our expectations as at the date of this MD&A (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 MD&A is expressly qualified by the foregoing cautionary statements.

1 — CORPORATE OVERVIEW AND STRATEGY

ABOUT DEFINITY

We are one of the leading property and casualty ("P&C") insurers in Canada[1]. We are the seventh largest provider of P&C insurance in Canada, with a market share of 4.6%.[2] We had over $3.2 billion in gross written premiums ("GWP") in 2021.

We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 72% of our GWP in 2021, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance operations, which represented 28% of our GWP in 2021, includes fleet, individually-rated commercial auto, property, liability and specialty insurance products, which are provided to businesses of all sizes in Canada.

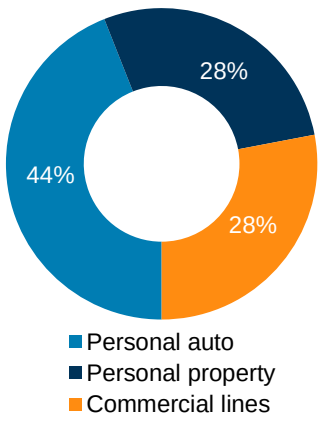
As a multi-channel insurer, we distribute our products on a primarily intermediated basis, through brokers, as well as directly to customers. We have active relationships with a network of approximately 700 independent brokerage firms and a broker base of more than 28,000 individual brokers. Our direct 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 2021, broker and direct distribution represented 89% and 11%, respectively, of our total GWP.

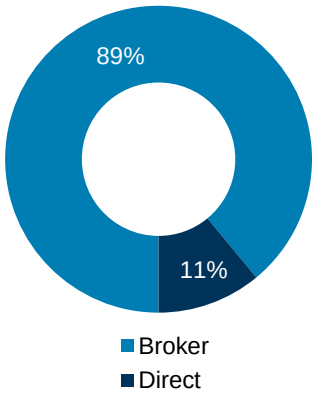
We have a national presence and conduct our business in all provinces and territories of Canada. Ontario is our largest market, representing 58% of GWP in 2021.

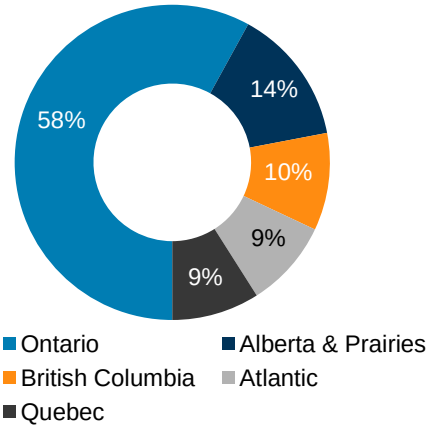
Our P&C insurance business is supported by our investment management activities. We had approximately $5.4 billion in investments as at December 31, 2021. A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high quality assets. 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.

The following charts illustrate the breakdown of our 2021 GWP by business line, distribution channel, and region, respectively.

2021 GWP







[1] Based on market share by DWP.
[2] Market share of Canadian P&C insurance industry DWP of $65.6 billion for the twelve months ended June 30, 2021.

DEMUTUALIZATION AND INITIAL PUBLIC OFFERING

On November 3, 2015, the Board of Directors of Definity Insurance Company ("Definity Insurance"), formerly known as Economical Mutual Insurance Company, initiated the process for demutualization within the federal demutualization regulatory framework (the "Demutualization"). Under such framework, Definity Insurance held three separate special meetings of eligible policyholders regarding the Demutualization, and following receipt of necessary approvals, Definity Insurance applied to the Minister of Finance (Canada) for approval to complete the Demutualization. On November 23, 2021, Definity Insurance completed the Demutualization and, pursuant to the plan setting out the terms for the conversion of Definity Insurance (the "Conversion Plan") and in connection with completion of the Demutualization, Definity Financial Corporation became the parent company of Definity Insurance and issued 8,198,229 common shares to eligible policyholders of Definity Insurance. Immediately following the Demutualization, we closed our initial public offering ("IPO") of 63,636,370 common shares at a price of $22.00 per common share (the "Offering Price"), for aggregate gross proceeds of approximately $1.4 billion. An additional 9,545,455 common shares were also issued pursuant to the exercise of the over-allotment option granted to the underwriters of the IPO (the "Over-Allotment") at the Offering Price, for additional gross proceeds of approximately $0.2 billion. Concurrently with the IPO, on November 23, 2021, we also completed private placements of 20,691,179 common shares to Healthcare of Ontario Pension Plan Trust Fund ("HOOPP") and 11,450,000 common shares to Swiss Re Investments Holding Company Ltd ("Swiss Re"), each at the Offering Price, for aggregate gross proceeds of approximately $0.7 billion (together, the "Cornerstone Private Placements"). After payment of underwriter commissions of approximately $61.5 million (net of applicable taxes), approximately $2.3 billion was recorded as incremental share capital.

After the IPO, on November 24, 2021, pursuant to the subscription agreement entered into with HOOPP, HOOPP purchased an additional 2,371,467 common shares at the Offering Price (the "Anti-Dilution Adjustment"). Upon completion of the IPO, the Over-Allotment, the Cornerstone Private Placements, and the Anti-Dilution Adjustment, HOOPP and Swiss Re owned 19.9% and approximately 9.9%, respectively, of the issued and outstanding common shares.

In accordance with the terms of the Conversion Plan, the net proceeds of the IPO and the Cornerstone Private Placements of $2.0 billion (after payment of expenses) were used to fund the distribution of cash benefits of the Demutualization to eligible recipients, including $100 million allocated to Definity Insurance Foundation. This obligation to pay eligible policyholders and Definity Insurance Foundation was recorded as a reduction in retained earnings immediately prior to the IPO. The cash Demutualization amounts outstanding to eligible recipients are reflected in "Restricted cash" in the consolidated balance sheets. The net proceeds of $252.1 million from the issuance of common shares to the underwriters pursuant to the Over-Allotment, and to HOOPP pursuant to the Anti-Dilution Adjustment, were retained by us for general corporate purposes.

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 we believe 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 an award-winning, fully online quote-to-bind, mobile-enabled solution that has experienced rapid customer adoption since inception, with GWP growing at a CAGR of 42% from $72 million in 2017 to $293 million in 2021. We believe there is a significant opportunity to continue to scale our Sonnet business. Learnings from being one of the early Canadian insurers to launch a fully digitally distributed business model allows us to continue improving our already superior digital customer experience.

Sonnet's differentiated operating model utilizes advanced data analytics from multiple proprietary and third party data sources to enable personalized product customization and pricing within minutes, and an exceptional customer experience in easy to understand language. Relative to our competition, Sonnet also enables better access to the large group and affinity segment of the P&C insurance market. Group and affinity volume within Sonnet grew strongly, despite this segment historically having significant barriers to entry. Our sophisticated origination capabilities enable us to reach those same customers directly or through partnerships that allow us to access target customers at a lower acquisition cost.

Leverage Vyne™ to Increase Our Share of the Broker Channel

In 2018, we launched Vyne, our automated end-to-end digital platform for brokers. Vyne 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.

Since the Vyne platform was fully implemented, we have been able to drive significant growth in segments we have targeted for expansion. For example, our personal property book in the broker channel grew GWP from $474 million in 2018 to $757 million in 2021, a CAGR of 17%. Vyne is integrated with all major broker management systems and leading quoting vendors, which enables us to be one of the first guaranteed quotes available to the broker, while our advanced analytics allow us to offer competitive rates so that we can target higher-quality risks. Vyne also processes renewals seamlessly and allows brokers to switch existing policies from other carriers onto our platform much more quickly and easily than traditional processes. This fully automated renewal process also facilitates retention of existing business as it requires no touch from the broker to renew, while also providing the option to adjust or update any element of risk quickly, if required.

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 currently do not have 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 maintaining disciplined underwriting while expanding our share within the small business, mid-market, and specialty segments of this market. We have successfully repositioned our portfolio in recent years, generating a 23-point improvement in combined ratio since 2018 (a $159 million improvement in underwriting income), as well as a 25% increase in premiums since 2020. This has strengthened our belief 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, 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.

Within mid-market, 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 provides another attractive opportunity for us to profitably grow our business. Industry dynamics in the Canadian specialty market are attractive, and success in this segment depends on sophisticated underwriting expertise and strong client relationships. Our immediate focus is expansion in five key segments, which include Specialty Energy & Property, Professional Lines, Surety, Agribusiness, and the Sharing Economy. We have a certain competitive advantage relative to smaller niche specialty players as we have a large P&C offering in place and deep broker relationships. This allows us to cross-sell more easily and provide brokers with a broader product suite. Within the Sharing Economy, we have demonstrated our capabilities through our successful collaboration with Uber and by adding more Sharing Economy accounts in 2021, which has further strengthened our market leading position in this space.

Maintain Our Pace of Innovation

We believe that combining innovative technology and new business models with disciplined financial management, sound insurance fundamentals, and market agility is key to delivering sustainable returns, and we are committed to maintaining our pace of innovation to create exceptional experiences for our customers, brokers, and our employees.

In 2021, we continued to strengthen our enterprise innovation capabilities, as we explored new partnerships, and integrated innovation into our technology transformation programs and existing platforms to reflect ongoing changes in market dynamics, customer expectations, and evolving technology. 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.

Investments in our industry leading innovations through Sonnet and Vyne are delivering benefits. Our claims operation continued its transformation journey, with additional investments in operational analytics and reporting capabilities, supply chain integration at first notice of loss, fraud mitigation, and improved customer experience through capabilities such as electronic funds transfer. We are working on an innovative insurance solution to offer personal auto customers alternatives to traditional insurance products.

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 and maintain 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 have an unlevered balance sheet and significant excess capital available to deploy in support of acquisitions, and we are well positioned to actively participate in industry consolidation. 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 intend to 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 12 businesses across industries that have a similar mindset to ours when it comes to protecting, improving, and simplifying customers' lives. These relationships provide our customers with the opportunity to access discounts on a variety of products and services.

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

Our people are the backbone of our company, and we are focused on developing top talent to execute our strategic objectives. We believe it's better at Definity and that sets the tone for our employee experience. We are committed to creating an inspiring and engaging environment that helps our people maximize their individual and collective contribution to building value over the long term.

Culture underpins high performance. Building an engaging, values-based culture where customer focus, an ownership mindset, innovation, and teamwork are championed helps to ensure we deliver on the essence of our brand. We are proud of what we have built.

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 the right thing to do and also leads to better performance.

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 (IDEA) Committee, a committee comprised of employees across the organization that plays a prominent role in establishing D&I strategy and initiating efforts that make us more inclusive.

2 — FINANCIAL PERFORMANCE

HIGHLIGHTS:

- Premium growth was 12.0% in Q4-2021 and 14.8% for the full year, driven by our strategic expansions in Sonnet, commercial lines, personal property, and ongoing firm market conditions
- Combined ratio of 94.6% in Q4-2021 included 4.8 points of catastrophe losses, 4.4 points of favourable prior year claims development, and 4.2 points of auto reserve strengthening; full year combined ratio improved to 93.1% from 94.6%
- Operating net income of $46.5 million in Q4-2021 compared to $73.4 million in Q4-2020 and resulted in operating EPS of $0.42 per share; full year operating net income of $220.4 million led to operating ROE of 11.5%
- Full year net income of $213.2 million, in conjunction with the net proceeds from our recent IPO and related transactions, drove book value up $578.3 million in 2021, ending the year at $20.68 per share, 18% higher than a year ago
- Strong capital position and operational outlook led to the declaration of an inaugural dividend subsequent to year end

RESULTS OF OPERATIONS

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

(in millions of dollars, except as otherwise noted)	Three months ended December 31, 2021	2020	Change	Years ended December 31, 2021	2020	Change
Gross written premiums	$ 846.6	$ 755.9	12.0%	$ 3,231.4	$ 2,814.7	14.8%
Net written premiums	777.1	702.6	10.6%	2,991.3	2,639.8	13.3%
Net earned premiums	745.0	665.5	11.9%	2,833.6	2,508.7	13.0%
Net claims and adjustment expenses	470.2	379.9	90.3	1,721.5	1,562.3	159.2
Underwriting expenses (net of other underwriting revenues)[1]	234.5	212.9	21.6	917.6	810.0	107.6
Underwriting income	$ 40.3	$ 72.7	(32.4)	$ 194.5	$ 136.4	58.1
Impact of discounting	9.4	(10.1)	19.5	44.7	(114.0)	158.7
Underwriting income after the impact of discounting	$ 49.7	$ 62.6	(12.9)	$ 239.2	$ 22.4	216.8
Net investment income	25.1	23.7	1.4	96.8	100.3	(3.5)
Recognized (losses) gains on investments	(9.2)	4.0	(13.2)	(20.8)	79.8	(100.6)
Other (expenses) income	(20.5)	(1.5)	(19.0)	(34.0)	(1.9)	(32.1)
Income before income taxes	$ 45.1	$ 88.8	(43.7)	$ 281.2	$ 200.6	80.6
Income tax expense	(11.4)	(22.1)	10.7	(68.0)	(46.7)	(21.3)
Net income	**$ 33.7**	**$ 66.7**	**(33.0)**	**$ 213.2**	**$ 153.9**	**59.3**
Non-operating losses[1]	(17.3)	(9.1)	(8.2)	(9.7)	(41.5)	31.8
Operating income[1]	62.4	97.9	(35.5)	290.9	242.1	48.8
Operating net income[1]	46.5	73.4	(26.9)	220.4	184.4	36.0
Earnings per common share, basic (in dollars)	$ 0.31	$ 0.64	(0.33)	$ 2.03	$ 1.48	0.55
Earnings per common share, diluted (in dollars)	$ 0.31	$ 0.64	(0.33)	$ 2.02	$ 1.48	0.54
Operating earnings per common share (in dollars)[3]	$ 0.42	$ 0.71	(0.29)	$ 2.09	$ 1.77	0.32
Book value per share (in dollars)[2]	$ 20.68	$ 17.48	3.20	$ 20.68	$ 17.48	3.20
Financial capacity[2]	$ 1,057.8	$ N/A	N/A	$ 1,057.8	$ N/A	N/A
Claims ratio[2]	63.1%	57.1%	6.0 pts	60.8%	62.3%	(1.5) pts
Expense ratio[3]	31.5%	32.0%	(0.5) pts	32.3%	32.3%	-
Combined ratio[3]	94.6%	89.1%	5.5 pts	93.1%	94.6%	(1.5) pts
Return on equity[3]	10.7%	9.0%	1.7 pts	10.7%	9.0%	1.7 pts
Operating return on equity[3]	11.5%	11.0%	0.5 pts	11.5%	11.0%	0.5 pts

Notes:
(1) Underwriting expenses (net of other underwriting revenues), non-operating (losses) gains, operating income, and operating net income are non-GAAP financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(2) Book value per share, financial capacity, and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Expense ratio, combined ratio, return on equity, operating return on equity, and operating earnings per common share are non-GAAP ratios. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

GROSS WRITTEN PREMIUMS

GWP for the fourth quarter of 2021 increased by $90.7 million or 12.0% compared to the fourth quarter of 2020, driven by growth across all our lines of business. Personal lines GWP was up 9.7% over the same quarter a year ago, with increases in both our broker and direct businesses. Commercial lines GWP increased 17.8% over the same quarter a year ago, reflecting our expanded underwriting capabilities and focus on growth in this line of business. In the fourth quarter of 2021, customer relief related to the COVID-19 pandemic resulted in a reduction in GWP of approximately $13 million (2020: $20 million) and a reduction in net earned premiums ("NEP") of approximately $14 million (2020: $10 million).

For the year, GWP increased by $416.7 million or 14.8% compared to 2020. Personal lines GWP increased 11.3% and commercial lines GWP increased 24.9%. The impact of the customer relief related to the COVID-19 pandemic in 2021 was a reduction in GWP of approximately $55 million (2020: $60 million) and a reduction in NEP of approximately $58 million (2020: $25 million).

Net written premiums ("NWP") increased 10.6% in the fourth quarter of 2021 and 13.3% for the year, largely in line with the GWP growth of 12.0% in the fourth quarter of 2021 and 14.8% for the year.

Further details regarding our premiums by line of business are provided in Section 3 — "Results by line of business".

UNDERWRITING RESULTS

The composition of the combined ratio for the three months and years ended December 31, 2021 and 2020 is as follows:

	Three months ended December 31,						Years ended December 31,					
	2021		2020		Change		2021		2020		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Net earned premiums	$745.0		$665.5		$ 79.5	11.9%	$2,833.6		$2,508.7		$ 324.9	13.0%
Net claims and adjustment expenses	470.2	63.1%	379.9	57.1%	90.3	6.0 pts	1,721.5	60.8%	1,562.3	62.3%	159.2	(1.5) pts
Underwriting expenses (net of other underwriting revenues)[2]	234.5	31.5%	212.9	32.0%	21.6	(0.5) pts	917.6	32.3%	810.0	32.3%	107.6	-
Combined ratio[3]		94.6%		89.1%		5.5 pts		93.1%		94.6%		(1.5) 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, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Combined ratio is a non-GAAP ratio. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

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

Our underwriting results for the fourth quarter of 2021 produced underwriting income of $40.3 million and a combined ratio of 94.6%, compared to underwriting income of $72.7 million and a combined ratio of 89.1% in the same quarter a year ago. The lower underwriting income was due primarily to higher levels of catastrophe losses in the fourth quarter of 2021 as compared to the fourth quarter of 2020 when the weather was relatively benign, as well as reserve strengthening for auto inflation recorded in the current quarter. Catastrophe losses of $38.3 million in the quarter, inclusive of reinstatement premiums and net of reinsurance recoveries, were primarily a result of flooding in British Columbia which contributed to increased levels of property losses. Catastrophe losses accounted for 4.8 percentage points for the fourth quarter of 2021 as compared to 2.9 percentage points in the same quarter a year ago. These were partially offset by higher favourable prior year claims development, reflective of the prudent approach we have taken to reserving during this pandemic period of heightened risk and volatility.

For the year, our underwriting income increased by $58.1 million and led to a combined ratio of 93.1% in 2021 as compared to 94.6% in 2020. Results were driven by higher favourable prior year claims development and a continuation of strong core accident year results which benefitted from lower claims frequency, due in part to COVID-19-related reduced activity levels (which impacted full year 2021 and only started impacting 2020 in the second quarter). These were partially offset by the recognition of inflationary trends across our auto and property lines, which negatively impacted the combined ratio by approximately 3 points in 2021. 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 as evidenced by the proactive reserving actions taken in 2021 in respect of emerging inflationary trends.

NET CLAIMS AND ADJUSTMENT EXPENSES

The composition of the claims ratio for the three months and years ended December 31, 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:

	Three months ended December 31,						Years ended December 31,					
	2021		2020		Change		2021		2020		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Core accident year claims and adjustment expenses[2]	$ 469.3	62.7%	$ 369.1	55.5%	$ 100.2	7.2 pts	$ 1,705.8	60.2%	$ 1,498.8	59.8%	$ 207.0	0.4 pts
Catastrophe losses[3]	33.8	4.8%	19.5	2.9%	14.3	1.9 pts	91.7	3.3%	93.1	3.7%	(1.4)	(0.4) pts
Prior year favourable claims development	(32.9)	(4.4%)	(8.7)	(1.3%)	(24.2)	(3.1) pts	(76.0)	(2.7%)	(29.6)	(1.2%)	(46.4)	(1.5) pts
Net claims and adjustment expenses[4]	$ 470.2	63.1%	$ 379.9	57.1%	$ 90.3	6.0 pts	$ 1,721.5	60.8%	$ 1,562.3	62.3%	$ 159.2	(1.5) 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 claims development as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". In 2021, the impact of the reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.

(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, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(3) Catastrophe losses is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(4) The ratio shown for this line item is our claims ratio, which is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, increased in the fourth quarter of 2021 due primarily to benign weather in the prior year comparable quarter and the impact of inflationary reserve strengthening in auto recorded in the current quarter. For the year, the core accident year claims ratio increased slightly due to proactive reserving actions taken in 2021 in recognition of inflationary trends of approximately 2.6 pts. This was partially offset by lower claims frequency, due in part to COVID-19-related reduced activity levels (which impacted full year 2021 and only started impacting 2020 in the second quarter).

Catastrophe losses increased in the fourth quarter of 2021 as compared to the same quarter a year ago. In the fourth quarter of 2021, we were significantly impacted by flooding in British Columbia. For the year, catastrophe losses decreased slightly as 2020 catastrophe losses included provisions related to COVID-19 which more than offset the increase in weather-related catastrophe losses in 2021.

We experienced higher favourable claims development in the fourth quarter of 2021 and for the year in personal auto as compared to the same periods in the prior year. For the year, the claims development for 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 months and years ended December 31, 2021 and 2020 are as follows:

	Three months ended December 31,						Years ended December 31,					
	2021		2020		Change		2021		2020		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Net commissions	$ 100.8	13.5%	$ 97.9	14.7%	$ 2.9	(1.2) pts	$ 426.5	15.0%	$ 379.6	15.1%	$ 46.9	(0.1) pts
Operating expenses (net of other underwriting revenues)[2]	105.4	14.2%	90.1	13.6%	15.3	0.6 pts	384.2	13.5%	337.3	13.5%	46.9	-
Premium taxes	28.3	3.8%	24.9	3.7%	3.4	0.1 pts	106.9	3.8%	93.1	3.7%	13.8	0.1 pts
Underwriting expenses (net of other underwriting revenues)[2][3]	$ 234.5	31.5%	$ 212.9	32.0%	$ 21.6	(0.5) pts	$ 917.6	32.3%	$ 810.0	32.3%	$ 107.6	-

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. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(2) Operating expenses (net of other underwriting revenues) and underwriting expenses (net of other underwriting revenues) are non-GAAP financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(3) The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The net commissions ratio decreased in the fourth quarter of 2021 due primarily to a decrease in contingent profit commissions. For the year, the net commissions ratio was relatively consistent with 2020.

The operating expense ratio increased slightly in the fourth quarter of 2021 due in part to higher staffing costs, and was consistent with full year 2020.

NET INVESTMENT INCOME

The composition of net investment income for the three months and years ended December 31, 2021 and 2020 is as follows:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars)	2021	2020	Change	2021	2020	Change
Interest income	$ 18.5	$ 17.7	$ 0.8	$ 71.5	$ 75.3	$ (3.8)
Dividend income	8.5	7.4	1.1	30.7	29.1	1.6
Investment expenses	(1.9)	(1.4)	(0.5)	(5.4)	(4.1)	(1.3)
Net investment income	$ 25.1	$ 23.7	$ 1.4	$ 96.8	$ 100.3	$ (3.5)

Net investment income increased in the fourth quarter of 2021 due to an increase in interest and dividend income. Net investment income declined for the year as compared to 2020, due primarily to decreased interest income as a result of lower yields in the beginning of the year and increased investment expenses. The investment of funds generated from our improved underwriting results and business growth helped stabilize net investment income in 2021.

NON-OPERATING LOSSES

The composition of non-operating losses for the three months and years ended December 31, 2021 and 2020 are as follows:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Recognized gains (losses) on investments						
Realized gains on sale of AFS investments	$ 3.3	$ 4.5	$ (1.2)	$ 49.7	$ 12.6	$ 37.1
Net (losses) gains on FVTPL investments	(12.0)	1.5	(13.5)	(70.0)	84.8	(154.8)
Impairment losses on AFS investments	(0.5)	(2.0)	1.5	(0.5)	(17.6)	17.1
Impact of discounting	9.4	(10.1)	19.5	44.7	(114.0)	158.7
Demutualization and IPO-related expenses[(1)]	(16.7)	(1.6)	(15.1)	(30.1)	(3.8)	(26.3)
Amortization of intangible assets recognized in business combinations[(1)]	(0.6)	(1.2)	0.6	(3.5)	(4.5)	1.0
Other[(1)(2)]	(0.2)	(0.2)	-	-	1.0	(1.0)
Non-operating losses[(3)]	$ (17.3)	$ (9.1)	$ (8.2)	$ (9.7)	$ (41.5)	$ 31.8

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. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Realized gains on our Available for Sale ("AFS") portfolio decreased slightly in the fourth quarter of 2021. Net losses on our Fair Value Through Profit or Loss ("FVTPL") portfolio in the fourth quarter were due primarily to an increase in fixed income yields in the quarter. The discounting recovery in the fourth quarter of 2021 was driven by an increase in yields on investments supporting the claim liabilities as compared to a decline in yields in the fourth quarter of 2020. The discounting recovery of $9.4 million was offset by losses of $12.0 million associated with the FVTPL investment portfolio.

For the year, realized gains on our AFS portfolio increased driven by the recognition from other comprehensive income of unrealized gains on common stocks which were sold as a result of a change in foreign equity managers and higher gains on domestic common stocks. Net losses on our FVTPL bonds were driven by a significant increase in fixed income yields, as compared to a sharp decline in 2020. For the year, discounting was a recovery of $44.7 million, and the FVTPL investment portfolio had net losses of $70.0 million.

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. Refer to Section 5 — "Financial position" for additional details of our investment portfolio mix.

Demutualization and IPO-related expenses increased due to the completion of the demutualization process and the initial public offering and Cornerstone Private Placements.

INCOME TAX EXPENSE

The effective tax rate for the fourth quarter of 2021 was 25.3% compared to 24.8% for the fourth quarter of 2020. For the year, the effective tax rate was 24.2% compared to 23.3% for 2020. The effective tax rates for the fourth quarter and the full year of 2021 and 2020 were lower than the statutory rate of 26.3% (2020: 26.5%) due primarily to the impact of non-taxable Canadian dividend income.

NET INCOME

Net income was $33.7 million in the fourth quarter of 2021 compared to $66.7 million in the fourth quarter of 2020 due primarily to lower underwriting income and higher demutualization and IPO-related expenses. For the year, net income was $213.2 million compared to $153.9 million in 2020 due primarily to our improved underwriting performance and realized gains on our equity portfolio triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities. These were partially offset by higher demutualization and IPO-related expenses.

OPERATING NET INCOME

Operating net income was $46.5 million in the fourth quarter of 2021 compared to $73.4 million in the fourth quarter of 2020. The decrease in operating net income was due primarily to lower underwriting income. The operating effective tax rate for the fourth quarter of 2021 was 25.4% compared to 25.0% for the fourth quarter of 2020. For the year, operating net income was $220.4 million compared to operating net income of $184.4 million in 2020 due primarily to our improved underwriting performance. For the year, the operating effective tax rate was 24.2% compared to 23.8% for 2020. Operating EPS was $0.42 in the fourth quarter of 2021 and $2.09 for the year. Operating net income is a non-GAAP financial measure and operating EPS is a non-GAAP ratio. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

OPERATING ROE

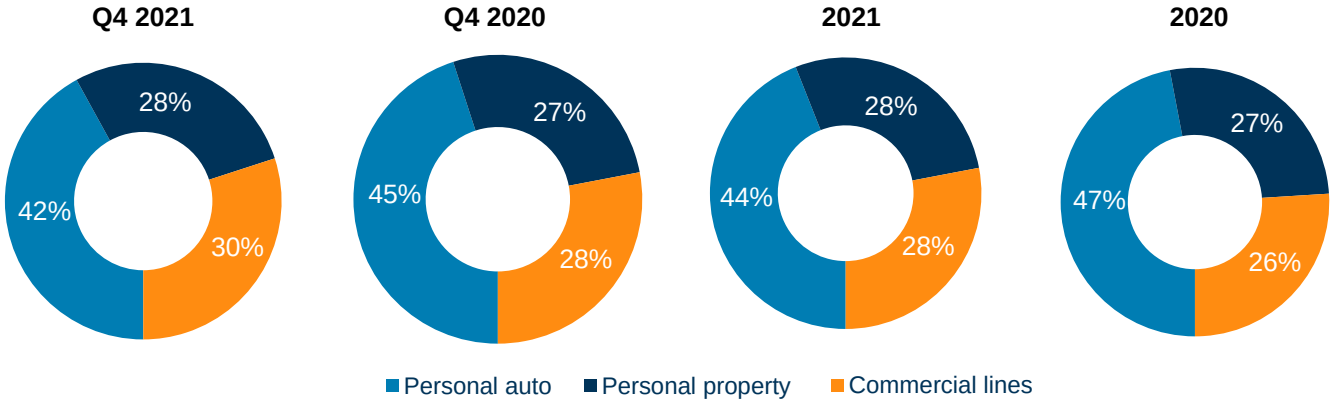
Operating ROE was 11.5% in 2021 compared to 11.0% in 2020. The increase was driven by a significant improvement in our underwriting performance in 2021, offset by the dilutive impact of the large increase in equity year over year. Operating ROE is a non-GAAP ratio. Refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

3 — RESULTS BY LINE OF BUSINESS

We provide a wide range of P&C insurance products throughout Canada in two broad lines of business: personal insurance and commercial insurance. Personal lines business is further subdivided between auto and property, the latter of which includes pet insurance products.

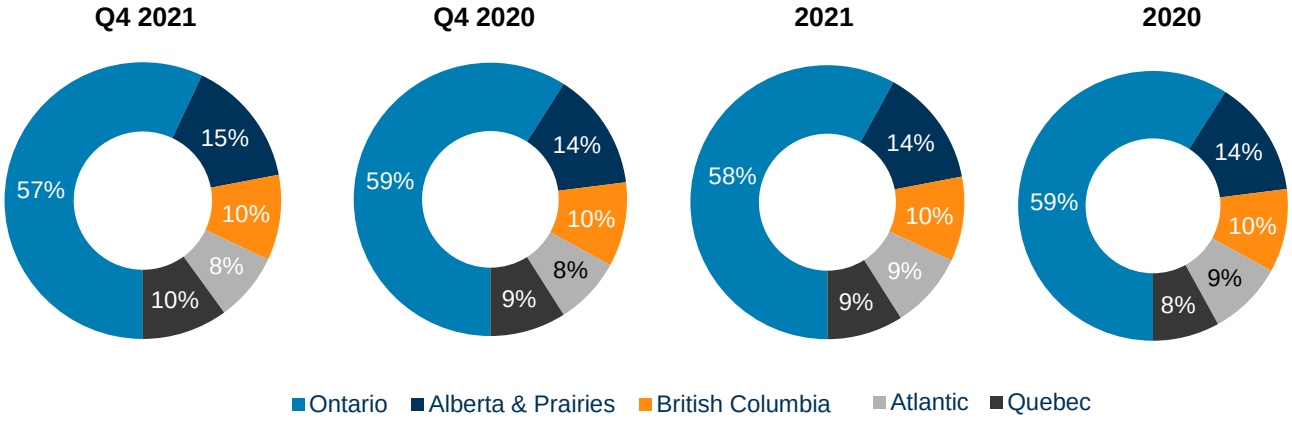
The following charts illustrate our GWP mix on this basis for the three months and years ended December 31, 2021 and 2020:

GWP by Line of Business



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.

GWP by Region



There were slight shifts in the regional mix in the three months and year ended December 31, 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 months and years ended December 31, 2021 and 2020 and the policies in force as at December 31, 2021 and 2020.

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars, except as otherwise noted)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Policies in force (thousands) (at period end)						
Auto	761.6	727.0	4.8%	761.6	727.0	4.8%
Property	789.1	689.1	14.5%	789.1	689.1	14.5%
Total	1,550.7	1,416.1	9.5%	1,550.7	1,416.1	9.5%
Gross written premiums						
Auto	$ 355.5	$ 339.2	4.8%	$ 1,426.5	$ 1,335.4	6.8%
Property	237.1	201.1	17.9%	894.6	750.7	19.2%
Total	$ 592.6	$ 540.3	9.7%	$ 2,321.1	$ 2,086.1	11.3%
Net earned premiums						
Auto	$ 344.3	$ 327.4	5.2%	$ 1,332.5	$ 1,251.2	6.5%
Property	203.7	173.3	17.5%	761.2	641.7	18.6%
Total	$ 548.0	$ 500.7	9.4%	$ 2,093.7	$ 1,892.9	10.6%
Net claims and adjustment expenses						
Auto	$ 229.4	$ 218.0	$ 11.4	$ 829.1	$ 847.1	$ (18.0)
Property	121.5	73.9	47.6	479.8	344.9	134.9
Total	$ 350.9	$ 291.9	$ 59.0	$ 1,308.9	$ 1,192.0	$ 116.9
Underwriting expenses (net of other underwriting revenues)[(1)]						
Auto	$ 97.2	$ 93.3	$ 3.9	$ 386.6	$ 358.9	$ 27.7
Property	68.4	61.3	7.1	270.6	227.8	42.8
Total	$ 165.6	$ 154.6	$ 11.0	$ 657.2	$ 586.7	$ 70.5
Underwriting income						
Auto	$ 17.7	$ 16.1	$ 1.6	$ 116.8	$ 45.2	$ 71.6
Property	13.8	38.1	(24.3)	10.8	69.0	(58.2)
Total	$ 31.5	$ 54.2	$ (22.7)	$ 127.6	$ 114.2	$ 13.4

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, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

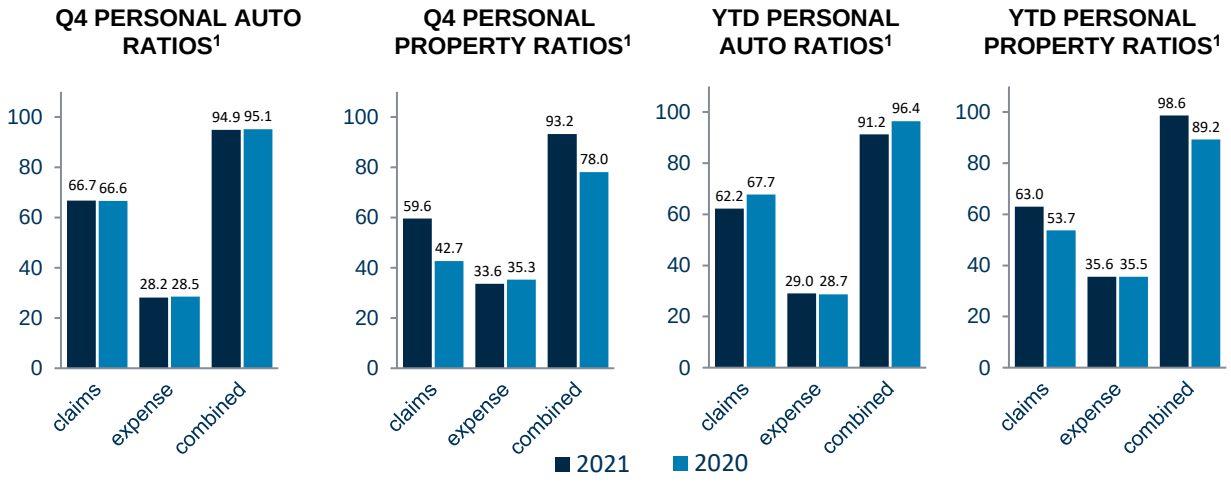
Overall, personal lines GWP increased 9.7% in the fourth quarter of 2021 (11.3% for the year). Sonnet GWP was $77.7 million in the fourth quarter of 2021, an increase of 17.1% compared to $66.4 million in the fourth quarter of 2020. Sonnet GWP was $293.3 million for the year, an increase of 22.4% compared to $239.7 million in 2020. Personal auto GWP increased 4.8% in the fourth quarter of 2021 (6.8% for the year), 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 fourth quarter of 2021 (approximately $11 million in the fourth quarter of 2021 compared to approximately $18 million in the fourth quarter of 2020). Personal property GWP increased 17.9% in the fourth quarter of 2021 (19.2% for the year), 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 months and years ended December 31, 2021 and 2020 for our personal lines of business is as follows:

	Auto[1]			Property[1]			Auto[1]			Property[1]		
	Three months ended December 31,			Three months ended December 31,			Years ended December 31,			Years ended December 31,		
	2021	2020	Change	2021	2020	Change	2021	2020	Change	2021	2020	Change
Core accident year claims and adjustment expenses[2]	75.7%	65.7%	10.0 pts	46.2%	41.3%	4.9 pts	67.1%	67.7%	(0.6) pts	53.1%	50.2%	2.9 pts
Catastrophe losses[3]	0.1%	0.9%	(0.8) pts	12.7%	2.4%	10.3 pts	0.5%	0.9%	(0.4) pts	9.4%	4.5%	4.9 pts
Prior year (favourable) adverse claims development	(9.1%)	-	(9.1) pts	0.7%	(1.0%)	1.7 pts	(5.4%)	(0.9%)	(4.5) pts	0.5%	(1.0%)	1.5 pts
Claims ratio[3]	66.7%	66.6%	0.1 pts	59.6%	42.7%	16.9 pts	62.2%	67.7%	(5.5) pts	63.0%	53.7%	9.3 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. In 2021, the impact of the reinsurance reinstatement premiums on the personal property claims ratio is fully reflected in catastrophe losses.
(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, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Personal lines produced underwriting income of $31.5 million in the fourth quarter of 2021 compared to $54.2 million in the same quarter a year ago. For the year, personal lines produced underwriting income of $127.6 million compared to $114.2 million in 2020.



Three months and years ended December 31,

Notes:
(1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The personal auto combined ratio of 94.9% in the fourth quarter of 2021 improved slightly over the 95.1% combined ratio in the same quarter a year ago due primarily to higher levels of favourable prior year claims development. The fourth quarter combined ratio improved despite the benign weather in the fourth quarter of 2020, as well as the impact of inflationary reserve strengthening pertaining to auto physical damage costs for the 2021 accident year, all recorded in the current quarter. For the year, the personal auto combined ratio improved due primarily to an increase in favourable prior year claims development and lower claims frequency due in part to COVID-19-related reduced activity levels (which impacted full year 2021 and only started impacting 2020 in the second quarter).

The personal property combined ratio was 93.2% in the fourth quarter of 2021 compared to an unusually strong 78.0% in the same quarter a year ago, as personal property was impacted by a number of catastrophe losses including the flooding in British Columbia, whereas the fourth quarter of 2020 experienced relatively benign weather. Catastrophe losses accounted for 12.7 percentage points to the combined ratio in the fourth quarter of 2021 compared to only 2.4 percentage points in 2020. For the year, the personal property combined ratio increased due to an increase in catastrophe losses and proactive reserving actions with respect to inflation, which impacted both current accident year claims and prior year claims incurred. We continue to monitor and incorporate recent inflation trends into our pricing models.

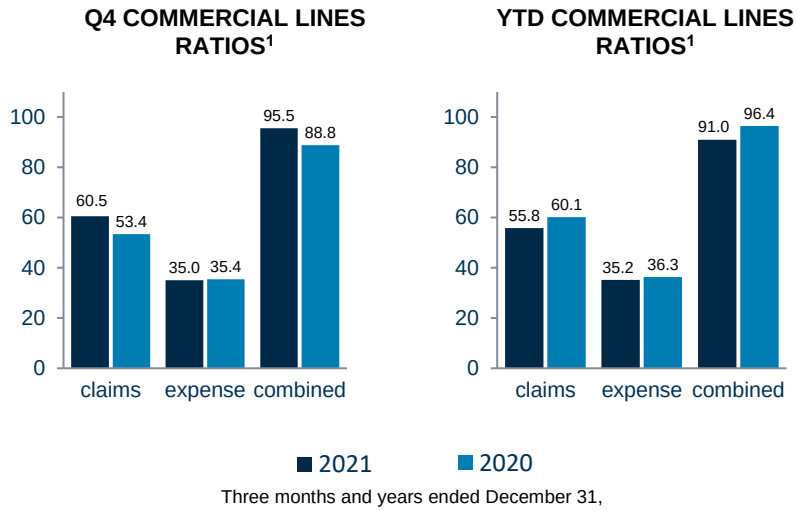
UNDERWRITING — COMMERCIAL LINES

The table below sets forth selected results of operations of our commercial lines of business for the three months and years ended December 31, 2021 and 2020.

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars, except as otherwise noted)	2021	2020	Change	2021	2020	Change
Gross written premiums	$ 254.0	$ 215.6	17.8%	$ 910.3	$ 728.6	24.9%
Net earned premiums	$ 197.0	$ 164.8	19.5%	$ 739.9	$ 615.8	20.2%
Net claims and adjustment expenses	$ 119.3	$ 88.0	$ 31.3	$ 412.6	$ 370.3	$ 42.3
Underwriting expenses (net of other underwriting revenues)(1)	$ 68.9	$ 58.3	$ 10.6	$ 260.4	$ 223.3	$ 37.1
Underwriting income	$ 8.8	$ 18.5	$ (9.7)	$ 66.9	$ 22.2	$ 44.7

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, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Overall, the growth momentum in commercial lines continued in 2021 as we benefitted from a firm market environment and from expanded underwriting capabilities. GWP increased 17.8% in the fourth quarter of 2021 and 24.9% for the year, driven by improved retention, new business including the impact of our relationship with Uber (which launched on September 1, 2020), and strong rate achievement.



Notes:
(1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The composition of the claims ratio for the three months and for the years ended December 31, 2021 and 2020 for our commercial lines of business is as follows:

	Three months ended December 31[1]			Years ended December 31[1]		
	2021	2020	Change	2021	2020	Change
Core accident year claims and adjustment expenses[2]	57.0%	50.2%	6.8 pts	54.4%	53.3%	1.1 pts
Catastrophe losses[3]	5.0%	7.5%	(2.5) pts	2.3%	8.7%	(6.4) pts
Prior year favourable claims development	(1.5%)	(4.3%)	2.8 pts	(0.9%)	(1.9%)	1.0 pts
Claims ratio[3]	60.5%	53.4%	7.1 pts	55.8%	60.1%	(4.3) pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. In 2021, the impact of the reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.
(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, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Commercial lines produced underwriting income of $8.8 million in the fourth quarter of 2021 compared to $18.5 million in the same quarter a year ago. For the year, the commercial lines produced underwriting income of $66.9 million compared to underwriting income of $22.2 million in 2020.

The commercial lines combined ratio of 95.5% in the fourth quarter of 2021 increased from the combined ratio of 88.8% in the same quarter a year ago. The combined ratio increased driven by significant weather-related impacts in 2021 compared to benign weather in the prior year, the impact of inflationary reserve strengthening recorded in the current quarter, and lower favourable prior year claims development. For the year, the commercial lines produced a combined ratio of 91.0% compared to 96.4% in 2020. The commercial lines combined ratio continued to improve as a result of underwriting initiatives, and due to lower catastrophe losses and lower claims frequency as a result of the COVID-19 pandemic. In 2020 we recorded $30.0 million in catastrophe losses for COVID-19-related exposures ($11.5 million in the fourth quarter of 2020). The decrease in the combined ratio due to the above factors was 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.

4 — OPERATING ENVIRONMENT AND OUTLOOK

OPERATING ENVIRONMENT

COVID-19	We are 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. Our support efforts include reductions of premiums and flexible payment options for personal insurance customers, and tailored solutions for brokers and business owners; maintaining a safe work environment for employees; and providing funding for community organizations that support the front lines of this unprecedented crisis.
Supporting customers	The impact of these measures in the fourth quarter of 2021 was a reduction in GWP of approximately $13 million (2020: $20 million) and a reduction in net earned premiums of approximately $14 million (2020: $10 million). For the year, the impact of these measures was a reduction in GWP of approximately $55 million (2020: $60 million) and a reduction in net earned premiums of approximately $58 million (2020: $25 million).
Capital position	The Company continues to monitor the evolving economic impact of the COVID-19 pandemic on its operations and capital position. We remain well capitalized with a high-quality-focused investment portfolio and a DBRS Limited financial strength rating of A (low) for Definity Insurance. Our liquidity remains strong and our bank facilities remain undrawn and fully accessible. Our strong balance sheet and capital level positions us well for continued uncertainty in 2022.
Personal auto environment	Some of the key market changes impacting us are as follows:
Ontario	• Over the course of the pandemic, many Ontario auto insurers lowered their rates and/or provided rebates as relief to their customers because of the previous COVID-19 lockdown. We have started to see claims frequencies increase, as well as indications of inflationary pressures on claims. Despite the constraints on being able to increase overall rates further with the COVID-19 pandemic still ongoing, companies have continued to file net neutral rate changes that provide greater risk segmentation as a means of managing the impact of COVID-19 relief measures that remain in the market and preparing for FSRA's new regulatory guidance on the take-all-comers rules. As increases in frequency continue, we expect to see a return to a more active rate environment.
Alberta	• In April 2021, the Alberta regulator announced that insurers could introduce new forms of telematics-based auto insurance, such as offerings with discounts and surcharges. • Direct compensation for property damage came into effect in January 2022.
British Columbia	• In May 2021, the Insurance Corporation of British Columbia ("ICBC") Enhanced Care no-fault auto insurance came to market. The government-initiated reform eliminated the right to sue for collisions and, therefore, limited the market for optional liability coverage. A small market for residual liability coverage remains. Private-sector insurers can also offer collision, comprehensive, hit-and-run coverage, and top-up income replacement coverage (above ICBC's limit of $90,000).

Investment environment	• In 2021, widespread vaccinations and a U.S. stimulus package aided the global economic recovery with equities posting broad-based gains. • The emergence of the highly-infectious Omicron variant led to a spike in equity market volatility at the end of November, but markets quickly recovered with global equities posting strong gains in 2021. • The Bank of Canada left rates at the effective lower bound (0.25%) in 2021, but primed markets for policy normalization to begin in 2022 via interest rate hikes. • We continuously review the composition of our investment portfolio, ensuring the portfolio is diversified and composed of high-quality assets. • Our investment 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.
Climate change	• The impact of changing weather patterns arising from climate change, and consequences of governmental policies and commitments to mitigate climate change have significant implications for P&C insurers. • Changing weather patterns are increasing the frequency and severity of extreme weather events, resulting in increased catastrophe events and more volatile claim costs, particularly in the property lines of business. • We manage our catastrophe events exposure by: monitoring exposure to concentrations of insured risks and considering the potential impact on capital position and overall risk tolerances; the deductibles charged to policyholders; limitations on policy terms; limiting underwriting of particular risks or regions; and purchasing reinsurance. • The Company is continuously enhancing our modeling capabilities to better understand changes in key climate risk exposures, and to ensure pricing, coverage options, risk accumulations and claim liability estimates remain appropriate. • Climate change risks may also influence the cost, coverage, and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. The Company has worked with our reinsurers to help them understand the risk profile present in our book of business. This activity, along with proactive management of our reinsurance program, helps us to maintain access to sufficient and cost-effective reinsurance. • In September 2021, the Company became an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The Company has committed to a multi-year plan to fully implement these recommendations.

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.[3] The improved performance continued in 2021, driven again by low auto claims frequency and solid results in property and commercial insurance. More recently, inflation trends have emerged which, if persistent, could weigh on industry results.

The current low-yield environment is placing pressure on investment returns and increasing the importance of underwriting profits. Although yields on government bonds have recently rallied meaningfully, they 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 these firm market conditions in property lines will persist over the next 12 months, while conditions in auto lines will begin to firm as claims frequency normalizes and/or inflationary cost pressures persist.

[3] MSA Research.

Personal auto	• The COVID-19 pandemic environment has had a tempering effect on some of the underlying cost pressures of recent years. In the short-term, we expect the frequencies of claims to fluctuate as provincial governments balance public health restrictions to fight the latest COVID-19 variant with their desire to open local economies. 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. For this reason, coupled with FSRA's new regulatory guidance on the take-all-comers underwriting rule, companies will likely focus their rate changes in the near term on how they segment risks, instead of broad price increases. • Longer term, the costs of claims, including escalating fraud costs, vehicle repair costs, inflationary cost pressures, 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 in 2021 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, coverage and appetite 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. • We expect the personal property market to remain firm throughout 2022.
Commercial lines	• While the COVID-19 pandemic will continue to be a disrupting factor in 2022, we expect the economic impact from future waves to be shorter in duration and potentially less severe than previous years. We expect global supply chain volatility to persist for a number of quarters, which will continue to add inflationary pressure on indemnity costs. • In some industry segments, capacity availability remains a concern and is a key factor that is extending firm market conditions. Other factors such as tightening of underwriting appetite, risk mitigation, reinsurance cost, and an increased focus on ESG initiatives impact underwriting capacity and pricing across a number of commercial segments. • Catastrophe events and extreme weather frequency continues to climb globally year over year, with Canada experiencing several major flood, wildfire, and windstorm events throughout 2021. Climate change mitigation and management actions need to continue to evolve in a joint effort across government, regulatory, and industry participants. • We expect the commercial lines market to remain firm throughout 2022 as carriers focus on ensuring long-term profitability and sustainable availability of capacity. In addition, we expect pricing to be influenced by the industry's overall underwriting performance, as well as global reinsurance pressures and any volatility in 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 14.8% in 2021 (as compared to 2020) and 12.1% in 2020 (as compared to 2019);
- **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 93.1% in 2021 and 94.6% in 2020, 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 11.5% in 2021 and 11.0% in 2020, 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 capital optimization.

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 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 2021;
- auto claims frequencies normalize in line with those experienced prior to the COVID-19 pandemic between 2016 and 2019 as customer driving patterns and behaviour return 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 the recent significant variations are relatively short-lived or can be addressed by pricing, supply chain, or cost management actions;
- 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 Definity 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; and
- retained earnings increase commensurate with expected net income.

Our expectation for further improvements in operating ROE through future capital optimization assumes that we receive regulatory approval for, and proceed with, continuing the Company under the *Canada Business Corporations Act* (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.

The above financial targets have been calculated using accounting policies that we used to prepare the financial statements or, in the case of operating ROE, in the manner described under Section 12 — "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* ("IFRS 17") or IFRS 9 — *Financial Instruments*, effective for annual reporting periods beginning on or after January 1, 2023, including any potential changes to tax treatment. We will reassess the above financial targets once the impact of IFRS 17 is clearer.

The above outlook and financial targets, and the assumptions and factors underlying them, 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. See "Cautionary note regarding forward-looking information".

5 — FINANCIAL POSITION

FINANCIAL HIGHLIGHTS AS AT DECEMBER 31, 2021:

- Strong year-end financial position benefitted from net income of $213.2 million and the net proceeds retained by the Company from the IPO and related transactions, with total equity higher by $578.3 million to approximately $2.4 billion
- Total assets increased by $1.3 billion (19.2%) compared to December 31, 2020 driven by an increase in investments arising from positive cash flows and the net proceeds retained by the Company from the IPO and related transactions, combined with higher premiums receivable due to GWP growth
- Gross claim liabilities increased by $309.8 million (10.2%) compared to December 31, 2020 due primarily to growth in the size of our business, increased catastrophe loss activity, and proactive reserving actions taken in 2021 in recognition of recent inflationary trends

The following table sets forth information from our consolidated balance sheets as at December 31:

	As at December 31,		
(in millions of dollars)	**2021**	**2020**	**Change**
ASSETS			
Cash and cash equivalents	$ 387.3	$ 510.3	$ (123.0)
Restricted cash	110.8	-	110.8
Investments	5,365.8	4,366.3	999.5
Accrued investment income	21.3	16.8	4.5
Premiums receivable	1,075.9	958.7	117.2
Income taxes receivable	0.2	2.1	(1.9)
Reinsurance receivable and recoverable	179.2	95.6	83.6
Deferred policy acquisition expenses	295.1	260.2	34.9
Property and equipment	57.0	56.9	0.1
Deferred income tax assets	62.5	40.2	22.3
Goodwill and intangible assets	219.7	211.6	8.1
Other assets	116.6	101.6	15.0
Total assets	$ 7,891.4	$ 6,620.3	$ 1,271.1
LIABILITIES			
Unearned premiums	1,599.2	1,433.1	166.1
Claim liabilities	3,336.1	3,026.3	309.8
Accounts payable and other liabilities	393.4	324.2	69.2
Income taxes payable	55.6	18.7	36.9
Demutualization amounts outstanding	110.8	-	110.8
Total liabilities	$ 5,495.1	$ 4,802.3	$ 692.8
EQUITY			
Share capital	2,307.8	-	2,307.8
Contributed surplus	19.3	-	19.3
Retained (deficit) earnings	(28.8)	1,755.9	(1,784.7)
Accumulated other comprehensive income	98.0	62.1	35.9
Total equity	$ 2,396.3	$ 1,818.0	$ 578.3
Total liabilities and equity	$ 7,891.4	$ 6,620.3	$ 1,271.1

CASH AND INVESTMENTS

The composition of our cash and cash equivalents and investments as at December 31 is as follows:

	As at December 31, 2021		As at December 31, 2020	
(in millions of dollars, except as otherwise noted)	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Cash and cash equivalents	$ 387.3	6.7%	$ 510.3	10.5%
Short-term investments	88.8	1.5%	218.2	4.5%
Bonds	4,233.8	73.7%	3,400.7	69.6%
Preferred stocks	405.7	7.1%	336.6	6.9%
Common stocks	570.5	9.9%	329.8	6.8%
Pooled funds	42.7	0.7%	43.4	0.9%
Commercial loans	24.3	0.4%	37.6	0.8%
Total investments	$ 5,365.8	93.3%	$ 4,366.3	89.5%
Total cash and cash equivalents, and investments	$ 5,753.1	100.0%	$ 4,876.6	100.0%

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 2021, due primarily to cash generated by our operations, cash proceeds retained by the Company from the IPO and related transactions, and an increase in the market values of the preferred and common stocks in our investment portfolio. These were partially offset by a decrease in the market values of the bonds in our investment portfolio due to an increase in bond yields. Our proportionate share of investments in fixed income securities, including cash and cash equivalents, decreased to 81.9% of the total portfolio as at December 31, 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 focus on a high-quality investment portfolio.

Refer to Note 3 — "Summary of significant accounting policies" of our audited consolidated financial statements 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 December 31, the breakdown of these investments is as follows:

	As at December 31, 2021					As at December 31, 2020
(in millions of dollars, except as otherwise noted)	**Short-term investments and bonds**	**Preferred stocks**	**Common stocks**	**Pooled funds**	**Total**	**Total**
Government	61%	-	-	-	49%	49%
Financials	25%	70%	29%	11%	29%	29%
Energy	2%	16%	11%	3%	4%	4%
Communication services	2%	4%	6%	10%	2%	2%
Industrials	3%	-	11%	8%	4%	4%
Utilities	4%	8%	3%	2%	4%	5%
Consumer discretionary	1%	-	6%	13%	2%	2%
Materials	-	-	8%	3%	1%	1%
Consumer staples	1%	-	5%	6%	1%	1%
Information technology	-	-	15%	28%	2%	1%
Health care	-	-	5%	13%	1%	1%
Real estate	1%	2%	1%	3%	1%	1%
Total (%)	100%	100%	100%	100%	100%	100%
Total ($)	$ 4,322.6	$ 405.7	$ 570.5	$ 42.7	$ 5,341.5	$ 4,328.7

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 December 31.

Credit rating[1] — bonds

	As at December 31, 2021		As at December 31, 2020	
(in millions of dollars, except as otherwise noted)	**Carrying value**	**Percent of carrying value**	**Carrying value**	**Percent of carrying value**
AAA	$ 1,072.6	25.4%	$ 1,102.9	32.5%
AA	1,800.5	42.5%	1,170.3	34.4%
A	1,080.1	25.5%	854.3	25.1%
BBB	280.6	6.6%	273.2	8.0%
Total bonds	$ 4,233.8	100.0%	$ 3,400.7	100.0%

[1] Using the lowest of Standard & Poor's and DBRS ratings.

Credit rating[1] — preferred stocks

(in millions of dollars, except as otherwise noted)	As at December 31, 2021		As at December 31, 2020	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
P1	$ 11.9	2.9%	$ -	-
P2	305.4	75.3%	272.9	81.1%
P3 or not rated	88.4	21.8%	63.7	18.9%
Total preferred stocks	$ 405.7	100.0%	$ 336.6	100.0%

[1] Using the lowest of Standard & Poor's and DBRS ratings.

We monitor the credit ratings of investments within our investment portfolio on an ongoing basis and take the necessary actions, in an attempt to ensure that a high level of quality is maintained. As at December 31, 2021, this resulted in 93.4% (December 31, 2020: 92.0%) of the bonds in the portfolio being rated "A-" or better and 78.2% (December 31, 2020: 81.1%) 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.

Investment portfolio region of issuer

The geographic mix of our investment portfolio as at December 31 is as follows:

(in millions of dollars, except as otherwise noted)	As at December 31, 2021		As at December 31, 2020	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Canada	$ 5,112.6	95.7%	$ 4,205.5	97.2%
United States	164.6	3.1%	86.2	2.0%
Europe	37.0	0.7%	25.2	0.6%
Other	27.3	0.5%	11.8	0.2%
Total	$ 5,341.5	100.0%	$ 4,328.7	100.0%

Our investment portfolio is concentrated mainly in Canada. Our estimated exposure to foreign exchange is outlined in Section 11 — "Risk management and corporate governance".

Unrealized gains on AFS securities

The unrealized gains (losses) on AFS securities by type of security as at December 31 are as follows:

(in millions of dollars, except as otherwise noted)	As at December 31, 2021	As at December 31, 2020
Short-term investments	$ 0.1	$ 0.3
Bonds	9.3	54.8
Preferred stocks	10.9	(48.2)
Common stocks	106.8	71.9
Pooled funds	0.1	1.0
Unrealized gains	$ 127.2	$ 79.8

The unrealized gains in our AFS investment portfolio increased as at December 31, 2021 due to gains on preferred stocks, primarily as a result of rising interest rate expectations resulting in an increase in 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.

PREMIUMS RECEIVABLE, DEFERRED POLICY ACQUISITION EXPENSES, AND UNEARNED PREMIUMS

The premiums receivable, deferred policy acquisition expenses, and unearned premiums balances increased as at December 31, 2021, driven primarily by higher levels of GWP growth in 2021 as compared to 2020.

REINSURANCE RECEIVABLE AND RECOVERABLE

Reinsurance receivable and recoverable increased as at December 31, 2021 due primarily to an increase in the impact of external quota share arrangements and recoveries for losses incurred with respect to flooding in British Columbia in 2021.

Consistent with industry practice, our reinsurance receivables and amounts recoverable from licensed Canadian reinsurers ($143.5 million as at December 31, 2021; $95.0 million as at December 31, 2020) 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 increased in 2021 due to a deductible temporary difference related to the underwriter fees paid on completion of the IPO.

NET CLAIM LIABILITIES

The change in our net unpaid claim liabilities as at December 31 is as follows

(in millions of dollars)	As at December 31, 2021	As at December 31, 2020
Net unpaid claim liabilities, beginning of year	$ 2,957.1	$ 2,742.9
Current year claims incurred	1,797.5	1,591.9
Prior year favourable claims development	(76.0)	(29.6)
Net claims and adjustment expenses	$ 1,721.5	$ 1,562.3
Impact of discounting (including PfAD)	(44.7)	114.0
Claims paid during the year	(1,431.8)	(1,462.1)
Net unpaid claim liabilities, end of year	$ 3,202.1	$ 2,957.1

The net unpaid claim liabilities (discounted) as at December 31, 2021 increased by 8.3% or $245.0 million from December 31, 2020 due primarily to business growth, increased catastrophe loss activity, and proactive reserving actions taken in 2021 in recognition of recent inflationary trends. These were 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 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:

(in millions of dollars, except as otherwise noted)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Net unpaid claim liabilities, beginning of year, 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
(Favourable) adverse development on prior year claims, undiscounted	$ (76.0)	$ (29.6)	$ (37.9)	$ (18.8)	$ 32.6	$ (40.1)	$ (73.1)	$ (2.9)	$ (63.0)	$ (57.4)
(Favourable) adverse development on prior year closing claims, undiscounted	(2.8%)	(1.1%)	(1.5%)	(0.8%)	1.5%	(1.9%)	(3.4%)	(0.1%)	(3.1%)	(2.7%)
Impact on claims ratio	(2.7%)	(1.2%)	(1.6%)	(0.8%)	1.5%	(2.1%)	(3.8%)	(0.2%)	(3.6%)	(3.4%)

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities increased as at December 31, 2021 due primarily to an increase in profit commissions payable, costs associated with our strategic initiatives, premium taxes payable, demutualization costs, and collateral deposits related to surety policies. These were partially offset by a decrease in our pension obligations.

TOTAL EQUITY

Share capital was created, and retained earnings was reduced, as a result of the conversion of Definity Insurance from a mutual company to a public company. See "Corporate Overview and Strategy — Demutualization and initial Public Offering" above for more detail. Total equity increased $578.3 million (31.8%) driven by net income and the net proceeds retained by the Company from the IPO and related transactions.

6 — SELECTED ANNUAL INFORMATION AND SUMMARY OF QUARTERLY RESULTS

(in millions of dollars, except as otherwise noted)	For the years ended December 31, 2021	2020	2019
Gross written premiums	$ 3,231.4	$ 2,814.7	$ 2,511.0
Net earned premiums	$ 2,833.6	$ 2,508.7	$ 2,343.2
Underwriting income (loss)	$ 194.5	$ 136.4	$ (118.3)
Net income	$ 213.2	$ 153.9	$ 17.4
Earnings per common share, basic (in dollars)	$ 2.03	$ 1.48	$ 0.17
Earnings per common share, diluted (in dollars)	$ 2.02	$ 1.48	$ 0.17
Operating earnings per common share (in dollars)	$ 2.09	$ 1.77	$ (0.05)
Total assets (As at December 31)	$ 7,891.4	$ 6,620.3	$ 5,956.5

(in millions of dollars, except as otherwise noted)	For the three months ended December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Gross written premiums	$ 846.6	$ 851.5	$ 874.6	$ 658.7	$ 755.9	$ 753.9	$ 728.7	$ 576.2
Net earned premiums	$ 745.0	$ 725.1	$ 697.2	$ 666.3	$ 665.5	$ 645.0	$ 607.7	$ 590.5
Underwriting income (loss)	$ 40.3	$ 55.1	$ 41.2	$ 58.0	$ 72.7	$ 39.1	$ 36.9	$ (12.3)
Net income (loss)	$ 33.7	$ 53.3	$ 43.9	$ 82.4	$ 66.7	$ 45.6	$ 44.8	$ (3.2)
Earnings (loss) per common share (in dollars)								
Basic	$ 0.31	$ 0.51	$ 0.42	$ 0.79	$ 0.64	$ 0.44	$ 0.43	$ (0.03)
Diluted	$ 0.31	$ 0.51	$ 0.42	$ 0.79	$ 0.64	$ 0.44	$ 0.43	$ (0.03)
Operating earnings per common share (in dollars)	$ 0.42	$ 0.58	$ 0.51	$ 0.58	$ 0.71	$ 0.49	$ 0.45	$ 0.12

The common shares issued upon IPO, excluding the Over-Allotment and Anti-Dilution Adjustment, were included in the weighted average common shares outstanding used in the earnings per share calculation in 2019, 2020, and 2021 consistent with a reflection of the IPO as an exchange of ownership instruments without additional resources being received. The Over-Allotment and Anti-Dilution Adjustment were included in the weighted average common shares outstanding calculation commencing from November 23, 2021, the date of the IPO.

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 2021, we experienced the continuation of COVID-19-related reductions in frequency of personal auto claims. Net income also benefitted from the recognition from other comprehensive income 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. These benefits were partially offset by an increase in weather-related catastrophe claims, particularly in the fourth quarter of 2021 and reserve strengthening in the second and fourth quarters of 2021 for emerging inflationary pressures.

7 — LIQUIDITY AND CAPITAL RESOURCES

CAPITAL MANAGEMENT FRAMEWORK

Capital deployment is carefully considered within the context of our corporate objectives and capital management related policies. This includes the impact of any capital deployment on our key operating and risk metrics. Our objectives when managing capital include:

- Maintaining strong regulatory capital in our operating insurance entities to ensure policyholders are well protected; and
- Maximizing long-term shareholder value through capital optimization and establishment of flexible capital management tools to support the business strategy.

Capital deployment will be considered using the following priorities:

Organic Growth	We retain capital to support the growth in our premium volumes as well as invest in talent and technology that advance our strategic objectives
Common Shareholder Dividends	We intend to have a sustainable and growing quarterly dividend per common share that will be reviewed on a regular basis
Inorganic Growth	We intend to actively pursue acquisition opportunities in the Canadian market. To fund these transactions, we expect to utilize excess capital and, if required, access the capital markets
Share Buybacks	Where there is excess capital available, we will consider the use of share buybacks as a flexible capital management tool

Regulatory capital

The amount of capital required in any company is dependent on its risk profile and strategic plans, as well as regulatory requirements. The Company actively monitors and manages capital with the objective of maintaining levels that are above the relevant regulatory minimum:

- Each of our insurance subsidiaries are subject to regulatory capital requirements established by OSFI and the *Insurance Companies Act (Canada)* ("ICA"). OSFI evaluates capital adequacy through the Minimum Capital Test ("MCT"), which measures available capital against required risk-weighted capital.
- These entities are each required, at a minimum, to maintain an MCT ratio of 100%.
- OSFI has also established a regulatory supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.

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 our 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. Regulatory capital guidelines change from time to time and may impact our capital levels. We carefully monitor all proposed and actual changes to those guidelines.

Capital position

All of our regulated P&C insurance subsidiaries are well capitalized on an individual basis, with capital levels in excess of regulatory supervisory minimum levels and our internal capital action levels. The table below shows the consolidated regulatory capital position as at December 31 for Definity Insurance and the financial capacity of the Company. Capital available and capital required included in the table below are determined in the manner prescribed by OSFI.

	As at December 31, 2021	As at December 31, 2020
(in millions of dollars, except as otherwise noted)		
Capital available[1]	$ 1,789.1	$ 1,477.8
Capital required[1]	$ 651.6	$ 550.8
MCT %[1]	275%	268%
Excess capital at 200% for Definity Insurance	$ 485.9	$ 376.3
Additional capital at Definity Financial Corporation	$ 273.4	$ -
Total excess capital	$ 759.3	$ 376.3
Leverage capacity[2,3]	$ 298.5	$ N/A
Financial capacity[3]	$ 1,057.8	$ N/A

[1] Consolidated Definity Insurance.
[2] Leverage capacity is monitored prospectively from the date of the IPO. Of this amount, approximately $117.9 million of the 2% debt limit under the ICA was utilized as at December 31, 2021.
[3] Leverage capacity and financial capacity are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The MCT ratio as at December 31, 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, and insurance risk due to growth in the business. The excess capital at 200% has increased due to the increase in MCT and the net proceeds from the Over-Allotment and Anti-Dilution Adjustment.

Own Risk and Solvency Assessment ("ORSA")

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.

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. In conjunction with the Appointed Actuary and the Chief Actuary, we aligned Financial Condition Testing ("FCT") and ORSA where appropriate, and developed a framework to segment Economic Capital associated with the business plan to enable more granular measurement of capital consumption. 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. In 2021, Definity has incorporated the output from its Economic Capital Model ("ECM") to evaluate the required capital for Insurance, Market, and Credit risks. This results in the ORSA capital requirements using both deterministic and stochastic methodologies. 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 AND ISSUER RATINGS

Strong issuer and financial strength ratings have been assigned to Definity, and its subsidiary Definity Insurance, by major credit rating agencies. The ratings are reflective of Definity's strong capitalization and liquidity, extensive distribution network, and established enterprise risk management framework. The ratings also help to indicate Definity's ability to meet its obligations to policyholders, investors, and others.

On October 28, 2021, AM Best affirmed Definity Insurance's A- (Excellent) financial strength rating ("FSR"). According to AM Best's FSR scale, an "A- (Excellent)" FSR 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 the financial strength assessment of Definity Insurance. The outlook for this rating remains stable.

On August 26, 2021, Definity 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 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 the financial strength assessment of Definity Insurance.

On December 3, 2021, Definity received an Issuer Rating from DBRS Limited of BBB with a Stable trend. The assignment of the Issuer Rating is aligned with the standard holding company notching as per the DBRS Limited methodology. Specifically, Definity's Issuer Rating is positioned two notches below the FSR of its major operating subsidiary, Definity Insurance.

CASH FLOWS

As at December 31, 2021, we had $387.3 million (December 31, 2020: $510.3 million) of cash and cash equivalents, $110.8 million of restricted cash, and $88.8 million (December 31, 2020: $218.2 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 months and years ended December 31, 2021 and 2020 is as follows:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	**2021**	**2020**	**2021**	**2020**
Operating activities				
Net cash provided by operating activities	$ 176.7	$ 158.3	$ 655.2	$ 490.2
Investing activities				
Investments purchased, net of investments sold	(399.3)	111.1	(1,008.1)	(47.0)
Commercial loans collected, net of commercial loans advanced	10.3	1.5	13.3	15.2
Other assets purchased	(6.3)	(11.9)	(49.4)	(42.8)
Net cash (used in) provided by investing activities	(395.3)	100.7	(1,044.2)	(74.6)
Financing activities				
Net proceeds from the issuance of common shares	2,285.7	-	2,285.7	-
Distribution of demutualization benefits	(1,908.9)	-	(1,908.9)	-
Net cash provided by financing activities	376.8	-	376.8	-
Net increase (decrease) in cash and cash equivalents, and restricted cash	$ 158.2	$ 259.0	$ (12.2)	$ 415.6

Cash Provided by Operating Activities in the Three Months and Years Ended December 31

Cash provided by operating activities increased in the fourth quarter of 2021 compared to the fourth 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. For the year, 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, demutualization and IPO-related expenses, and income taxes paid.

Cash (Used In) Provided by Investing Activities in the Three Months and Years Ended December 31

Cash used in investing activities in the fourth quarter of 2021 and for the year were due to net investments purchased.

Cash Provided by Financing Activities in the Three Months and Years Ended December 31

Cash provided by financing activities in the fourth quarter of 2021 and for the year was due to the proceeds from the IPO net of the distribution of cash benefits of the Demutualization to eligible recipients. The cash Demutualization amounts outstanding to eligible recipients are reflected as restricted cash.

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, 2021		
(in millions of dollars)	**Less than 1 year**	**Over 1 to 5 years**	**More than 5 years**
Claim liabilities (undiscounted)	$ 1,136.0	$ 1,482.1	$ 554.7
Leases (undiscounted) and other commitments	36.8	75.6	26.3
Total	$ 1,172.8	$ 1,557.7	$ 581.0

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 Section 11 — "Risk management and corporate governance", 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 December 31, 2021, securities with an estimated fair value of $598.9 million (December 31, 2020: $607.8 million) have been loaned and securities with an estimated fair value of $620.1 million (December 31, 2020: $628.4 million) have been received as collateral from the financial institutions. Lending collateral as at December 31, 2021 was 100.0% (December 31, 2020: 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 sheets because we retain the risks and rewards of ownership.

The financial compensation we receive in exchange for securities lending is reflected in the consolidated statements of comprehensive income in "Net investment income".

8 — 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.

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:

	Years ended December 31,	
(in millions of dollars)	2021	2020
Salaries	$ 5.3	$ 5.3
Short-term incentive plan	5.4	5.6
Medium-term incentive plan	14.0	8.8
Retention and signing bonuses	1.4	2.3
Post-employment defined contribution pension benefits	0.7	0.6
Other short-term employment benefits	0.1	0.1
Directors' fees*	1.8	1.7
Total	$ 28.7	$ 24.4

*Directors' fees disclosed above include fees accrued in respect of all controlled entities in the group.

As at December 31, 2021, commercial loans of $0.5 million (2020: $10.9 million) were due from companies subject to significant influence. The loans are included in "Investments" in the consolidated balance sheets and are initially measured at the exchange amount. The loans are subsequently measured in accordance with the accounting policy for loans and receivables as noted in Note 3 — "Summary of significant accounting policies", included in our audited consolidated financial statements.

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 $1.7 million in 2022. The contributions are expected to be made in the form of cash. Discretionary pension contributions for the year ended December 31, 2021 were nil (2020: 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 Executive Investment Committee and the Human Resources and Compensation Committee assist the Board in fulfilling its responsibility for governance of the plans and assign or delegate 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 $15.9 million in 2021 (2020: $13.5 million).

In 2021, an actuarial gain of $29.3 million was recognized in other comprehensive income related primarily to changes in the discount rate used to determine the benefit obligation.

9 — CONTROLS AND PROCEDURES

MANAGEMENT'S EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We are responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is reported to management on a timely basis so that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, or changes in conditions, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of error or fraud, if any, within the Company have been detected.

As required by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2021, subject to the inherent limitations noted above.

MANAGEMENT'S EVALUATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

We are also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control – Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2021, subject to the inherent limitations noted below.

While we continue to monitor, assess, and revise our system of internal controls, it should be recognized that due to inherent limitations or changes in conditions, any control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. As such, an evaluation of those control systems can provide only reasonable assurance that all control issues and instances of error or fraud, if any, within the Company have been detected.

Projections of any control effectiveness evaluation to future periods are subject to the risk that the controls may become inadequate due to potential changes in conditions or possible deteriorations in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting in 2021 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

10 — CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of our audited consolidated financial statements 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 year. Actual results could differ materially from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. Refer to Note 3 — "Summary of significant accounting policies" of our audited consolidated financial statements for a summary of our significant accounting policies.

The most complex and significant judgments, estimates, and assumptions used in preparing our audited consolidated financial statements are discussed below:

JUDGMENTS

In the process of applying our accounting policies, we have applied judgment in our assessment of the evaluation of current obligations requiring provisions, the determination of cash-generating units, the identification of the indicators of impairment for property and equipment, goodwill, and intangible assets, the identification of objective evidence of impairment for financial instruments, the determination of control or significant influence over investees, and the recoverability and recognition of deferred tax 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, which are discussed in Note 5 — "Significant accounting judgments, estimates and assumptions" of our audited consolidated financial statements. The key estimates include, but are not limited to, the following:

- Valuation of claim liabilities
- Impairment of long-lived assets
- Impairment of financial assets
- Valuation of post-employment benefits obligation
- Measurement of income taxes

FUTURE ACCOUNTING AND REPORTING CHANGES

IFRS standards issued but not yet effective are discussed in Note 4 — "Standards issued but not yet effective" of our audited consolidated financial statements.

11 — RISK MANAGEMENT AND CORPORATE GOVERNANCE

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 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 our 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 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.

CORPORATE GOVERNANCE AND ACCOUNTABILITY

Our enterprise risk management framework sets out guidance in relation to the responsibility and authority for risk-taking, risk governance and oversight, and risk control.

Governance Structure

BOARD OF DIRECTORS

Audit Committee	Corporate Governance Committee	Human Resources & Compensation Committee	Risk Review Committee	Ad hoc committees (as required)

Senior Management

(including management committees e.g. Executive Leadership Committee, Management Risk Committee, Executive Investment Committee, Management Pension Committee, Public Disclosure Committee, ESG Steering Committee, Capital and Treasury Steering Committee)

Risk management occurs at all levels of the organization. The Board approves and oversees, among other things, our risk appetite, our internal control framework, our Code of Business 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 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:

BOARD OF DIRECTORS COMMITTEES	
Audit Committee	The Audit Committee, composed entirely of independent directors, is responsible for overseeing the integrity of our financial statements and related public disclosures; the qualifications, independence, appointment, and performance of our internal and external auditors; and the design, implementation, and evaluation of our internal controls, including internal controls over financial reporting and our disclosure controls.
Corporate Governance Committee	The Corporate Governance Committee, composed entirely of independent directors, is responsible for overseeing development of effective corporate governance guidelines and processes, reviewing policies and processes to sustain ethical behavior, assessing the effectiveness of the Board of Directors and its committees as well as the contributions of individual directors, and identifying and recommending for election as directors those individuals with appropriate competencies, skills, and experience.
Human Resources and Compensation Committee	The Human Resources and Compensation Committee, composed entirely of independent directors, is responsible for overseeing our human resources practices and policies. This includes reviewing our overall compensation philosophy, approving compensation for our senior executives, and reviewing retention, development, and succession plans.

Risk Review Committee	The Risk Review Committee, composed entirely of independent directors, is responsible for the oversight of the enterprise-wide risk management framework and the regulatory compliance management program. The Risk Review Committee reviews and provides challenge, advice and guidance on the ORSA and the results of our regulatory compliance management program. It approves significant enterprise risk management policies and articulation of risk appetite. It also monitors our key and emerging risks.

From time to time, the Board may also strike ad hoc committees to provide dedicated oversight to key strategic initiatives.

The Board has delegated certain risk management responsibilities to the following executive management committees:

- Management Risk Committee
- Executive Investment Committee
- Management Pension Committee

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

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

Second Line of Defence

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

Third Line of Defence

Internal audit provides periodic independent assurance:

- Provide assurance on the adequacy and effectiveness of governance, risk management, and internal control frameworks, and related processed 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.

Enterprise Risk Management Framework

Enterprise Risk Management			
	Strategic Risk		
	Strategy adequacy risk / Strategic execution risk / Climate change risk / Business, economic, and political environment risks / 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 risks 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 with a view to confirming that 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 pools, as applicable, and eliminating the offering of some products or product features.

To manage the risk arising from underwriting, we have policies that set out our underwriting risk appetite and criteria, as well as specified tolerances for maximum risk retention and management processes to monitor compliance with these limits. We utilize reinsurance and industry risk sharing pools, where available, in order to manage our exposure to insured risks.

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, at a portfolio level, 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 intend to respond to new insurance and legal claims promptly 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 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, inflationary cost pressures, recent judicial decisions, 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:

	As at December 31,			
(in millions of dollars)	2021		2020	
Impact on:	+1%	-1%	+1%	-1%
Net claim liabilities	$ (82.8)	$ 88.6	$ (83.6)	$ 89.6

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 occurrence and magnitude of impact through various commonly used, industry accepted modelling techniques and through the aggregation of limits exposed in each region 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, by considering the potential impact on capital position and overall risk tolerances, through the deductibles charged to policyholders, by limitations on policy terms, by limiting underwriting capacity for particular risks or regions, 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.

We have established a detailed investment policy for the investment portfolio, which is subject to regular review and approval by the Board. The policy sets out our philosophy of investment management, which is to generate sufficient income, in support of financial targets, 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 *Insurance Companies Act* (Canada), 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:

	As at December 31,			
(in millions of dollars)	2021		2020	
Impact on:	+1%	-1%	+1%	- 1%
Fair value of FVTPL bonds and income before income taxes	$ (87.1)	$ 96.8	$ (88.0)	$ 98.2
Fair value of AFS bonds and OCI before income taxes	$ (72.5)	$ 82.5	$ (60.8)	$ 69.8

As discussed above under "Insurance Risk - Reserve estimate risk", as at December 31, 2021, an immediate hypothetical one percentage point increase in the discount rate would have reduced net claim liabilities, and increased income before income taxes, by $82.8 million (2020: $83.6 million). This would have partially offset a corresponding decrease in income before income taxes on the FVTPL bond portfolio discussed above as at December 31, 2021 of $87.1 million (2020: $88.0 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:

	As at December 31,			
(in millions of dollars)	2021		2020	
Impact on:	10%	-10%	10%	-10%
Fair value of Canadian stocks and OCI before income taxes	$ 40.5	$ (40.5)	$ 26.6	$ (26.6)
Fair value of foreign stocks, pooled funds and OCI before income taxes	$ 20.8	$ (20.8)	$ 11.0	$ (11.0)
Fair value of preferred stocks and OCI before income taxes	$ 51.8	$ (51.8)	$ 36.5	$ (36.5)

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 associated with bonds and preferred stocks 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 Section 5 — "Financial position" 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 Section 7 — "Liquidity and capital resources" 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 $24.3 million as at December 31, 2021 (2020: $37.6 million). Management does not consider any of these current commercial loans to be impaired as at December 31, 2021.

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, 2021, 97.5% (2020: 97.3%) of our reinsurers have 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, 2021, 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 2021 (2020: nil). The original purchase price of the outstanding annuities was $321.1 million (2020: $318.4 million).

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of an asset or liability 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 $14.2 million (2020: $7.0 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 $2.8 million (2020: $1.5 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 a revolving credit facility, subject to compliance with financial covenants. 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 8 — "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 "Corporate 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, 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. We also review the composition, experience, and skills of our senior management and the Board to confirm the necessary competencies are represented at the leadership level and 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: claimants may exaggerate claims for personal gain; our insureds or brokers may submit inaccurate underwriting information in an attempt to reduce premium costs or obtain insurance coverages which may otherwise be unavailable; service providers may exaggerate invoice values or charge for unnecessary or uncompleted work; employees may misappropriate assets or submit inadmissible expenses for reimbursement; or internal 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. We also engage with regulatory authorities on regulatory actions which could help to reduce fraud, including addressing fraud rings, and thereby to help maintain insurance affordability for consumers.

All of our directors, officers, and employees have a responsibility to conduct their activities in accordance with our Code of Business Conduct. Under our ethics reporting program, employees or other stakeholders are able to contact a whistleblower hotline operated by an independent service provider on a confidential and anonymous basis to communicate concerns regarding compliance with our Code of Business 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.

To achieve operational and strategic objectives, 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, additional management oversight considerations are integrated into the implementation process, and additional manual and monitoring controls and reporting are applied. 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 our 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.

To maintain our public company listing on the TSX, we must comply with applicable requirements as prescribed by security regulators in Canada and by the TSX.

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 and liquidity; 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 protect 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; limiting our ability to detect and protect against fraudulent claims and/or fraud rings; increasing the ability of new or existing competitors to compete with us in relation to our products and services; and/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. Current and future court decisions and legislative activity may increase our exposure to claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. In addition, plaintiffs may bring new types of legal claims against insurance and related companies, including claims by policyholders in relation to the Demutualization. We have implemented policies and practices to administer and address claims made by policyholders in respect of the Demutualization. As of December 31, 2021, we do not believe there is any material outstanding complaint or claim made by policyholders.

To manage legal and regulatory action risk, we have established procedures and controls supported by our Code of Business 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 so 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 works to ensure that resilient planning and continuity arrangements are in place. Resiliency plans are developed and tested with a view to ensuring 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 allow quick and effective decisions to be made at an appropriate level and to be 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 events.

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 reflects 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 strategic 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 Risk

The impact of changing weather patterns arising from climate change poses significant risks for P&C insurers, including Definity Insurance. 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 two 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, including reputational risks from stakeholders' views of our approach to climate change.

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 with a view to whether 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 continuously enhancing our modeling capabilities to better understand changes in key climate risk exposures, such as flood and wildfire, with a view to confirming pricing, coverage options, risk accumulations and claim liability estimates remain appropriate. We are also assessing other climate change hazards or reputational risks present in our insurance offerings. See "Insurance Risk — Underwriting Risk" above for more detail.

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 regions, 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 risk profile present in our book of business in relation to climate change risk. 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 detail.

Investment values and returns may also be impacted 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 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 regions. 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. Concerns about costs and availability of insurance for particular coverages, regions, or industries, may result in new legislation which could 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 engage 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. See "Reputational Risk" below for additional detail. Through our governance processes and enterprise risk management framework, climate change risks are identified as being 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. We recognize that climate change could pose significant strategic implications for existing and potential future business operations. As a result, 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.

Business, Economic, and Political Environment Risk

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 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 P&C 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 in Canada 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.

Acquisition Risk

Our business strategy includes selective consideration of acquisitions or investments, some of which may be material. As noted above, continued consolidation in the P&C insurance industry may reduce the number of attractive acquisition targets and could contribute to higher transaction multiples. There can be no assurance that we will successfully identify suitable candidates in the future for strategic transactions at prices or terms and conditions that we deem acceptable. We may fail to close any desired acquisition if we cannot obtain necessary regulatory or shareholder approvals, or access sufficient capital resources to finance the acquisition. Currently, Definity is subject to the leverage restrictions under the Insurance Companies Act (Canada), which limit our ability to access debt compared to other P&C insurer holding companies not subject to such restrictions. That said, as a publicly listed company, we may be able to raise additional capital in the equity market to finance acquisitions.

Identifying, negotiating, completing, managing, and integrating acquisitions involve a number of additional risks, including diversion of management's attention from operating our business, failure to retain key personnel of acquired companies, unknown or undisclosed legal risks and liabilities relating to the acquisition or the acquired entity's historic operations, or failure to integrate the acquisition in a timely or effective manner. Consequently, any acquisition we complete may not result in the realization of anticipated or long-term benefits or synergies to us or may impact existing business operations. Any of these risks could have a material adverse effect on our business, results of operations, and financial condition.

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. When issuing commercial loans to and making equity investments in brokers, we manage potential relationship issues and we mitigate potential financial risk exposure by conducting annual, or more frequent, financial reviews, and by obtaining, what we believe to be, appropriate terms for oversight and, in the case of commercial loans, 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, with a view to ensuring 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.

Financial strength ratings are an important competitive factor. Ratings organizations periodically review our financial performance and condition and provide a rating on our financial strength and credit rating. Ratings are subject to revision or withdrawal at any time by the assigning ratings organization. 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. In addition, a downgrade in a financial strength rating could increase our cost of capital and could result in the early termination of lock-up provisions under our governance agreement with HOOPP.

With a view to ensuring sufficient capital levels are maintained, we actively monitor the MCT ratio and the ORSA (refer to "Own Risk and Solvency Assessment" above), and the effect that external and internal forces and actions have on the capital base through our capital management practices. Senior management determines the potential impact on capital when establishing the annual business plan and setting strategy, and before entering into any significant acquisitions or investments, to confirm that acceptable levels of capital are expected to be maintained.

Limitations on dividend and capital distribution from subsidiaries

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 our financial condition, general business conditions, and any restrictions regarding the payment of dividends to us by our subsidiaries.

As Definity is a holding company which conducts substantially all of our business through our subsidiaries and receives substantially all of our earnings from them, we will depend on the payment of dividends by our subsidiaries in order for us to pay dividends. Definity and each of the insurance subsidiaries must comply with applicable insurance legislation and regulatory capital requirements. The financial condition and results of operations of Definity and each of the insurance subsidiaries are included in our consolidated financial statements. Each insurance subsidiary must maintain reserves for losses and loss adjustment expenses to cover the risks it has underwritten, as well as comply with regulatory capital requirements. 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 adversely affect how Definity or any of the insurance subsidiaries, as applicable, are considered by third parties, including rating agencies and insurance regulators.

The ability of our subsidiaries to pay dividends to us in the future will depend on their statutory surplus, on their earnings, and on legislative 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. While no regulatory approval is required for dividend payments from the regulated insurance subsidiaries, notice to OSFI is required together with pro forma capital calculations showing internal target capital levels are expected to be maintained both before and after such dividends are paid.

To the extent the ability of our subsidiaries to pay dividends or make distributions or returns of capital to us is materially limited, our ability to service our debt and pay dividends to our shareholders, if any, could be materially adversely impacted.

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 matters, 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 Business 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 Business Conduct.

Under our ethics reporting program, employees or other stakeholders are able to contact a whistleblower hotline operated by an independent service provider on a confidential and anonymous basis to communicate any concerns regarding compliance with our Code of Business 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 business 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 longer-term economic impacts remain 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 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; inflation risk and supply chain disruption impacting claims and operating expenses; financial risk to our investment portfolio arising from interest rate risk, 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 the vast majority 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, its ongoing impact could lead to employee fatigue and 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, Definity Insurance has been named as a defendant in litigation for certain business interruption losses related to COVID-19, seeking to establish coverage under insurance policies, including national and regional class proceedings. An Ontario action on behalf of a national class (businesses in Canada, excluding Québec) was certified as a class proceeding on August 20, 2021. Definity Insurance and other insurer defendants consented to certification, which is a procedural step and not a determination of the merits. An action in Québec (limited to dentists and dental offices in Québec) was denied authorization as a class proceeding on August 18, 2021. The denial represents a rejection of that class proceeding. A second Québec action (all other businesses in Québec) remains outstanding. Definity Insurance 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 Definity Insurance'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 Definity Insurance 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.

12 — SUPPLEMENTARY FINANCIAL MEASURES AND NON-GAAP FINANCIAL MEASURES AND RATIOS

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). These supplementary financial measures are calculated using amounts in, or components of line items in, our audited consolidated financial statements; however, they are not themselves disclosed in our consolidated financial statements. The non-GAAP financial measures in this MD&A are derived from one or more financial measures disclosed in our audited 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 MD&A 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. These measures are outlined and defined below:

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

Supplementary Financial Measures:

Claims ratio	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 net earned premiums in a given period.
Core accident year claims and adjustment expenses	Net claims and adjustment expenses less catastrophe losses and prior year claims development.
Catastrophe losses	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.
Book value per share	The Company's total equity divided by the total common shares outstanding as at the balance sheet date.
Financial capacity	The sum of excess capital at 200% and leverage capacity.
Leverage capacity	The amount of financial leverage that can be assumed, comprised of the Company's current debt limit as an ICA (2% of total assets) and a target capitalization level of 5% in preferred shares and hybrids.
Certain other ratios	In our discussion of our financial results, we disclose certain ratios as a percentage of net earned premiums 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.

Non-GAAP Financial Measures:

Operating net income	Net income less (or plus) non-operating gains (losses) net of applicable income taxes. Management uses operating net income to measure and evaluate the ongoing operational performance of the business. Management believes that operating net income is useful information for investors for such purpose. Although they may calculate these measures in a different manner, operating net income and similar measures are used by other insurers and analysts in the P&C insurance industry.
Operating income	Net income less (or plus) income tax expense and non-operating gains (losses). This financial measure is used to calculate operating net income.
Non-operating gains (losses)	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. This financial measure is used to calculate operating net income.

Net income is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to operating net income, operating income, and non-operating gains (losses). Below is a quantitative reconciliation of operating net income, operating income, and non-operating gains (losses) to net income for the three months and years ended December 31, 2021 and 2020:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Net income	$ 33.7	$ 66.7	$ 213.2	$ 153.9
Remove: income tax expense	(11.4)	(22.1)	(68.0)	(46.7)
Income before income taxes	**$ 45.1**	**$ 88.8**	**$ 281.2**	**$ 200.6**
Remove: non-operating gains (losses)				
Recognized gains (losses) on investments				
Realized gains on sale of AFS investments	$ 3.3	$ 4.5	$ 49.7	$ 12.6
Net (losses) gains on FVTPL investments	(12.0)	1.5	(70.0)	84.8
Impairment losses on AFS investments	(0.5)	(2.0)	(0.5)	(17.6)
Impact of discounting	9.4	(10.1)	44.7	(114.0)
Demutualization and IPO-related expenses[1]	(16.7)	(1.6)	(30.1)	(3.8)
Amortization of intangible assets recognized in business combinations[1]	(0.6)	(1.2)	(3.5)	(4.5)
Other[1][2]	(0.2)	(0.2)	-	1.0
Non-operating losses	**$ (17.3)**	**$ (9.1)**	**$ (9.7)**	**$ (41.5)**
Operating income	**$ 62.4**	**$ 97.9**	**$ 290.9**	**$ 242.1**
Operating income tax expense	(15.9)	(24.5)	(70.5)	(57.7)
Operating net income	**$ 46.5**	**$ 73.4**	**$ 220.4**	**$ 184.4**

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)

Underwriting expenses consist of net commissions, operating expenses (net of other underwriting revenues), and premium taxes. When calculating our combined ratio and expense ratio, we deduct other underwriting revenues (which consist of various customer service fees).

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 are quantitative reconciliations of underwriting expenses (net of other underwriting revenues) to net claims and underwriting expenses, and operating expenses (net of other underwriting revenues) to operating expenses for the three months and years ended December 31, 2021 and 2020:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2021	2020	2021	2020
Net claims and underwriting expenses	$ 706.7	$ 594.8	$ 2,647.3	$ 2,379.8
Remove: net claims and adjustment expenses	470.2	379.9	1,721.5	1,562.3
Remove: other underwriting revenues	2.0	2.0	8.2	7.5
Underwriting expenses (net of other underwriting revenues)	**$ 234.5**	**$ 212.9**	**$ 917.6**	**$ 810.0**

Underwriting expenses (net of other underwriting revenues) by line of business is as shown in the following table for the three months and years ended December 31, 2021 and 2020:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2021	**2020**	**2021**	**2020**
Personal auto	$ 97.2	$ 93.3	$ 386.6	$ 358.9
Personal property	68.4	61.3	270.6	227.8
Commercial lines	68.9	58.3	260.4	223.3
Underwriting expenses (net of other underwriting revenues)	**$ 234.5**	**$ 212.9**	**$ 917.6**	**$ 810.0**

Below is the quantitative reconciliation of operating expenses (net of other underwriting revenues) to operating expenses for the three months and years ended December 31, 2021 and 2020:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2021	**2020**	**2021**	**2020**
Operating expenses	$ 107.4	$ 92.1	$ 392.4	$ 344.8
Remove: other underwriting revenues	2.0	2.0	8.2	7.5
Operating expenses (net of other underwriting revenues)	**$ 105.4**	**$ 90.1**	**$ 384.2**	**$ 337.3**

Non-GAAP Ratios:

Combined ratio

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 net earned premiums. Management uses combined ratio to evaluate the underlying insurance underwriting results relative to our net earned premiums in a given period. Management believes 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.

Expense ratio

The total of our net commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period, 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 net earned premiums. Management uses expense ratio to evaluate our underwriting expenses relative to our net earned premiums in a given period. Management believes 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.

Return on equity ("ROE")

Net income for the 12 months ended at a specified date divided by the average total equity, adjusted for significant capital transactions if applicable, over the same 12-month period. 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 years ended December 31:

(in millions of dollars, except as otherwise noted)	Year ended December 31, 2021	Year ended December 31, 2020
Net income	$ 213.2	$ 153.9
Total equity[1]	$ 2,396.3	$ 1,818.0
Adjustment for Over-Allotment option and Anti-Dilution Adjustment[2]	$ (227.6)	-
Adjusted total equity	$ 2,168.7	$ 1,818.0
Average adjusted total equity[3]	$ 1,993.3	$ 1,714.5
Return on equity	10.7%	9.0%

Notes:
(1) Total equity is as at December 31, 2021 and 2020.
(2) Over-Allotment option and Anti-Dilution Adjustment were prorated for the 326 days prior to the IPO date of November 23, 2021.
(3) Average adjusted total equity is the average of adjusted total equity (total equity as shown on our consolidated balance sheet, adjusted for significant capital transactions) at the end of the period and the end of the preceding 12-month period. Total equity and adjusted total equity as at December 31, 2019 was $1,611.0 million.

Operating return on equity ("operating ROE")

Operating net income (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, adjusted for significant capital transactions if applicable, over the same 12-month period. 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 years ended December 31:

(in millions of dollars, except as otherwise noted)	Year ended December 31, 2021	Year ended December 31, 2020
Operating net income[1]	$ 220.4	$ 184.4
Total equity, excluding AOCI[2]	$ 2,298.3	$ 1,755.9
Adjustment for Over-Allotment option and Anti-Dilution Adjustment[3]	$ (227.6)	-
Adjusted total equity, excluding AOCI	$ 2,070.7	$ 1,755.9
Average adjusted total equity, excluding AOCI[4]	$ 1,913.3	$ 1,682.3
Operating ROE	11.5%	11.0%

Notes:

(1) Operating net income is a non-GAAP financial measure. See "— Non-GAAP Financial Measures", above.
(2) Total equity, excluding AOCI is as at December 31, 2021 and 2020.
(3) Over-Allotment option and Anti-Dilution Adjustment were prorated for the 326 days prior to the IPO date of November 23, 2021.
(4) Average adjusted total equity, excluding AOCI is the average of adjusted total equity, excluding AOCI (total equity and AOCI each as shown on our consolidated balance sheet, adjusted for significant capital transactions) at the end of the period and the end of the preceding 12-month period. Total equity, excluding AOCI and adjusted total equity, excluding AOCI as at December 31, 2019 was $1,608.6 million.

Operating earnings per share ("operating EPS")

Operating net income (a non-GAAP financial measure as described above) for the 12 months ended at a specified date divided by the Company's weighted average diluted common shares outstanding during the period. Management uses operating EPS to measure and evaluate our performance with respect to the periodic return that our operational performance is providing relative to the common shares of the organization. Management believes that operating EPS is useful information for investors for such purpose. Although they may calculate it in a different manner, operating EPS and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry

13 — OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares issuable in series. The Company's issued and outstanding common shares were 115.9 million as at February 9, 2022. No preferred shares were issued and outstanding.

14 — DEFINITIONS

Refer to Section 12 — "Supplementary Financial Measures and Non-GAAP financial measures and ratios" for definitions of supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios that we use to measure and evaluate the performance of our business.

Claims development	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.
Customer relief related to the COVID-19 Pandemic	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.
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. Provisions for adverse deviation are also included when determining the discounted value.
Frequency	A measure of how often a claim is reported as a function of PIF.
Gross written premiums (GWP)	The total premiums from the sale of insurance during a specified period.
Incurred but not reported (IBNR)	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.
Large loss	A single claim with a gross loss in excess of $1 million but less than $3 million.
Minimum capital test (MCT)	A regulatory formula defined by the Office of the Superintendent of Financial Institutions, that is a risk-based test of capital available relative to capital required.
Net earned premiums (NEP)	The portion of NWP equal to the expired period of time an insurance policy is in effect in the current period presented.
Net written premiums (NWP)	GWP less the cost of reinsurance coverage.

Policies in force (PIF)	The number of insurance policies that are in effect at a specified date.
Provision for adverse deviation (PfAD)	An amount that is added to claim liabilities to reduce the uncertainty of potential adverse effects that are inherent in the assumptions and data used to estimate such liabilities.
Severity	A measure of the average dollar amount paid per claim.
Underwriting income	Net earned premiums for a defined period less the sum of net claims and adjustment expenses, net commissions, operating expenses (net of other underwriting revenues), and premium taxes during the same period.