

NEWS RELEASE: Definity Financial Corporation Reports Fourth Quarter and Full Year 2021 Results

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 ratio¹ of 94.6% in Q4-2021 included 4.8 points of catastrophe losses¹, 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 income¹ of \$46.5 million in Q4-2021 compared to \$73.4 million in Q4-2020 and resulted in operating EPS¹ of \$0.42 per share; full year operating net income of \$220.4 million led to operating ROE¹ 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 share¹, 18% higher than a year ago
- Strong capital position and operational outlook led to the declaration of an inaugural dividend subsequent to year end

Executive Message

“The underlying strength of our business was once again demonstrated this quarter by delivering a 94.6% combined ratio, inclusive of elevated catastrophe losses and reserve strengthening related to auto inflationary trends. We benefitted from past prudence as prior year claims developed favourably in the fourth quarter, positively impacting underwriting results and offsetting the inflationary impact. Growth remained robust, as premiums increased 12% in the quarter, combining with our solid profitability to generate an operating EPS of \$0.42. I am proud of the milestones we achieved in the fourth quarter, becoming a public company, securing our Cornerstone investors, and celebrating our 150th anniversary. These were made possible by the tremendous efforts of our dedicated employees over many years and the strong support of our broker partners.”

– Rowan Saunders, President & CEO

“Our financial results in the quarter continued the solid momentum we’ve built in recent years. Our balance sheet grew significantly through the investment of funds generated from our improved underwriting results and our successful IPO. We ended the year with total equity approaching \$2.4 billion and a book value per share of \$20.68, representing an increase of 18% from last year. We are proud to announce our inaugural dividend and believe we are well positioned to deliver value to shareholders, while continuing to support our customers, brokers, and employees.”

– Philip Mather, EVP & CFO

Consolidated Results

(in millions of dollars, except as otherwise noted)	Q4 2021	Q4 2020	Change	2021	2020	Change
Gross written premiums	846.6	755.9	12.0%	3,231.4	2,814.7	14.8%
Net earned premiums	745.0	665.5	11.9%	2,833.6	2,508.7	13.0%
Claims ratio ¹	63.1%	57.1%	6.0 pts	60.8%	62.3%	(1.5) pts
Expense ratio ¹	31.5%	32.0%	(0.5) pts	32.3%	32.3%	-
Combined ratio¹	94.6%	89.1%	5.5 pts	93.1%	94.6%	(1.5) pts
Underwriting income	40.3	72.7	(32.4)	194.5	136.4	58.1
Net investment income	25.1	23.7	1.4	96.8	100.3	(3.5)
Net income	33.7	66.7	(33.0)	213.2	153.9	59.3
Operating net income¹	46.5	73.4	(26.9)	220.4	184.4	36.0

¹ This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Supplementary financial measures and non-GAAP financial measures and ratios in this news release, and Section 12 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2021 Management’s Discussion and Analysis dated February 10, 2022 for further details, which is available on the Company’s website at www.definityfinancial.com and on SEDAR at www.sedar.com.

	Q4 2021	Q4 2020	Change	2021	2020	Change
Per share measures (in dollars)						
Diluted EPS	0.31	0.64	(0.33)	2.02	1.48	0.54
Operating EPS ¹	0.42	0.71	(0.29)	2.09	1.77	0.32
Book value per share ("BVPS") ¹				20.68	17.48	3.20
Rolling 12 months return measures						
Return on equity ("ROE") ¹				10.7%	9.0%	1.7 pts
Operating ROE ¹				11.5%	11.0%	0.5 pts

- 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 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 net earned premiums of approximately \$58 million (2020: \$25 million).
- 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 were primarily a result of flooding in British Columbia and accounted for 4.8 percentage points for the fourth quarter of 2021, as compared to catastrophe losses of 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.
- Net investment income** increased \$1.4 million in the fourth quarter of 2021 due to an increase in interest and dividend income. Net investment income declined \$3.5 million 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.

Net Income and Operating 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** 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. 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. Operating EPS was \$0.42 in the fourth quarter of 2021 and \$2.09 for the year.
- 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.

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Line of Business Results

(in millions of dollars, except as otherwise noted)	Q4 2021	Q4 2020	Change	2021	2020	Change
Personal insurance						
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%
Combined ratio¹						
Auto	94.9%	95.1%	(0.2) pts	91.2%	96.4%	(5.2) pts
Property	93.2%	78.0%	15.2 pts	98.6%	89.2%	9.4 pts
Total	94.3%	89.2%	5.1 pts	93.9%	94.0%	(0.1) pts
Commercial insurance						
Gross written premiums	254.0	215.6	17.8%	910.3	728.6	24.9%
Combined ratio¹	95.5%	88.8%	6.7 pts	91.0%	96.4%	(5.4) pts

Personal Insurance

- 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 lines produced underwriting income of \$31.5 million in the quarter 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.
- Personal auto** GWP increased 4.8% in the quarter (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). The combined ratio of 94.9% in the quarter improved slightly over the 95.1% combined ratio in the same quarter a year ago due primarily to 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 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).
- Personal property** GWP increased 17.9% in the quarter (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 combined ratio was 93.2% in the quarter 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.

Commercial Insurance

- 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 quarter 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.
- Commercial lines** produced a combined ratio of 95.5% and underwriting income of \$8.8 million in the quarter compared to 88.8% and underwriting income of \$18.5 million in the same quarter a year ago. The lower underwriting income was 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% and underwriting income of \$66.9 million compared to 96.4% and underwriting income of \$22.2 million 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. These were partially offset by proactive reserving actions with respect to inflation taken in 2021, which impacted current accident year claims and prior year claims.

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Financial Position

(in millions of dollars, except as otherwise noted)	As at December 31, 2021	As at December 31, 2020	Change
Financial position			
Investments	5,365.8	4,366.3	999.5
Total equity	2,396.3	1,818.0	578.3
Minimum capital test ("MCT") ¹	275%	268%	7 pts
Excess capital at 200%	759.3	376.3	383.0

¹ Consolidated Definity Insurance Company MCT.

- Total equity increased \$578.3 million (31.8%) to approximately \$2.4 billion, driven by net income and the net proceeds retained by the Company from the IPO and related transactions. Definity's capital position remained well in excess of both minimum internal capital and external regulatory requirements as of December 31, 2021, with an excess capital position of \$759.3 million and an unlevered balance sheet.

Dividend

- The Board of Directors declared a \$0.175 per share dividend on February 10, 2022 (representing an inaugural quarterly amount of \$0.125 per share in respect of Q1-2022 in addition to \$0.05 per share for the period between the IPO and December 31, 2021), payable on March 28, 2022 to shareholders of record at the close of business on March 15, 2022.

Conference Call

Definity will conduct a conference call to review information included in this news release and related matters at 11:00 a.m. ET on February 11, 2022. The conference call will be available simultaneously and in its entirety to all interested investors and the news media at www.definityfinancial.com. A transcript will be made available on Definity's website within two business days.

About Definity Financial Corporation

Definity Financial Corporation ("Definity", which includes its subsidiaries where the context so requires) is one of the leading property and casualty insurers in Canada, with over \$3.2 billion in gross written premiums in 2021 and over \$7.8 billion in assets as at December 31, 2021.

Cautionary Note Regarding Forward-Looking Information

This news release 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 news release 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 Company continuing under the Canada Business Corporations Act.

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 the "11 – Risk Management and Corporate Governance" section of the Management's Discussion and Analysis 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 news release represents our expectations as at the date of this news release (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 news release is expressly qualified by the foregoing cautionary statements.

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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), 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 news release 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 measures 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. For more information about these supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios, including (where applicable) definitions and explanations of how these measures provide useful information, refer to Section 12 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2021 Management’s Discussion and Analysis dated February 10, 2022, which is available on our website at www.definityfinancial.com and on SEDAR at www.sedar.com.

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), which are considered non-GAAP financial measures. Below is a quantitative reconciliation of operating net income, operating income, and non-operating losses to net income for the three months and years ended December 31, 2021 and 2020:

(in millions of dollars)	Q4 2021	Q4 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

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.

The following table shows the components of our calculation of ROE, a non-GAAP ratio, for the years ended December 31:

(in millions of dollars, except as otherwise noted)	2021	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
ROE	10.7%	9.0%

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.

The following table shows the components of our calculation of operating ROE, a non-GAAP ratio, for the years ended December 31:

(in millions of dollars, except as otherwise noted)	2021	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%

¹ Operating net income is a non-GAAP financial measure.

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.