TORONTO (TSX: DFY) – May 12, 2022
(in Canadian dollars except as otherwise noted)

NEWS RELEASE: Definity Financial Corporation Reports First Quarter 2022 Results

Highlights

- Premium growth of 12.7% in the quarter, driven by strong growth in Sonnet, commercial lines, personal property, and ongoing firm market conditions
- Combined ratio[1] of 92.2% in Q1 2022 bolstered by strength in commercial insurance and personal property, while results also reflect higher claims frequency and severity in personal auto than Q1 2021
- Operating net income[1] of $64.6 million in Q1 2022, compared to $60.6 million in Q1 2021, which resulted in operating EPS[1] of $0.55 per share; operating ROE[1] was 11.2% for the last twelve months
- Financial position remained resilient, despite capital market volatility, with book value per share[1] of $20.41, down only 1.3% in the quarter and 12.9% higher than a year ago

Executive Message

"Our strong underwriting capabilities delivered a 92.2% combined ratio in the quarter, with particular strength in our commercial business due in part to favourable industry conditions, and solid personal property profitability inclusive of higher catastrophe claims. Results in personal auto reflect claims frequency moving off pandemic-related lows as well as the continued impact of inflation on claims severity. Our robust underwriting performance gives us the confidence to maintain our growth ambitions, as was evident in our continued strong top line growth of 12.7% in Q1. With a strong start to the year, we remain on track to deliver on our financial targets as an innovative, digitally-focused industry leader."
– Rowan Saunders, President & CEO

"The resilience of our business was illustrated in early 2022 as we ended the first quarter with financial capacity remaining above $1 billion. The rising yield environment negatively impacted our fixed income investments, and ultimately our book value, but also positions us to benefit from increasing investment income in the coming quarters. Strong underwriting and higher net investment income combined to generate an operating ROE of 11.2%. We believe we are well positioned to deliver value to shareholders by growing profitably and deploying our capital in a disciplined manner over time."
– Philip Mather, EVP & CFO

Consolidated Results

(in millions of dollars, except as otherwise noted)	Q1 2022	Q1 2021	*Change*
Gross written premiums	742.5	658.7	*12.7%*
Net earned premiums	768.4	666.3	*15.3%*
Claims ratio[1]	59.3%	58.5%	*0.8 pts*
Expense ratio[1]	32.9%	32.8%	*0.1 pts*
Combined ratio[1]	**92.2%**	**91.3%**	***0.9 pts***
Underwriting income	60.2	58.0	*2.2*
Net investment income	25.8	22.9	*2.9*
Net income	**48.3**	**82.4**	***(34.1)***
Operating net income[1]	**64.6**	**60.6**	***4.0***

[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 11 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q1-2022 Management's Discussion and Analysis dated May 12, 2022 for further details, which is available on the Company's website at www.definityfinancial.com and on SEDAR at www.sedar.com.

	Q1 2022	Q1 2021	*Change*
Per share measures (in dollars)			
Diluted EPS	0.41	0.79	*(0.38)*
Operating EPS[1]	0.55	0.58	*(0.03)*
Book value per share ("BVPS")[1]	20.41	18.07	*2.34*
Rolling 12 months return measures			
Return on equity ("ROE")[1]	8.8%	14.1%	*(5.3) pts*
Operating ROE[1]	11.2%	13.5%	*(2.3) pts*

- **Gross written premiums ("GWP")** for the first quarter of 2022 increased by $83.8 million or 12.7% compared to the first quarter of 2021, driven by growth across all our lines of business. Personal lines GWP was up 10.3% over the same quarter a year ago, with increases in both our broker and direct businesses. Commercial lines GWP increased 19.0% over the same quarter a year ago, reflecting our expanded underwriting capabilities and focus on growth in this line of business. In the first quarter of 2022, customer relief related to the COVID-19 pandemic resulted in a reduction in GWP of approximately $13 million (Q1 2021: $14 million) and a reduction in net earned premiums of approximately $13 million (Q1 2021: $13 million).
- **Underwriting results** for the first quarter of 2022 were strong, producing underwriting income of $60.2 million and a combined ratio of 92.2%, compared to underwriting income of $58.0 million and a combined ratio of 91.3% in the same quarter a year ago. Catastrophe losses this quarter were slightly higher compared to the first quarter of 2021, but this was partially offset by improved underlying results.
- **Net investment income** increased $2.9 million in the first quarter of 2022 driven primarily by the investment of funds generated from our underwriting results and business growth.

Net Income and Operating Net Income

- **Net income** was $48.3 million in the first quarter of 2022 compared to $82.4 million in the first quarter of 2021. In the first quarter of 2022, the significant increase in fixed income yields resulted in higher market value losses on our bond portfolio, which were partially offset by a discounting recovery on our claim liabilities. In 2021, we also recorded realized gains of $37.5 million on our equity portfolio that were triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities.
- **Operating net income** increased to $64.6 million in the first quarter of 2022 compared to $60.6 million in the first quarter of 2021 driven by higher underwriting income and higher net investment income. Operating EPS was $0.55 in the first quarter of 2022.
- **Operating ROE** was 11.2% for the twelve-month period ended March 31, 2022 compared to 13.5% in 2021. Operating ROE was lower due to the dilutive impact of the large increase in equity year over year, driven by net income generated and the net proceeds retained by Definity from the IPO and related transactions.

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Line of Business Results

(in millions of dollars, except as otherwise noted)	Q1 2022	Q1 2021	*Change*
Personal insurance			
Gross written premiums			
Auto	322.2	302.7	*6.4%*
Property	200.4	171.2	*17.1%*
Total	**522.6**	**473.9**	***10.3%***
Combined ratio[1]			
Auto	96.2%	90.2%	*6.0 pts*
Property	91.9%	91.5%	*0.4 pts*
Total	**94.6%**	**90.7%**	***3.9 pts***
Commercial insurance			
Gross written premiums	**219.9**	**184.8**	***19.0%***
Combined ratio[1]	**85.5%**	**93.0%**	***(7.5) pts***

Personal Insurance

- Overall, **personal lines** GWP increased 10.3% in the first quarter of 2022. Sonnet GWP was $64.5 million in the first quarter of 2022, an increase of 22.7% compared to $52.5 million in the first quarter of 2021. For the twelve-month period ended March 31, 2022, Sonnet's GWP exceeded $300 million for the first time. Personal lines produced underwriting income of $30.7 million in the quarter compared to $46.1 million in the same quarter a year ago.
- **Personal auto** GWP increased 6.4% in the quarter, driven by improved new business and the growth in Sonnet. In the first quarter of 2022, customer relief related to the COVID-19 pandemic resulted in a reduction in GWP of approximately $10 million (Q1 2021: $10 million). The combined ratio of 96.2% in the quarter (Q1 2021: 90.2%) increased due primarily to a decrease in favourable prior year claims development and an increase in the core accident year claims ratio driven by higher claims frequency combined with inflationary cost pressures.
- **Personal property** GWP increased 17.1% in the quarter, benefitting from continued firm market conditions in our personal property business and higher retention levels. The combined ratio was strong at 91.9% in the quarter, increasing slightly from 91.5% in the same quarter a year ago, despite the impact of higher catastrophe losses. Catastrophe losses accounted for 7.1 percentage points to the combined ratio in the first quarter of 2022 compared to only 1.7 percentage points in 2021. The increase in catastrophe losses was largely offset by higher favourable prior year claims development and an improvement in the core accident year claims ratio as earned rates remained above inflation cost trends.

Commercial Insurance

- The growth momentum in **commercial lines** continued in the first quarter of 2022. GWP increased 19.0% in the quarter as we benefitted from our expanded underwriting capabilities, higher retention levels, and strong rate achievement in a firm market environment.
- **Commercial lines** produced a strong combined ratio of 85.5% and underwriting income of $29.5 million in the quarter compared to 93.0% and underwriting income of $11.9 million in the same quarter a year ago. The underwriting improvement was due to a decrease in the core accident year claims ratio, lower catastrophe losses, and higher favourable prior year claims development. The core accident year claims ratio improvement was driven by improved mix of business, low levels of large loss activity, and achieving rate increases above loss cost inflation.

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Financial Position

(in millions of dollars, except as otherwise noted)	As at March 31, 2022	As at December 31, 2021	*Change*
Financial position			
Investments	5,142.9	5,365.8	*(222.9)*
Total equity	2,359.7	2,396.3	*(36.6)*
Consolidated excess capital at 200% MCT	732.3	759.3	*(27.0)*

- Total equity decreased modestly by $36.6 million driven by a significant increase in fixed income yields in the first quarter of 2022 which negatively impacted the market value of our bond portfolio, largely offset by strong underwriting income and increasing net investment income. Definity's capital position remained strong, well in excess of both internal and regulatory minimum capital requirements as of March 31, 2022, with a consolidated excess capital position exceeding $730 million and an unlevered balance sheet.

Dividend

- On May 12, 2022, the Board of Directors declared a $0.125 per share dividend, payable on June 28, 2022 to shareholders of record at the close of business on June 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 May 13, 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 $3.3 billion in gross written premiums for the 12 months ended March 31, 2022 and over $7.5 billion in assets as at March 31, 2022.

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;
- Definity’s ability to address inflationary cost pressures through pricing, supply chain, or cost management actions;
- 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 Definity 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 December 31, 2021 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 11 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q1-2022 Management's Discussion and Analysis dated May 12, 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 ended March 31, 2022 and 2021:

(in millions of dollars)	Q1 2022	Q1 2021
Net income	48.3	82.4
Remove: income tax expense	(14.5)	(27.5)
Income before income taxes	**62.8**	**109.9**
Remove: non-operating gains (losses)		
Recognized (losses) gains on investments		
Realized (losses) gains on sale of AFS investments	(10.5)	43.0
Net losses on FVTPL investments	(91.8)	(52.5)
Impact of discounting	83.0	43.4
Demutualization and IPO-related expenses[1]	(1.9)	(3.5)
Amortization of intangible assets recognized in business combinations[1]	(0.6)	(1.0)
Other[1,2]	(0.3)	0.2
Non-operating (losses) gains	**(22.1)**	**29.6**
Operating income	**84.9**	**80.3**
Operating income tax expense	(20.3)	(19.7)
Operating net income	**64.6**	**60.6**

[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 periods ended March 31:

	For the 12 months ended March 31,	
(in millions of dollars, except as otherwise noted)	2022	2021
Net income	179.2	239.5
Total equity[1]	2,359.7	1,879.2
Adjustment for Over-Allotment option and Anti-Dilution Adjustment[2]	(164.7)	-
Adjusted total equity	2,195.0	1,879.2
Average adjusted total equity[3]	2,037.1	1,702.2
ROE	8.8%	14.1%

[1] Total equity is as at March 31, 2022 and 2021.
[2] Over-Allotment option and Anti-Dilution Adjustment were prorated for the 236 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, if applicable) at the end of the period and the end of the preceding 12-month period. Total equity and adjusted total equity as at March 31, 2020 was $1,525.1 million.

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

(in millions of dollars, except as otherwise noted)	For the 12 months ended March 31, 2022	2021
Operating net income[1]	224.4	232.3
Total equity, excluding AOCI[2]	2,335.4	1,838.3
Adjustment for Over-Allotment option and Anti-Dilution Adjustment[3]	(164.7)	-
Adjusted total equity, excluding AOCI	2,170.7	1,838.3
Average adjusted total equity, excluding AOCI[4]	2,004.4	1,721.9
Operating ROE	11.2%	13.5%

[1] Operating net income is a non-GAAP financial measure.
[2] Total equity, excluding accumulated other comprehensive income ("AOCI") is as at March 31, 2022 and 2021.
[3] Over-Allotment option and Anti-Dilution Adjustment were prorated for the 236 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, if applicable) 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 March 31, 2020 was $1,605.4 million.