

DEFINITY FINANCIAL CORPORATION

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THIRD QUARTER ENDED
SEPTEMBER 30, 2022**

DEFINITY FINANCIAL CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions of dollars)

		As at	
	Notes	September 30, 2022	December 31, 2021
ASSETS			
Cash and cash equivalents		\$ 193.9	\$ 387.3
Restricted cash		310.3	110.8
Cash held in escrow	17	203.1	-
Investments	6	4,854.9	5,365.8
Accrued investment income		28.0	21.3
Premiums receivable		1,160.1	1,075.9
Income taxes receivable		103.4	0.2
Reinsurance receivable and recoverable	8	247.7	179.2
Deferred policy acquisition expenses	7	319.1	295.1
Property and equipment		62.1	57.0
Deferred income tax assets		59.3	62.5
Goodwill and intangible assets		234.5	219.7
Other assets	10	167.0	116.6
		\$ 7,943.4	\$ 7,891.4
LIABILITIES AND EQUITY			
Unearned premiums	7	\$ 1,725.2	\$ 1,599.2
Claim liabilities	7	3,323.2	3,336.1
Accounts payable and other liabilities	11	343.8	393.4
Income taxes payable		-	55.6
Demutualization amounts outstanding		310.3	110.8
		5,702.5	5,495.1
EQUITY			
Share capital	12	2,267.4	2,307.8
Contributed surplus		34.4	19.3
Retained earnings (deficit)		50.4	(28.8)
Accumulated other comprehensive (loss) income		(111.3)	98.0
Total equity		2,240.9	2,396.3
		\$ 7,943.4	\$ 7,891.4

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

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

FOR THE PERIODS ENDED SEPTEMBER 30
(in millions of dollars)

		Three months ended		Nine months ended	
	Notes	2022	2021	2022	2021
Gross written premiums		\$ 944.1	\$ 851.5	\$ 2,671.3	\$ 2,384.8
Net written premiums	8	\$ 888.7	\$ 788.7	\$ 2,565.7	\$ 2,214.2
Net earned premiums		\$ 830.0	\$ 725.1	\$ 2,398.0	\$ 2,088.6
Other underwriting revenues		2.4	2.1	6.8	6.2
Total underwriting revenues		832.4	727.2	2,404.8	2,094.8
Net claims and underwriting expenses:					
Net claims and adjustment expenses	7,8	530.9	439.0	1,487.8	1,251.2
Net commissions	8	130.3	109.3	384.1	325.7
Operating expenses		112.4	96.4	322.0	285.1
Premium taxes		30.9	27.4	88.8	78.6
		804.5	672.1	2,282.7	1,940.6
Underwriting income		27.9	55.1	122.1	154.2
Impact of discounting	7	15.5	1.9	159.8	35.2
Underwriting income after the impact of discounting		43.4	57.0	281.9	189.4
Investment income (loss):					
Net investment income	6	36.0	24.6	93.6	71.8
Recognized losses on investments	6	(23.6)	(7.1)	(223.4)	(11.6)
		12.4	17.5	(129.8)	60.2
Other (expenses) income		(4.7)	(5.0)	(13.4)	(13.5)
Income before income taxes		51.1	69.5	138.7	236.1
Income tax expense	9	(10.0)	(16.2)	(28.3)	(56.5)
Net income		\$ 41.1	\$ 53.3	\$ 110.4	\$ 179.6
Items that may be reclassified subsequently to net income:					
Net unrealized (losses) gains on AFS investments	6	(49.1)	3.9	(346.4)	71.7
Reclassification to net income of net recognized losses (gains) on AFS investments	6	13.4	(2.2)	59.2	(46.3)
Foreign exchange gain (loss) on investments in associates		2.1	0.6	2.6	(0.2)
Income tax recovery (expense)	9	9.3	(0.4)	75.3	(6.6)
		(24.3)	1.9	(209.3)	18.6
Items that will not be reclassified subsequently to net income:					
Post-employment benefit obligation gain	14	-	18.4	24.1	18.4
Income tax expense	9	-	(4.8)	(6.3)	(4.8)
		-	13.6	17.8	13.6
Other comprehensive (loss) income		(24.3)	15.5	(191.5)	32.2
Comprehensive income (loss)		\$ 16.8	\$ 68.8	\$ (81.1)	\$ 211.8
Earnings per common share (in dollars)	13				
Basic		\$ 0.36	\$ 0.51	\$ 0.96	\$ 1.72
Diluted		\$ 0.35	\$ 0.51	\$ 0.94	\$ 1.72
Weighted average common shares outstanding (millions)	13				
Basic		114.9	104.0	115.3	104.0
Diluted		116.8	104.0	117.1	104.0
Dividends paid per common share (in dollars)	12	\$ 0.125	\$ -	\$ 0.425	\$ -

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30

(in millions of dollars)

2022						
	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
Balance, beginning of the period		\$ 2,307.8	\$ 19.3	\$ (28.8)	\$ 98.0	\$ 2,396.3
Net income		-	-	110.4	-	110.4
Other comprehensive income (loss)		-	-	17.8 ¹	(209.3)	(191.5)
Total comprehensive income (loss)		-	-	128.2	(209.3)	(81.1)
Equity-settled share-based compensation		-	15.1	-	-	15.1
Shares purchased and held in trust	12	(40.4)	-	-	-	(40.4)
Dividends to common shareholders	12	-	-	(49.0)	-	(49.0)
Balance, end of the period		\$ 2,267.4	\$ 34.4	\$ 50.4	\$ (111.3) ²	\$ 2,240.9
2021						
		Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance, beginning of the period		\$ -	\$ -	\$ 1,755.9	\$ 62.1	\$ 1,818.0
Net income		-	-	179.6	-	179.6
Other comprehensive income		-	-	13.6 ¹	18.6	32.2
Total comprehensive income		-	-	193.2	18.6	211.8
Balance, end of the period		\$ -	\$ -	\$ 1,949.1	\$ 80.7 ²	\$ 2,029.8

¹ Actuarial gains for the post-employment benefit obligation recognized in retained earnings (net of income tax expense of \$6.3 million (September 30, 2021: \$4.8 million)).

² Included in accumulated other comprehensive (loss) income ("AOCI") is \$6.2 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 PERIODS ENDED SEPTEMBER 30

(in millions of dollars)

	Notes	Three months ended		Nine months ended	
		2022	2021	2022	2021
Operating activities:					
Receipts:					
Premiums collected (net of reinsurance ceded)	\$	862.8	\$ 751.3	\$ 2,482.7	\$ 2,120.8
Interest received		25.8	18.5	76.9	63.2
Dividends received		8.4	7.5	26.1	23.1
Income taxes recovered		-	2.2	-	2.2
		897.0	779.5	2,585.7	2,209.3
Payments:					
Claims paid	7	491.8	328.8	1,406.5	1,021.2
Commissions and expenses paid		207.7	165.8	773.0	585.9
Premium taxes paid		23.7	20.8	100.4	81.6
Income taxes paid		0.8	7.9	112.5	42.1
		724.0	523.3	2,392.4	1,730.8
Net cash provided by operating activities		173.0	256.2	193.3	478.5
Investing activities:					
Investments purchased		(1,159.7)	(860.4)	(4,302.5)	(3,127.7)
Investments sold, redeemed, or matured		1,152.6	707.7	4,283.9	2,518.9
Commercial loans advanced		-	-	(8.0)	-
Commercial loans collected		8.0	1.0	17.7	3.0
Other assets purchased		(18.5)	(22.0)	(70.4)	(43.1)
Business acquisitions		-	-	(15.0)	-
Net cash used in investing activities		(17.6)	(173.7)	(94.3)	(648.9)
Financing activities:					
Dividends paid on common shares	12	(14.3)	-	(49.0)	-
Common shares purchased and held in trust	12	(12.5)	-	(40.4)	-
Change in demutualization amounts outstanding		(8.7)	-	199.6	-
Net cash (used in) provided by financing activities		(35.5)	-	110.2	-
Cash and cash equivalents, restricted cash, and cash held in escrow:					
Net increase (decrease) during the period		119.9	82.5	209.2	(170.4)
Balance, beginning of the period		587.4	257.4	498.1	510.3
Balance, end of the period	\$	707.3	\$ 339.9	\$ 707.3	\$ 339.9
Cash		161.6	191.2	161.6	191.2
Cash equivalents		32.3	148.7	32.3	148.7
Total cash and cash equivalents		193.9	339.9	193.9	339.9
Restricted cash		310.3	-	310.3	-
Cash held in escrow		203.1	-	203.1	-
Total cash and cash equivalents, restricted cash, and cash held in escrow	\$	707.3	\$ 339.9	\$ 707.3	\$ 339.9

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

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 November 10, 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 ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), 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.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

(a) Insurance contracts

In May 2017, the IASB issued IFRS 17 – *Insurance Contracts* (“IFRS 17”), which replaces IFRS 4 – *Insurance Contracts* (“IFRS 4”). IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Retrospective application is required unless impracticable. The Company will measure each group of insurance contracts as if IFRS 17 had always applied and recognize any resulting net difference in equity in the January 1, 2022 opening balance sheet. The Company plans to adopt the new standard on the required effective date together with IFRS 9 – *Financial Instruments* (“IFRS 9”). The Company is currently analyzing the impact these standards will have on its consolidated financial statements.

An IFRS 17 systems solution has been implemented in order to meet the requirements of IFRS 17. The Company has determined its accounting policy choices, implemented its new chart of accounts, and is working on preparing the January 1, 2022 opening balance sheet and the 2022 comparatives in the general ledger, utilizing its IFRS 17 systems solution. Readiness activities continue throughout the Company to develop new processes and controls to support IFRS 17 reporting, and to deliver tailored training and support to each affected area.

The below is a summary of the most significant impacts IFRS 17 is expected to have on the Company’s consolidated financial statements:

Measurement model	There are two measurement methodologies under IFRS 17: the general measurement model (“GMM”) and the premium allocation approach (“PAA”). The GMM requires insurance contracts to be measured using current estimates of discounted future cash flows, an adjustment for risk, and a contractual service margin representing the profit expected from fulfilling the contracts. The PAA is a simplified measurement model that can be applied to insurance contracts with coverage periods of one year or less (which is the coverage period of most P&C insurance contracts), or where the PAA approximates the GMM. The Company will apply the PAA to its insurance contracts, which is similar to the existing accounting under IFRS 4.
Insurance acquisition cash flows	Insurance acquisition cash flows arise from the costs of selling, underwriting, and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts. The Company will defer insurance acquisition cash flows and will expense these costs as the related premiums are recognized as income. IFRS 17 has broadened the costs eligible for deferral, which will result in an increase in the amount deferred, as compared to the deferred policy acquisition expenses included in the consolidated balance sheets under IFRS 4.
Onerous contracts	<p>The Company considers facts and circumstances to identify whether a group of contracts are onerous based on expected fulfilment cash flows, pricing information, results of similar contracts, and the operating and regulatory environment. If a net outflow is expected from the contracts, the Company will recognize a liability for the net outflow.</p> <p>For groups of contracts that are onerous, the Company recognizes a loss in the consolidated statements of comprehensive income in “Insurance service expenses” for the net outflow, resulting in earlier recognition compared to IFRS 4. Where the Company recognizes an onerous loss, the Company will establish a loss-recovery component if the onerous contracts are covered by reinsurance contracts.</p>

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(a) Insurance contracts (continued)

Claim liabilities	<p>All cash flows will be discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The risk-free yield curves are adjusted by an illiquidity premium using a reference portfolio to reflect the liquidity characteristics of the insurance contracts. The selection of reference portfolios is based on market instruments that reflect the nature of the insurance contracts in terms of amount, timing, currency, and liquidity. In contrast to using a liquidity-adjusted risk-free rate, the impact of discounting is currently calculated using a rate derived from investment returns of the Company's investment portfolio backing the claim liabilities. Under IFRS 17, the impact of discounting will continue to be recorded by the Company entirely in net income.</p> <p>The measurement of claim liabilities will include an explicit risk adjustment for non-financial risk. The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows, and reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows arising from non-financial risk as the Company fulfils insurance contracts. The risk adjustment replaces the provision for adverse deviation under IFRS 4.</p>
Insurance revenue	<p>The Company will allocate the expected premiums to each period based on the passage of time similar to IFRS 4. Other underwriting revenues, which consist of various customer service fees, will be included in "Insurance revenue" in the consolidated statements of comprehensive income under IFRS 17.</p>
Insurance service expenses	<p>Insurance service expenses include incurred claims and other incurred directly attributable expenses, amortization of insurance acquisition cash flows, changes that relate to past service (changes in fulfilment cash flows relating to the liability for incurred claims), and changes that relate to future service (losses on onerous groups of contracts and reversals of such losses).</p>
Presentation and disclosures	<p>The presentation and disclosure differences under IFRS 17 are expected to be significant.</p> <p>Consolidated Statements of Comprehensive Income</p> <ul style="list-style-type: none"> • The consolidated statements of comprehensive income will include an insurance service result comprising of insurance revenue, insurance service expenses, and net expenses from reinsurance contracts held. Written premiums will no longer be disclosed in the consolidated statements of comprehensive income. • Results from direct insurance contracts issued and reinsurance contracts held will be presented separately in the consolidated balance sheets and the consolidated statements of comprehensive income. • Costs that do not relate directly to the fulfilment of an insurance contract will be included in "Other (expenses) income" in the consolidated statements of comprehensive income, whereas under IFRS 4 these costs are included within underwriting income. • Insurance finance income (expense) will comprise the change in the carrying amounts of the group of insurance and reinsurance contracts arising from the effects of the time value of money and changes in the time value of money, and the effect of financial risk and changes in financial risk.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(a) Insurance contracts (continued)

Presentation and disclosures (continued)	<p>Consolidated Balance Sheets</p> <ul style="list-style-type: none"> Insurance contract liabilities presented in the consolidated balance sheets will consist of premiums receivable, deferred policy acquisition cash flows, unearned premiums, onerous loss component, discounted and risk-adjusted claim liabilities, and other related liabilities. Reinsurance contract assets will be separately presented in the consolidated balance sheets and will include amounts expected to be recovered from reinsurers and an allocation of the reinsurance premiums paid. <p>The reclassification of amounts on the consolidated balance sheets will result in a reduction in consolidated assets and liabilities of the Company.</p>
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(b) Financial instruments: Classification and measurement

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions. An entity whose activities are predominantly connected with insurance is eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. The Company has chosen to apply the temporary exemption from IFRS 9 to defer the application of IFRS 9 until the effective date of IFRS 17. The Company will restate comparative information for IFRS 9 and will recognize any resulting net difference in equity on the January 1, 2022 opening balance sheet.

In December 2021, the IASB amended IFRS 17 to add a transition option for a “classification overlay” to address possible accounting mismatches between financial assets measured under IFRS 9 and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. Applying the classification overlay, an entity is permitted to present comparative information for a financial asset as if the classification and measurement requirements in IFRS 9 had been applied to that financial asset. The Company will apply the classification overlay to all financial assets derecognized in the comparative period.

Under IFRS 9, financial instruments are classified as amortized cost, fair value through other comprehensive income (“FVTOCI”), or fair value through profit or loss (“FVTPL”). The determination of the appropriate classification is based upon the entity’s business model, contractual cash flow characteristics of the instrument, and the entity’s election, if any, on classification. Equity instruments are classified as FVTPL unless the entity qualifies and elects them as FVTOCI. Gains or losses on equity instruments classified as FVTOCI are not reclassified to profit and loss and are therefore no longer required to be reviewed for impairment.

The Company’s expected investment classification under IFRS 9 is as follows:

Instrument type	IFRS 9 classification
Common stocks	FVTPL
Preferred stocks	FVTOCI
Bonds	FVTPL
Commercial loans	FVTPL

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(b) Financial instruments: Classification and measurement (continued)

The Company does not expect a significant impact on total equity due to IFRS 9. IFRS 9 will result primarily in reclassification differences between retained earnings and AOCI on the consolidated balance sheets. Unrealized gains and losses pertaining to the Company's common stocks and available for sale bonds, which are currently included in AOCI, will be reclassified to retained earnings. As more of the Company's investments are designated as FVTPL, the Company expects there will be additional volatility in net income, although there will be no associated impact on total assets.

The Company expects to disclose the estimated impact of IFRS 17 and IFRS 9 transition adjustments in its December 31, 2022 consolidated financial statements.

5. 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.

6. INVESTMENTS

(a) Investment income (loss) and balances

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

<i>(in millions of dollars)</i>		Three months ended September 30, 2022			
		FVTPL	AFS	Loans and receivables	Total
Interest	\$	12.6	\$ 15.6	\$ 0.3	\$ 28.5
Dividends		-	8.7	-	8.7
Investment expenses		-	-	-	(1.2)
Net investment income		12.6	24.3	0.3	36.0
Realized losses on sale of investments		(6.8)	(12.2)	-	(19.0)
Impairment losses on available for sale ("AFS") investments		-	(1.2)	-	(1.2)
Unrealized losses on FVTPL investments		(3.4)	-	-	(3.4)
Recognized losses on investments		(10.2)	(13.4)	-	(23.6)
	\$	2.4	\$ 10.9	\$ 0.3	\$ 12.4

<i>(in millions of dollars)</i>		Three months ended September 30, 2021			
		FVTPL	AFS	Loans and receivables	Total
Interest	\$	10.1	\$ 7.6	\$ 0.3	\$ 18.0
Dividends		-	7.7	-	7.7
Investment expenses		-	-	-	(1.1)
Net investment income		10.1	15.3	0.3	24.6
Realized gains on sale of investments		0.9	2.2	-	3.1
Unrealized losses on FVTPL investments		(10.2)	-	-	(10.2)
Recognized (losses) gains on investments		(9.3)	2.2	-	(7.1)
	\$	0.8	\$ 17.5	\$ 0.3	\$ 17.5

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

6. INVESTMENTS (continued)

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

<i>(in millions of dollars)</i>		Nine months ended September 30, 2022			
		FVTPL	AFS	Loans and receivables	Total
Interest	\$	34.2	\$ 38.1	\$ 0.7	\$ 73.0
Dividends		-	24.6	-	24.6
Investment expenses		-	-	-	(4.0)
Net investment income		34.2	62.7	0.7	93.6
Realized losses on sale of investments		(28.1)	(38.7)	-	(66.8)
Impairment losses on AFS investments		-	(20.5)	-	(20.5)
Unrealized losses on FVTPL investments		(136.1)	-	-	(136.1)
Recognized losses on investments		(164.2)	(59.2)	-	(223.4)
	\$	(130.0)	\$ 3.5	\$ 0.7	\$ (129.8)

<i>(in millions of dollars)</i>		Nine months ended September 30, 2021			
		FVTPL	AFS	Loans and receivables	Total
Interest	\$	29.7	\$ 22.4	\$ 0.9	\$ 53.0
Dividends		-	22.2	-	22.2
Investment expenses		-	-	-	(3.4)
Net investment income		29.7	44.6	0.9	71.8
Realized (losses) gains on sale of investments		(2.7)	46.3	-	43.6
Unrealized losses on FVTPL investments		(55.2)	-	-	(55.2)
Recognized (losses) gains on investments		(57.9)	46.3	-	(11.6)
	\$	(28.2)	\$ 90.9	\$ 0.9	\$ 60.2

The fair value yield as at September 30, 2022 for the FVTPL bond portfolio was 4.16% (September 30, 2021: 1.22%) and for the AFS bond portfolio was 4.17% (September 30, 2021: 1.31%).

Investment carrying values by financial instrument classification are as follows:

<i>(in millions of dollars)</i>		As at September 30, 2022			
		FVTPL	AFS	Loans and receivables	Total
Short-term investments	\$	54.6	\$ 120.6	\$ -	\$ 175.2
Bonds		1,986.6	1,822.2	-	3,808.8
Preferred stocks		-	327.4	-	327.4
Common stocks		-	488.6	-	488.6
Pooled funds		-	40.3	-	40.3
Commercial loans		-	-	14.6	14.6
	\$	2,041.2	\$ 2,799.1	\$ 14.6	\$ 4,854.9

<i>(in millions of dollars)</i>		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

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

6. INVESTMENTS (continued)

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

The commercial loans have an amortized cost of \$14.6 million (December 31, 2021: \$24.3 million) and fair value of \$13.9 million (December 31, 2021: \$23.4 million).

Of the bonds held as at September 30, 2022, 92.8% (December 31, 2021: 93.4%) were rated "A-" or better and 78.1% (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 September 30, 2022	As at December 31, 2021
Financial services	60.6%	64.6%
Utilities	10.5%	9.4%
Energy	9.4%	8.8%
Industrials	7.0%	5.7%
Communication services	5.2%	4.4%
Other	7.3%	7.1%
	100.0%	100.0%

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

	As at September 30, 2022	As at December 31, 2021
Canada	99.5%	99.6%
United States	0.5%	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.

(in millions of dollars)		As at September 30, 2022			
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value	
Short-term investments	\$ 120.2	\$ 0.4	\$ -	\$ 120.6	
Bonds:					
Government	1,191.6	-	(63.2)	1,128.4	
Corporate	745.6	-	(51.8)	693.8	
	1,937.2	-	(115.0)	1,822.2	
Canadian preferred stocks	388.3	2.8	(63.7)	327.4	
Common stocks:					
Canadian	324.7	46.6	(16.1)	355.2	
Foreign	139.9	7.9	(14.4)	133.4	
Pooled funds	48.8	0.5	(9.0)	40.3	
	513.4	55.0	(39.5)	528.9	
	\$ 2,959.1	\$ 58.2	\$ (218.2)	\$ 2,799.1	

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

6. INVESTMENTS (continued)

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

<i>(in millions of dollars)</i>		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
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.
- (iii) Level 3 fair value measurements use significant non-market observable inputs, including assumptions about risk or liquidity.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

6. INVESTMENTS (continued)

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

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

<i>(in millions of dollars)</i>		As at September 30, 2022			
		Level 1	Level 2	Level 3	Total
Short-term investments	\$	-	\$ 175.2	\$ -	\$ 175.2
Bonds		-	3,808.8	-	3,808.8
Preferred stocks		327.4	-	-	327.4
Common stocks		488.6	-	-	488.6
Pooled funds		-	40.3	-	40.3
	\$	816.0	\$ 4,024.3	\$ -	\$ 4,840.3

<i>(in millions of dollars)</i>		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 or nine-month period ended September 30, 2022 (December 31, 2021: nil).

(c) Impairment review

Impairment reclassification of unrealized losses from AOCI to net income is as follows:

<i>(in millions of dollars)</i>		Three months ended September 30	
		2022	2021
Common stocks:			
Canadian	\$	1.1	\$ -
Foreign		0.1	-
	\$	1.2	\$ -

<i>(in millions of dollars)</i>		Nine months ended September 30	
		2022	2021
Common stocks:			
Canadian	\$	16.5	\$ -
Foreign		4.0	-
	\$	20.5	\$ -

The remaining gross unrealized losses of \$218.2 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.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

6. INVESTMENTS (continued)

(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 September 30, 2022, the Company had derivative financial assets with a notional amount of \$107.8 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.

7. 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 September 30, 2022 (December 31, 2021: nil).

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

<i>(in millions of dollars)</i>		September 30, 2022		
		Gross UPR	Ceded UPR	Net UPR
Personal lines:				
Auto	\$	788.8	\$ -	\$ 788.8
Property		484.9	-	484.9
Commercial lines		451.5	21.4	430.1
	\$	1,725.2	\$ 21.4	\$ 1,703.8

<i>(in millions of dollars)</i>		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 September 30, 2022 used to discount the claim liabilities was 3.80% (December 31, 2021: 1.57%).

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

7. POLICY LIABILITIES (continued)

(b) Claim liabilities (continued)

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

<i>(in millions of dollars)</i>		Three months ended September 30, 2022		
		Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$	3,246.8	\$ 146.8	\$ 3,100.0
Current period claims incurred		624.9	68.8	556.1
Prior year (favourable) adverse claims development		(12.1)	13.1	(25.2)
Claims and adjustment expenses		612.8	81.9	530.9
Decrease due to discounting (including provisions for adverse deviations "PfAD")		(16.3)	(0.8)	(15.5)
Claims and adjustment expenses, discounted		596.5	81.1	515.4
Claims paid during the period		520.1	28.3	491.8
Claim liabilities, end of period	\$	3,323.2	\$ 199.6	\$ 3,123.6

<i>(in millions of dollars)</i>		Three months ended September 30, 2021		
		Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$	3,124.8	\$ 81.2	\$ 3,043.6
Current period claims incurred		475.8	21.9	453.9
Prior year (favourable) adverse claims development		(14.7)	0.2	(14.9)
Claims and adjustment expenses		461.1	22.1	439.0
Decrease due to discounting (including PfAD)		(1.9)	-	(1.9)
Claims and adjustment expenses, discounted		459.2	22.1	437.1
Claims paid during the period		337.5	8.7	328.8
Claim liabilities, end of period	\$	3,246.5	\$ 94.6	\$ 3,151.9

<i>(in millions of dollars)</i>		Nine months ended September 30, 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		1,681.0	124.5	1,556.5
Prior year favourable claims development		(74.9)	(6.2)	(68.7)
Claims and adjustment expenses		1,606.1	118.3	1,487.8
Decrease due to discounting (including PfAD)		(165.7)	(5.9)	(159.8)
Claims and adjustment expenses, discounted		1,440.4	112.4	1,328.0
Claims paid during the period		1,453.3	46.8	1,406.5
Claim liabilities, end of period	\$	3,323.2	\$ 199.6	\$ 3,123.6

<i>(in millions of dollars)</i>		Nine months ended September 30, 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		1,350.3	56.1	1,294.2
Prior year favourable claims development		(46.3)	(3.3)	(43.0)
Claims and adjustment expenses		1,304.0	52.8	1,251.2
Decrease due to discounting (including PfAD)		(35.7)	(0.5)	(35.2)
Claims and adjustment expenses, discounted		1,268.3	52.3	1,216.0
Claims paid during the period		1,048.1	26.9	1,021.2
Claim liabilities, end of period	\$	3,246.5	\$ 94.6	\$ 3,151.9

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

7. POLICY LIABILITIES (continued)

(b) Claim liabilities (continued)

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

(in millions of dollars)		September 30, 2022		
		Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:				
Auto	\$	1,899.5	\$ 38.9	\$ 1,860.6
Property		376.4	46.0	330.4
Commercial lines		1,047.3	114.7	932.6
	\$	3,323.2	\$ 199.6	\$ 3,123.6

(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

8. 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 September 30, 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.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

8. REINSURANCE CONTRACTS (continued)

(a) Underwriting impact of reinsurance contracts

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

<i>(in millions of dollars)</i>	Notes	Three months ended September 30	
		2022	2021
Premiums written		\$ 55.4	\$ 62.8
Premiums earned		54.7	61.0
Claims and adjustment expenses	7(b)	81.9	22.1
Commissions earned on ceded reinsurance		5.1	11.9

<i>(in millions of dollars)</i>	Notes	Nine months ended September 30	
		2022	2021
Premiums written		\$ 105.6	\$ 170.6
Premiums earned		147.3	165.2
Claims and adjustment expenses	7(b)	118.3	52.8
Commissions earned on ceded reinsurance		13.5	33.4

(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.

<i>(in millions of dollars)</i>	Notes	As at	
		September 30, 2022	December 31, 2021
Reinsurers' share of UPR	7(a)	\$ 21.4	\$ 63.1
Reinsurers' share of claim liabilities	7(b)	199.6	134.0
Reinsurer receivables		63.1	47.8
Reinsurer payables		(31.7)	(43.7)
Unearned reinsurance commissions		(4.7)	(22.0)
		\$ 247.7	\$ 179.2

9. 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 income (loss) is provided in the table below:

<i>(in millions of dollars)</i>		Three months ended September 30			
			2022		2021
Income tax expense calculated based on statutory tax rates	26.3%	\$	13.4	26.3%	\$ 18.3
Canadian dividend income not subject to tax	(4.1%)		(2.1)	(2.7%)	(1.8)
Non-deductible expenses	0.5%		0.3	0.1%	0.1
Other	(3.3%)		(1.6)	(0.4%)	(0.4)
Income tax expense recorded in net income	19.4%	\$	10.0	23.3%	\$ 16.2

<i>(in millions of dollars)</i>	Three months ended September 30			
		2022		2021
Current income taxes	\$	11.0	\$	20.3
Deferred income taxes		(1.0)		(4.1)
Income tax expense	\$	10.0	\$	16.2

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

9. INCOME TAXES (continued)

(in millions of dollars)		Nine months ended September 30			
		2022		2021	
Income tax expense calculated based on statutory tax rates	26.3%	\$	36.5	26.3%	\$ 62.1
Canadian dividend income not subject to tax	(4.3%)		(5.9)	(2.3%)	(5.3)
Non-deductible expenses	0.3%		0.5	-	0.1
Other	(1.9%)		(2.8)	(0.1%)	(0.4)
Income tax expense recorded in net income	20.4%	\$	28.3	23.9%	\$ 56.5

(in millions of dollars)	Nine months ended September 30			
	2022		2021	
Current income taxes	\$	28.2	\$	63.7
Deferred income taxes		0.1		(7.2)
Income tax expense	\$	28.3	\$	56.5

Income taxes included in other comprehensive (loss) income are as follows:

(in millions of dollars)	Three months ended September 30			
	2022		2021	
Income tax on items that may be reclassified subsequently to net income:				
Net unrealized (losses) gains on AFS investments	\$	(12.9)	\$	1.0
Reclassification to net income of net recognized losses (gains) on AFS investments		3.6		(0.6)
		(9.3)		0.4
Income tax on items that will not be reclassified subsequently to net income:				
Post-employment benefit obligation gain		-		4.8
Income tax (recovery) expense	\$	(9.3)	\$	5.2

(in millions of dollars)	Nine months ended September 30			
	2022		2021	
Income tax on items that may be reclassified subsequently to net income:				
Net unrealized (losses) gains on AFS investments	\$	(91.2)	\$	18.9
Reclassification to net income of net recognized losses (gains) on AFS investments		15.9		(12.3)
		(75.3)		6.6
Income tax on items that will not be reclassified subsequently to net income:				
Post-employment benefit obligation gain		6.3		4.8
Income tax (recovery) expense	\$	(69.0)	\$	11.4

10. OTHER ASSETS

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

(in millions of dollars)	Notes	As at	
		September 30, 2022	December 31, 2021
Investments in associates		\$ 99.7	\$ 77.1
Pension asset	14	38.4	21.4
Prepaid expenses and other		28.9	18.1
		\$ 167.0	\$ 116.6

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

<i>(in millions of dollars)</i>	Notes	As at September 30, 2022	As at December 31, 2021
Accounts payable and other		\$ 169.2	\$ 191.7
Commissions payable		88.5	86.5
Premium and other taxes payable		33.9	39.9
Pension and non-pension benefit obligations	14	28.0	33.9
Lease liabilities		21.3	18.9
Cash-settled share-based compensation plans		2.9	22.5
		<u>\$ 343.8</u>	<u>\$ 393.4</u>

12. 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:

<i>(in millions of dollars, except as otherwise noted)</i>	Three months ended September 30, 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	(0.9)	(27.9)
Purchased for future settlement of the Medium-Term Incentive Plan ("MTIP") and Long-Term Incentive Plan ("LTIP")	(0.3)	(12.5)
Shares held in trust, end of period	(1.2)	(40.4)
Issued and outstanding, net of shares held in trust, end of period	114.7	\$ 2,267.4

<i>(in millions of dollars, except as otherwise noted)</i>	Nine months ended September 30, 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 MTIP and LTIP	(1.2)	(40.4)
Shares held in trust, end of period	(1.2)	(40.4)
Issued and outstanding, net of shares held in trust, end of period	114.7	\$ 2,267.4

On August 2, 2022, the Board of Directors declared a \$0.125 per share dividend, which was paid on September 28, 2022 to shareholders of record at the close of business on September 15, 2022.

On November 10, 2022, the Board of Directors declared a \$0.125 per share dividend, payable on December 28, 2022 to shareholders of record at the close of business on December 15, 2022.

No preferred shares were issued and outstanding.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2022

13. 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.

<i>(in millions of dollars, except as otherwise noted)</i>	Three months ended September 30	
	2022	2021
Net income	\$ 41.1	\$ 53.3
Weighted average common shares outstanding (in millions)	114.9	104.0
Dilutive effect of share-based compensation plans (in millions)	1.9	-
Weighted average of diluted common shares outstanding (in millions)	116.8	104.0
EPS (in dollars)		
Basic	\$ 0.36	\$ 0.51
Diluted	\$ 0.35	\$ 0.51

<i>(in millions of dollars, except as otherwise noted)</i>	Nine months ended September 30	
	2022	2021
Net income	\$ 110.4	\$ 179.6
Weighted average common shares outstanding (in millions)	115.3	104.0
Dilutive effect of share-based compensation plans (in millions)	1.8	-
Weighted average of diluted common shares outstanding (in millions)	117.1	104.0
EPS (in dollars)		
Basic	\$ 0.96	\$ 1.72
Diluted	\$ 0.94	\$ 1.72

The common shares issued upon the Company's initial public offering ("IPO"), excluding the exercise of the over-allotment option granted to the underwriters of the IPO and the additional common shares purchased pursuant to the subscription agreement entered into with Healthcare of Ontario Pension Plan Trust Fund, 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.

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 September 30, 2022 were \$0.4 million (September 30, 2021: \$0.4 million). The total contributions to the defined benefit pension plans made by the Company during the nine-month period ended September 30, 2022 were \$1.3 million (September 30, 2021: \$1.3 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 September 30, 2022 were \$5.2 million (September 30, 2021: \$2.9 million). Contributions under the defined contribution component of the pension plan during the nine-month period ended September 30, 2022 were \$15.5 million (September 30, 2021: \$11.5 million).

DEFINITY FINANCIAL CORPORATION

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14. POST-EMPLOYMENT BENEFITS (continued)

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

(in millions of dollars)	Three months ended September 30	
	2022	2021
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	\$ -	\$ 21.0
Return on plan assets excluding interest income	-	(2.6)
	\$ -	\$ 18.4

(in millions of dollars)	Nine months ended September 30	
	2022	2021
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	\$ 57.0	\$ 21.0
Return on plan assets excluding interest income	(32.9)	(2.6)
	\$ 24.1	\$ 18.4

The discount rate as at September 30, 2022 used to determine the defined benefit obligations for the Company's pension plans was 5.1% (December 31, 2021: 2.9%) and other benefit plans was 5.1% (December 31, 2021: 3.0%).

15. CREDIT FACILITY

On August 2, 2022, the Company renewed its \$150 million unsecured committed credit facility, which will automatically increase to \$600 million if and when the Company is continued under the *Canada Business Corporations Act*. The facility has a term ending on July 22, 2027, contains certain financial covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at November 10, 2022, the Company is in compliance with the financial covenants and no amounts have been drawn under this facility.

16. 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 and foreign governments continue to 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 central banks to raise interest rates. 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 September 30, 2022 on gross written premiums was nil (September 30, 2021: \$14 million reduction), while the impact on net earned premiums was a reduction of approximately \$10 million (September 30, 2021: \$15 million). The impact of these measures during the nine-month period ended September 30, 2022 was a reduction in gross written premiums of approximately \$21 million (September 30, 2021: \$42 million) and a reduction in net earned premiums of approximately \$36 million (September 30, 2021: \$44 million).

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16. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS (continued)

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 scheduled 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 its position in these proceedings.

17. SUBSEQUENT EVENTS

On October 3, 2022, the Company increased its ownership interest in McDougall Insurance Brokers Limited ("McDougall") from approximately 25% to 75% for cash consideration of \$217 million (subject to post-closing adjustments). Founded in 1946, McDougall is one of Ontario's largest P&C insurance brokerages, representing more than 50 insurance companies and with operations across over 40 branches with more than 450 employees. The initial purchase price was funded by cash on hand and was advanced to counsel in escrow on September 29, 2022, net of a holdback for post-closing adjustments. This has been separately disclosed as "Cash held in escrow" on the interim consolidated balance sheets and interim consolidated statements of cash flows.

On October 3, 2022, the Company acquired T.G Colley & Sons Limited and Integrisure Group Insurance Inc., for total cash consideration of approximately \$12 million (subject to post-closing adjustments). The initial purchase price was funded by cash on hand, net of a holdback for post-closing adjustments.

Distribution partnerships are a key area of focus for the Company's corporate strategy, given the diversification benefits they can provide as a complementary source of income.