DEFINITY FINANCIAL CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE FIRST QUARTER ENDED
MARCH 31, 2022

DEFINITY FINANCIAL CORPORATION

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TABLE OF CONTENTS

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED) 2
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED) 3
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED) 4
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) 5

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS 6
2. BASIS OF PREPARATION 6
3. ACCOUNTING POLICIES 6
4. SEASONALITY 7
5. INVESTMENTS 7
6. POLICY LIABILITIES 11
7. REINSURANCE CONTRACTS 13
8. INCOME TAXES 14
9. OTHER ASSETS 14
10. ACCOUNTS PAYABLE AND OTHER LIABILITIES 15
11. SHARE CAPITAL 15
12. EARNINGS PER COMMON SHARE 16
13. SHARE-BASED COMPENSATION PLANS 16
14. POST-EMPLOYMENT BENEFITS 17
15. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS 18

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions of dollars)

		As at	
	Notes	**March 31, 2022**	December 31, 2021
ASSETS			
Cash and cash equivalents		**$ 252.5**	$ 387.3
Restricted cash		**116.8**	110.8
Investments	**5**	**5,142.9**	5,365.8
Accrued investment income		**25.4**	21.3
Premiums receivable		**1,018.4**	1,075.9
Income taxes receivable		**46.8**	0.2
Reinsurance receivable and recoverable	**7**	**147.6**	179.2
Deferred policy acquisition expenses	**6**	**282.5**	295.1
Property and equipment		**56.1**	57.0
Deferred income tax assets		**56.8**	62.5
Goodwill and intangible assets		**227.2**	219.7
Other assets	**9**	**146.0**	116.6
		$ 7,519.0	$ 7,891.4
LIABILITIES AND EQUITY			
Unearned premiums	**6**	**$ 1,533.5**	$ 1,599.2
Claim liabilities	**6**	**3,239.4**	3,336.1
Accounts payable and other liabilities	**10**	**269.6**	393.4
Income taxes payable		**-**	55.6
Demutualization amounts outstanding		**116.8**	110.8
		5,159.3	5,495.1
EQUITY			
Share capital	**11**	**2,299.7**	2,307.8
Contributed surplus	**13**	**23.6**	19.3
Retained earnings (deficit)		**12.1**	(28.8)
Accumulated other comprehensive income		**24.3**	98.0
Total equity		**2,359.7**	2,396.3
		$ 7,519.0	$ 7,891.4

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31

(in millions of dollars)

	Notes		2022		2021
Gross written premiums		**$**	**742.5**	$	658.7
Net written premiums	**7**	**$**	**747.7**	$	610.5
Net earned premiums		**$**	**768.4**	$	666.3
Other underwriting revenues			**2.2**		2.1
Total underwriting revenues			**770.6**		668.4
Net claims and underwriting expenses:					
Net claims and adjustment expenses	**6,7**		**455.8**		389.8
Net commissions	**7**		**126.6**		105.5
Operating expenses			**99.8**		90.1
Premium taxes			**28.2**		25.0
			710.4		610.4
Underwriting income			**60.2**		58.0
Impact of discounting	**6**		**83.0**		43.4
Underwriting income after the impact of discounting			**143.2**		101.4
Investment (loss) income:					
Net investment income	**5**		**25.8**		22.9
Recognized losses on investments	**5**		**(102.3)**		(9.5)
			(76.5)		13.4
Other (expenses) income			**(3.9)**		(4.9)
Income before income taxes			**62.8**		109.9
Income tax expense	**8**		**(14.5)**		(27.5)
Net income		**$**	**48.3**	$	82.4
Items that may be reclassified subsequently to net income:					
Net unrealized (losses) gains on AFS investments	**5**		**(110.4)**		14.6
Reclassification to net income of net recognized losses (gains) on AFS investments	**5**		**10.5**		(43.0)
Foreign exchange loss on investments in associates			**(0.4)**		(0.5)
Income tax recovery	**8**		**26.6**		7.7
			(73.7)		(21.2)
Items that will not be reclassified subsequently to net income:					
Post-employment benefit obligation gain	**14**		**17.5**		-
Income tax expense	**8**		**(4.6)**		-
			12.9		-
Other comprehensive loss			**(60.8)**		(21.2)
Comprehensive (loss) income		**$**	**(12.5)**	$	61.2
Earnings per common share (in dollars)	**12**				
Basic		**$**	**0.42**	$	0.79
Diluted		**$**	**0.41**	$	0.79
Weighted average common shares outstanding (millions)	**12**				
Basic			**115.9**		104.0
Diluted			**117.5**		104.0
Dividends paid per common share (in dollars)	**11**	**$**	**0.175**	$	-

See accompanying notes

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31

(in millions of dollars)

		2022				
	Notes	**Share capital**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income**	**Total equity**
Balance, beginning of the year		**$ 2,307.8**	**$ 19.3**	**$ (28.8)**	**$ 98.0**	**$ 2,396.3**
Net income		**-**	**-**	**48.3**	**-**	**48.3**
Other comprehensive income (loss)		**-**	**-**	**12.9**[1]	**(73.7)**	**(60.8)**
Total comprehensive income (loss)		**-**	**-**	**61.2**	**(73.7)**	**(12.5)**
Equity-settled share-based compensation	13	**-**	**4.3**	**-**	**-**	**4.3**
Shares purchased and held in trust	11	**(8.1)**	**-**	**-**	**-**	**(8.1)**
Dividends to common shareholders	11	**-**	**-**	**(20.3)**	**-**	**(20.3)**
Balance, end of the period		**$ 2,299.7**	**$ 23.6**	**$ 12.1**	**$ 24.3**[2]	**$ 2,359.7**

	2021				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance, beginning of the year	$ -	$ -	$ 1,755.9	$ 62.1	$ 1,818.0
Net income	-	-	82.4	-	82.4
Other comprehensive loss	-	-	-	(21.2)	(21.2)
Total comprehensive income	-	-	82.4	(21.2)	61.2
Balance, end of the period	$ -	$ -	$ 1,838.3	$ 40.9[2]	$ 1,879.2

[1] Actuarial gains for the post-employment benefit obligation recognized in retained earnings (net of income tax expense of $4.6 million (March 31, 2021: nil)).

[2] Included in accumulated other comprehensive income ("AOCI") is $3.2 million (December 31, 2021: $3.6 million) related to the cumulative foreign exchange gain on investments in associates.

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31

(in millions of dollars)

	Notes	2022	2021
Operating activities:			
Receipts:			
Premiums collected (net of reinsurance ceded)		**$ 805.4**	$ 660.8
Interest received		**21.2**	16.7
Dividends received		**8.0**	7.6
		834.6	685.1
Payments:			
Claims paid	**6**	**454.3**	355.2
Commissions and expenses paid		**346.2**	246.0
Premium taxes paid		**38.4**	42.1
Income taxes paid		**89.1**	26.3
		928.0	669.6
Net cash (used in) provided by operating activities		**(93.4)**	15.5
Investing activities:			
Investments purchased		**(1,968.5)**	(1,143.2)
Investments sold, redeemed, or matured		**1,987.6**	864.1
Commercial loans advanced		**(5.0)**	-
Commercial loans collected		**0.9**	1.0
Other assets purchased		**(28.0)**	(15.8)
Net cash used in investing activities		**(13.0)**	(293.9)
Financing activities:			
Dividends paid on common shares	**11**	**(20.3)**	-
Common shares purchased and held in trust	**11**	**(8.1)**	-
Change in demutualization amounts outstanding		**6.0**	-
Net cash used in financing activities		**(22.4)**	-
Cash and cash equivalents, and restricted cash:			
Net decrease during the period		**(128.8)**	(278.4)
Balance, beginning of the period		**498.1**	510.3
Balance, end of the period		**$ 369.3**	$ 231.9
Cash		**$ 100.5**	$ 145.9
Cash equivalents		**152.0**	86.0
Total cash and cash equivalents		**$ 252.5**	$ 231.9
Restricted cash		**116.8**	-
Total cash and cash equivalents, and restricted cash		**$ 369.3**	$ 231.9

See accompanying notes.

1. NATURE OF OPERATIONS

Definity Financial Corporation (the "Company"), through its wholly owned subsidiaries, offers property and casualty ("P&C") insurance in Canada. The Company was incorporated on June 30, 2021 and is domiciled in Canada. Its registered office and principal place of business is 111 Westmount Road South, Waterloo, Ontario, Canada. The Company became the parent company of Definity Insurance Company ("Definity Insurance"), formerly known as Economical Mutual Insurance Company, following completion of the conversion of Definity Insurance from a mutual company to a company with share capital pursuant to the *Insurance Companies Act (Canada)* and regulations thereunder, a process known as "demutualization". The results of Definity Insurance have been consolidated and presented as a continuation of business, and as a result, these condensed interim consolidated financial statements ("interim financial statements") include comparatives for the prior year.

These interim financial statements were authorized for issuance and approved by the Company's Board of Directors on May 12, 2022.

2. BASIS OF PREPARATION

The interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* ("IAS 34"). Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2021. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021.

These interim financial statements have been prepared on a historical cost basis, except for those financial instruments, including those held in the defined benefit pension plan, that have been measured at fair value, and claim liabilities and benefit plan obligations which are valued on a discounted basis in accordance with accepted actuarial practice.

The financial statements of the subsidiaries and material associates are prepared for the same reporting period as the Company. Where necessary, the accounting policies of subsidiaries and associates are adjusted to align with those of the Company. The interim financial statements include the accounts of Definity Financial Corporation and its wholly owned subsidiaries, Definity Insurance, Waterloo Insurance Company, Perth Insurance Company, The Missisquoi Insurance Company, Sonnet Insurance Company, Petline Insurance Company ("Petline"), Westmount Financial Inc., Family Insurance Solutions Inc., and TEIG Investment Partnership (which holds the investment portfolio for all insurance companies in the group, except for the Company and Petline). Each of these subsidiaries operate and are incorporated or established in Canada. The Company has appointed a trust company as its administrative agent and record keeper of its share-based compensation plans.

The Company's non-controlling interest investments in companies subject to significant influence are accounted for using the equity method and are included in "Other assets". Under the equity method, the original cost of the investments is increased by the comprehensive income of the non-controlling interest since acquisition and reduced by any dividends received. All intercompany transactions and balances have been eliminated on consolidation to the extent of the interest in the associate.

All amounts in the notes are shown in millions of Canadian dollars, unless otherwise stated.

3. ACCOUNTING POLICIES

The interim financial statements were prepared using the same accounting policies as disclosed in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2021.

4. SEASONALITY

The P&C insurance business is seasonal in nature. As such, underwriting income (loss) may vary significantly between quarters due to weather-related losses.

5. INVESTMENTS

(a) Investment (loss) income and balances

Investment (loss) income by financial instrument classification is as follows:

(in millions of dollars)	Three months ended March 31, 2022			
	FVTPL	AFS	Loans and receivables	Total
Interest	$ 10.2	$ 9.3	$ 0.2	$ 19.7
Dividends	-	7.7	-	7.7
Investment expenses	-	-	-	(1.6)
Net investment income	10.2	17.0	0.2	25.8
Realized losses on sale of investments	(3.8)	(10.5)	-	(14.3)
Unrealized losses on fair value through profit or loss ("FVTPL") investments	(88.0)	-	-	(88.0)
Recognized losses on investments	(91.8)	(10.5)	-	(102.3)
	$ (81.6)	$ 6.5	$ 0.2	$ (76.5)

(in millions of dollars)	Three months ended March 31, 2021			
	FVTPL	AFS	Loans and receivables	Total
Interest	$ 9.7	$ 7.4	$ 0.3	$ 17.4
Dividends	-	6.9	-	6.9
Investment expenses	-	-	-	(1.4)
Net investment income	9.7	14.3	0.3	22.9
Realized (losses) gains on sale of investments	(2.9)	43.0	-	40.1
Unrealized losses on FVTPL investments	(49.6)	-	-	(49.6)
Recognized (losses) gains on investments	(52.5)	43.0	-	(9.5)
	$ (42.8)	$ 57.3	$ 0.3	$ 13.4

The fair value yield as at March 31, 2022 for the FVTPL bond portfolio was 2.73% (March 31, 2021: 1.18%) and for the AFS bond portfolio was 2.86% (March 31, 2021: 1.26%).

Investment carrying values by financial instrument classification are as follows:

(in millions of dollars)	As at March 31, 2022			
	FVTPL	AFS	Loans and receivables	Total
Short-term investments	$ 39.9	$ 34.6	$ -	$ 74.5
Bonds	1,996.2	2,037.5	-	4,033.7
Preferred stocks	-	390.9	-	390.9
Common stocks	-	570.1	-	570.1
Pooled funds	-	45.3	-	45.3
Commercial loans	-	-	28.4	28.4
	$ 2,036.1	$ 3,078.4	$ 28.4	$ 5,142.9

5. INVESTMENTS (continued)

(a) Investment (loss) income and balances (continued)

(in millions of dollars)	As at December 31, 2021			
	FVTPL	AFS	Loans and receivables	Total
Short-term investments	$ 47.5	$ 41.3	$ -	$ 88.8
Bonds	2,092.0	2,141.8	-	4,233.8
Preferred stocks	-	405.7	-	405.7
Common stocks	-	570.5	-	570.5
Pooled funds	-	42.7	-	42.7
Commercial loans	-	-	24.3	24.3
	$ 2,139.5	$ 3,202.0	$ 24.3	$ 5,365.8

The commercial loans have an amortized cost of $28.4 million (December 31, 2021: $24.3 million) and fair value of $27.3 million (December 31, 2021: $23.4 million).

Of the bonds held as at March 31, 2022, 92.4% (December 31, 2021: 93.4%) were rated “A-” or better and 82.1% (December 31, 2021: 78.2%) of the preferred stocks were rated “P2L” or better.

Of the preferred stocks and corporate bonds held, the industry of issuer is as follows:

	As at March 31, 2022	As at December 31, 2021
Financial services	62.2%	64.6%
Utilities	9.8%	9.4%
Energy	8.7%	8.8%
Industrials	5.7%	5.7%
Communication services	5.3%	4.4%
Other	8.3%	7.1%
	100.0%	100.0%

Of the preferred stocks and bonds held, the country of issuer is as follows:

	As at March 31, 2022	As at December 31, 2021
Canada	99.6%	99.6%
United States	0.4%	0.4%
	100.0%	100.0%

The gross unrealized gains (losses) on AFS investments are detailed below. The cost of all AFS investments, except AFS bonds, is the purchase price less cumulative impairment losses, if applicable. The cost of all AFS bonds is the amortized cost adjusted for cumulative impairment losses.

5. INVESTMENTS (continued)

(a) Investment (loss) income and balances (continued)

(in millions of dollars)	As at March 31, 2022			
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	$ 34.6	$ -	$ -	$ 34.6
Bonds:				
Government	1,267.7	-	(40.2)	1,227.5
Corporate	835.7	0.2	(25.9)	810.0
	2,103.4	0.2	(66.1)	2,037.5
Canadian preferred stocks	391.9	15.2	(16.2)	390.9
Common stocks:				
Canadian	329.1	97.4	(7.8)	418.7
Foreign	144.0	15.7	(8.3)	151.4
Foreign pooled funds	48.1	1.1	(3.9)	45.3
	521.2	114.2	(20.0)	615.4
	$ 3,051.1	$ 129.6	$ (102.3)	$ 3,078.4

(in millions of dollars)	As at December 31, 2021			
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	$ 41.2	$ 0.1	$ -	$ 41.3
Bonds:				
Government	1,324.0	9.1	(3.8)	1,329.3
Corporate	808.5	7.2	(3.2)	812.5
	2,132.5	16.3	(7.0)	2,141.8
Canadian preferred stocks	394.8	19.7	(8.8)	405.7
Common stocks:				
Canadian	318.1	89.8	(2.9)	405.0
Foreign	145.6	23.8	(3.9)	165.5
Foreign pooled funds	42.6	1.3	(1.2)	42.7
	506.3	114.9	(8.0)	613.2
	$ 3,074.8	$ 151.0	$ (23.8)	$ 3,202.0

(b) Financial instruments measured at fair value

The Company categorizes its fair value measurements according to a three-level hierarchy, which prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

(i) Level 1 fair value measurements reflect unadjusted, quoted prices in active markets for identical assets, and liabilities that the Company has the ability to access at the measurement date.

(ii) Level 2 fair value measurements use inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable but are not prices such as interest rates and credit risks and inputs that are derived from or corroborated by observable market data.

5. INVESTMENTS (continued)

(b) Financial instruments measured at fair value (continued)

(iii) Level 3 fair value measurements use significant non-market observable inputs, including assumptions about risk or liquidity.

Distribution of financial instruments measured at fair value in the three-level hierarchy is as follows:

(in millions of dollars)	As at March 31, 2022			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ -	$ 74.5	$ -	$ 74.5
Bonds	-	4,033.7	-	4,033.7
Preferred stocks	390.9	-	-	390.9
Common stocks	570.1	-	-	570.1
Pooled funds	-	45.3	-	45.3
	$ 961.0	$ 4,153.5	$ -	$ 5,114.5

(in millions of dollars)	As at December 31, 2021			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ -	$ 88.8	$ -	$ 88.8
Bonds	-	4,233.8	-	4,233.8
Preferred stocks	405.7	-	-	405.7
Common stocks	570.5	-	-	570.5
Pooled funds	-	42.7	-	42.7
	$ 976.2	$ 4,365.3	$ -	$ 5,341.5

There were no transfers of financial instruments between the levels during the three-month period ended March 31, 2022 (December 31, 2021: nil).

(c) Impairment review

There was no impairment reclassification of unrealized losses from AOCI to net income for the three-month period ended March 31, 2022 (March 31, 2021: nil).

The remaining gross unrealized losses of $102.3 million (December 31, 2021: $23.8 million) on the AFS investments have not been recognized in net income as the Company does not believe there is currently objective evidence of impairment.

The Company has determined that there is no evidence of significant impairment of any individual commercial loan. All balances are current, and a review of the financial condition of the debtors and pledged collateral indicates that there is reasonable assurance of timely collection of the full amounts of principal and interest.

(d) Derivative financial instruments

The Company holds futures contracts, which are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organized market. The futures contracts are exchange-traded and collateralized by cash. As at March 31, 2022, the Company had derivative financial assets with a notional amount of $125.9 million (December 31, 2021: $104.9 million). These derivatives have an expected maturity date within the next year. The fair value of the derivative financial instruments is not significant.

6. POLICY LIABILITIES

These interim financial statements contain an actuarial estimate of the policy liabilities of the Company. Policy liabilities represent the amount of the obligation of the Company on account of policies effective on or before the reporting date and consist of premium and claim liabilities. Claim liabilities are associated with claims that have occurred on or before the reporting date, whether the claim has been reported to the Company at that time or not, whereas premium liabilities are associated with claims that may occur in the future on policies in force on the reporting date.

(a) Premium liabilities

Premium liabilities are represented by the amount of net unearned premiums ("UPR") less the amount of net deferred policy acquisition expenses ("DPAE"). Generally, broker commissions, premium taxes, and certain direct expenses in respect of the Company's digital direct business, corresponding to the net UPR are deferrable; however, this amount is written down if the resulting expected future net policy costs are greater than the net UPR. No such write-down to DPAE was considered necessary for the period ended March 31, 2022 (December 31, 2021: nil).

The following table presents the Company's UPR by line of business as at the end of the period:

(in millions of dollars)	March 31, 2022		
	Gross UPR	Ceded UPR	Net UPR
Personal lines:			
Auto	$ 703.9	$ -	$ 703.9
Property	420.0	-	420.0
Commercial lines	409.6	18.1	391.5
	$ 1,533.5	$ 18.1	$ 1,515.4

(in millions of dollars)	December 31, 2021		
	Gross UPR	Ceded UPR	Net UPR
Personal lines:			
Auto	$ 732.7	$ 27.5	$ 705.2
Property	444.7	15.6	429.1
Commercial lines	421.8	20.0	401.8
	$ 1,599.2	$ 63.1	$ 1,536.1

(b) Claim liabilities

Claim liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the end of the period, including incurred but not reported claims. The ultimate cost of these liabilities may vary from the estimate made at any point in time. Additional information on the judgments, estimates and assumptions used in determining claim liabilities is contained in note 5 to the Company's audited consolidated financial statements for the year ended December 31, 2021. The discount rate as at March 31, 2022 used to discount the claim liabilities was 2.67% (December 31, 2021: 1.57%).

6. POLICY LIABILITIES (continued)

(b) Claim liabilities (continued)

The following table presents the movement of the Company's claim liabilities during the period:

(in millions of dollars)	Three months ended March 31, 2022		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	$ 3,336.1	$ 134.0	$ 3,202.1
Current period claims incurred	488.8	10.7	478.1
Prior year favourable claims development	(34.5)	(12.2)	(22.3)
Claims and adjustment expenses	454.3	(1.5)	455.8
Decrease due to discounting (including provisions for adverse deviations "PfAD")	(85.7)	(2.7)	(83.0)
Claims and adjustment expenses, discounted	368.6	(4.2)	372.8
Claims paid during the period	465.3	11.0	454.3
Claim liabilities, end of period	$ 3,239.4	$ 118.8	$ 3,120.6

(in millions of dollars)	Three months ended March 31, 2021		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	$ 3,026.3	$ 69.2	$ 2,957.1
Current period claims incurred	426.9	16.8	410.1
Prior year favourable claims development	(21.1)	(0.8)	(20.3)
Claims and adjustment expenses	405.8	16.0	389.8
Decrease due to discounting (including PfAD)	(44.1)	(0.7)	(43.4)
Claims and adjustment expenses, discounted	361.7	15.3	346.4
Claims paid during the period	364.7	9.5	355.2
Claim liabilities, end of period	$ 3,023.3	$ 75.0	$ 2,948.3

The following table presents the Company's claim liabilities by line of business as at the end of the period:

(in millions of dollars)	March 31, 2022		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	$ 1,938.1	$ 44.5	$ 1,893.6
Property	311.8	14.7	297.1
Commercial lines	989.5	59.6	929.9
	$ 3,239.4	$ 118.8	$ 3,120.6

(in millions of dollars)	December 31, 2021		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	$ 2,009.3	$ 51.5	$ 1,957.8
Property	311.7	22.4	289.3
Commercial lines	1,015.1	60.1	955.0
	$ 3,336.1	$ 134.0	$ 3,202.1

7. REINSURANCE CONTRACTS

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company for individual large losses and in the event of a series of claims arising out of a single occurrence. These limits were as follows:

(in millions of dollars)	As at March 31, 2022	As at December 31, 2021
Individual loss		
Property		
Net company retention[1]	$ 5.0	$ 3.0
Maximum limit	100.0	100.0
Auto and general liability		
Net company retention	4.0	4.0
Maximum limit	40.0	40.0
Catastrophe – primary		
Net company retentions[2]	30.0	30.0
Maximum limit	1,800.0	1,450.0

[1] In 2021, in addition to the property net retention, the Company had a maximum $2.0 million per loss participation in lower layers of the treaty.
[2] In addition to the catastrophe net retention, the Company had a maximum $60.0 million (December 31, 2021: $61.6 million) participation in higher layers of the treaty. If a catastrophe breaches the retention level, the Company is required to pay an automatic reinstatement premium commensurate with the reinsurance coverage utilized. Further reinstatement coverage may be sought by the Company at an additional cost.

The Company participated in a quota share treaty in 2019 through 2021, ceding a proportion of certain broker personal lines business to facilitate overall growth levels. Effective January 1, 2022, the quota share treaty was not renewed but claims occurring prior to January 1, 2022 will continue to be managed on the previous treaty years as applicable. The Company has a catastrophe aggregate treaty to provide protection against the potential for increased frequencies of smaller value catastrophe losses. In addition, the Company purchases facultative reinsurance coverage as required by its underwriting guidelines.

(a) Underwriting impact of reinsurance contracts

The following amounts relate to reinsurance ceded recorded in the interim consolidated statements of comprehensive (loss) income:

		Three months ended March 31	
(in millions of dollars)	Notes	2022	2021
Premiums written		$ (5.2)	$ 48.2
Premiums earned		39.7	50.5
Claims and adjustment expenses	6(b)	(1.5)	16.0
Commissions earned on ceded reinsurance		3.9	10.5

(b) Reinsurance receivable and recoverable

The amounts presented under reinsurance receivable and recoverable in the interim consolidated balance sheets represent the Company's contractual rights under reinsurance contracts and are evaluated in a manner consistent with the gross liabilities.

(in millions of dollars)	Notes	As at March 31, 2022	As at December 31, 2021
Reinsurers' share of UPR	6(a)	$ 18.1	$ 63.1
Reinsurers' share of claim liabilities	6(b)	118.8	134.0
Reinsurer receivables		33.8	47.8
Reinsurer payables		(19.2)	(43.7)
Unearned reinsurance commissions		(3.9)	(22.0)
		$ 147.6	$ 179.2

8. INCOME TAXES

The reconciliation of income tax calculated at the Canadian statutory tax rate to the income tax expense at the effective tax rate recorded in net income in the interim consolidated statements of comprehensive (loss) income is provided in the table below:

		Three months ended March 31		
(in millions of dollars)		2022		2021
Income tax expense calculated based on statutory tax rates	26.3%	$ 16.5	26.3%	$ 28.9
Canadian dividend income not subject to tax	(3.0%)	(1.9)	(1.5%)	(1.7)
Non-deductible expenses	0.3%	0.2	-	-
Other	(0.5%)	(0.3)	0.3%	0.3
Income tax expense recorded in net income	23.1%	$ 14.5	25.1%	$ 27.5

	Three months ended March 31	
(in millions of dollars)	2022	2021
Current income taxes	$ 13.4	$ 27.1
Deferred income taxes	1.1	0.4
Income tax expense	$ 14.5	$ 27.5

Income taxes included in other comprehensive loss are as follows:

	Three months ended March 31	
(in millions of dollars)	2022	2021
Income tax on items that may be reclassified subsequently to net income:		
Net unrealized (losses) gains on AFS investments	$ (28.3)	$ 3.8
Reclassification to net income of net recognized losses (gains) on AFS investments	1.7	(11.5)
	(26.6)	(7.7)
Income tax on items that will not be reclassified subsequently to net income:		
Post-employment benefit obligation gain	4.6	-
Income tax recovery	$ (22.0)	$ (7.7)

9. OTHER ASSETS

Other assets, as presented in the interim consolidated balance sheets, are composed of the following:

(in millions of dollars)	Notes	As at March 31, 2022	As at December 31, 2021
Investments in associates		$ 80.9	$ 77.1
Pension asset	14	34.9	21.4
Prepaid expenses and other		30.2	18.1
		$ 146.0	$ 116.6

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities, as presented in the interim consolidated balance sheets, are composed of the following:

(in millions of dollars)	Notes	As at March 31, 2022	As at December 31, 2021
Accounts payable and other		$ 133.1	$ 191.7
Commissions payable		52.6	86.5
Premium and other taxes payable		34.1	39.9
Pension and non-pension benefit obligations	14	30.3	33.9
Lease liabilities		17.6	18.9
Cash-settled share-based compensation plans	13	1.9	22.5
		$ 269.6	$ 393.4

11. SHARE CAPITAL

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 as follows:

(in millions of dollars, except as otherwise noted)	Three months ended March 31, 2022	
	Number of shares (in millions)	Amount
Issued and outstanding, beginning and end of period	115.9	$ 2,307.8
Shares held in trust, beginning of period	-	-
Purchased for future settlement of the Medium-Term Incentive Plan ("MTIP") and Long-Term Incentive Plan ("LTIP")	(0.3)	(8.1)
Shares held in trust, end of period	(0.3)	(8.1)
Issued and outstanding, net of shares held in trust, end of period	115.6	$ 2,299.7

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 the first quarter of 2022 in addition to $0.05 per share for the period between the initial public offering ("IPO") on November 23, 2021 and December 31, 2021), which was paid on March 28, 2022 to shareholders of record at the close of business on March 15, 2022.

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.

No preferred shares were issued and outstanding.

12. EARNINGS PER COMMON SHARE

Basic earnings per common share ("EPS") is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the net earnings available to common shareholders, if applicable, and the weighted average number of common shares outstanding for the effects of dilutive instruments pertaining to the Company's share-based compensation plans.

	Three months ended March 31	
(in millions of dollars, except as otherwise noted)	2022	2021
Net income	$ 48.3	$ 82.4
Weighted average common shares outstanding (in millions)	115.9	104.0
Dilutive effect of share-based compensation plans (in millions)	1.6	-
Weighted average of diluted common shares outstanding (in millions)	117.5	104.0
EPS (in dollars)		
Basic	$ 0.42	$ 0.79
Diluted	$ 0.41	$ 0.79

The common shares issued upon the Company's IPO, excluding the exercise of the over-allotment option granted to the underwriters of the IPO (the "Over-Allotment") and the additional common shares purchased pursuant to the subscription agreement entered into with Healthcare of Ontario Pension Plan Trust Fund (the "Anti-Dilution Adjustment"), were included in the weighted average common shares outstanding calculation from the beginning of 2021 given the IPO was considered to be an exchange of ownership instruments without additional resources being received.

13. SHARE-BASED COMPENSATION PLANS

(a) Medium-term and long-term incentive plans

Following completion of the IPO, existing MTIP awards granted in 2019, 2020, and 2021 were adjusted so that such awards appreciate and depreciate based on the Company's share price, rather than with Definity Insurance's consolidated book value. The MTIP awards granted in 2019 were cash-settled in the three-month period ended March 31, 2022. The adjusted MTIP awards granted in 2020 and 2021 are expected to be equity-settled through the purchase of common shares on the open market. Prior to the IPO, all the MTIP awards were settled in cash and any outstanding liability until the point of settlement was included in accounts payable and other liabilities. Following completion of the IPO, no further awards will be granted under the MTIP. The Company's LTIP became effective as of November 23, 2021. Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") were granted under the LTIP in the first quarter of 2022.

Restricted units ("RUs") and RSUs

The following table shows the movements in the RUs and RSUs under the MTIP and LTIP during the period:

	Three months ended March 31	
	2022	2021
	Number of units	Number of units
Outstanding, beginning of period	1,102,254	880,567
Awarded	269,307	356,818
Forfeited	(6,826)	(6,871)
Settled	(328,474)	(228,019)
Outstanding, end of period	1,036,261	1,002,495

13. SHARE-BASED COMPENSATION PLANS (continued)

(a) Medium-term and long-term incentive plans (continued)

The recorded compensation expense during the three-month period ended March 31, 2022 for the RUs and RSUs is $2.1 million, and the aggregate contributed surplus balance attributable to the RUs and RSUs at March 31, 2022 is $10.6 million.

In the prior year, all RUs were accounted for as cash-settled. The liability for RUs as at March 31, 2021 was $8.1 million and the change in the liability recorded as a compensation expense through earnings during the three-month period ended March 31, 2021 was $1.8 million.

Performance units ("PUs") and PSUs

The following table shows the movements in the PUs and PSUs under the MTIP and LTIP during the period:

	Three months ended March 31	
	2022	2021
	Number of units	Number of units
Outstanding, beginning of period	972,752	794,566
Awarded	252,885	314,804
Forfeited	(6,636)	(2,831)
Settled	(284,744)	(177,294)
Outstanding, end of period	934,257	929,245

The recorded compensation expense during the three-month period ended March 31, 2022 for the PUs and PSUs is $2.2 million, and the aggregate contributed surplus balance attributable to the PUs and PSUs at March 31, 2022 is $13.0 million.

In the prior year, all PUs were accounted for as cash-settled. The liability for PUs as at March 31, 2021 was $10.4 million and the change in the liability recorded as a compensation expense through earnings during the three-month period ended March 31, 2021 was $2.5 million.

(b) Deferred share unit plans

The Company has deferred share unit plans in place which became effective as of November 23, 2021. The Deferred Share Units ("DSUs") are settled in cash. At March 31, 2022, there were 60,943 DSUs outstanding. The DSU liability as at March 31, 2022 was $1.9 million.

14. POST-EMPLOYMENT BENEFITS

The Company provides certain pension and other post-employment benefits through defined benefit, defined contribution, and other post-employment benefit plans to eligible participants upon retirement.

The contribution to be paid by the Company to the defined benefit pension plans is determined each year by the Company's pension actuaries based on the latest actuarial valuations of all its plans. The total contributions to the defined benefit pension plans made by the Company during the three-month period ended March 31, 2022 were $0.4 million (March 31, 2021: $0.4 million).

Under the defined contribution component of the pension plan, the Company contributes a fixed percentage of an employee's pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan during the three-month period ended March 31, 2022 were $5.2 million (March 31, 2021: $4.4 million).

14. POST-EMPLOYMENT BENEFITS (continued)

The following table presents the actuarial gains (losses) for the post-employment benefit obligation recognized in other comprehensive loss during the period:

	Three months ended March 31	
(in millions of dollars)	2022	2021
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	$ 31.9	$ -
Return on plan assets excluding interest income	(14.4)	-
	$ 17.5	$ -

The discount rate as at March 31, 2022 used to determine the defined benefit obligations for the Company's pension plans was 4.0% (December 31, 2021: 2.9%) and other benefit plans was 4.1% (December 31, 2021: 3.0%).

15. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS

Geopolitical events and the COVID-19 pandemic have resulted in heightened economic uncertainty. Russia's invasion of Ukraine in February 2022 resulted in new international sanctions against Russia. The conflict between the two countries continues to evolve as military activity escalates and foreign governments respond accordingly. This, along with the ongoing COVID-19 pandemic, has resulted in volatile global financial markets and presented further economic challenges, including rising inflation and global supply chain disruption. Persistent and rising inflation has prompted some global central banks to raise interest rates, while others have signaled that an increase is likely. The Company does not have direct investments nor underwriting exposures of significance in Russia or Ukraine, and is continuing to monitor the evolving economic impact of the above on its operations and capital position. The Company's strong capital position and its proactive capital and risk management practices developed in recent years have enabled the Company to react rapidly to the changing environment.

The impact of the Company's customer relief measures related to the COVID-19 pandemic during the three-month period ended March 31, 2022 was a reduction in gross written premiums of approximately $13 million (March 31, 2021: $14 million) and a reduction in net earned premiums of approximately $13 million (March 31, 2021: $13 million).

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 the COVID-19 pandemic, 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 in 2021 and is expected to proceed to trial in 2023. 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 in 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.