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Definity Financial Corporation
Management's Discussion and Analysis
For the third quarter ended September 30, 2022

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INTRODUCTION

November 10, 2022

The following Management's Discussion and Analysis ("MD&A") is the responsibility of management and has been approved by the Board of Directors ("Board"). This MD&A is intended to enable the reader to assess our financial position and results of operations as at and for the three and nine months ended September 30, 2022, compared to the corresponding periods in 2021. This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements and accompanying notes as at and for the quarter ended September 30, 2022, our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2021, and the annual MD&A included in our 2021 Annual Report. All dollar amounts are in Canadian dollars. Certain totals, subtotals, and percentages may not reconcile due to rounding. Unless otherwise noted in this MD&A, all information was prepared as at November 10, 2022.

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

The Company's unaudited condensed interim consolidated financial statements and accompanying notes for the quarter ended September 30, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). We measure and evaluate performance of our business using a number of financial measures. Among these measures are the "supplementary financial measures", "non-GAAP financial measures", and "non-GAAP ratios" (as such terms are defined under Canadian Securities Administrators' National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure*) included in this MD&A, and in each case are not standardized financial measures under GAAP. The supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios in this MD&A may not be comparable to similar measures presented by other companies. These measures should not be considered in isolation or as a substitute for analysis of our financial information reported under GAAP.

The information presented in this MD&A includes the following supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios:

Supplementary Financial Measures:	Claims ratio, core accident year claims and adjustment expenses, catastrophe losses, book value per share, financial capacity, leverage capacity, and certain other ratios.
Non-GAAP Financial Measures:	Operating net income, operating income, and non-operating gains (losses), and underwriting expenses (net of other underwriting revenues)/operating expenses (net of other underwriting revenues).
Non-GAAP Ratios:	Combined ratio, expense ratio, return on equity ("ROE"), operating return on equity ("operating ROE"), and operating earnings per common share.

For more information about these supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios, including (where applicable) an explanation of how that measure provides useful information and a quantitative reconciliation of each non-GAAP financial measure to its most directly comparable GAAP measure disclosed in our unaudited condensed interim consolidated financial statements, see Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future business, financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding possible future events or circumstances.

Forward-looking information in this MD&A is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as at the date such statements are made, and are subject to many factors that could cause our actual results, performance or achievements, or other future events or developments, to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors:

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

- failure of key service providers or vendors to provide services or supplies as expected, or comply with contractual or business terms;
- Definity's ability to obtain, maintain and protect its intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology;
- compliance with and changes in legislation or its interpretation or application, or supervisory expectations or requirements, including changes in effective income tax rates, risk-based capital guidelines, and accounting standards;
- failure to design, implement and maintain effective control over financial reporting which could have a material adverse effect on our business;
- deceptive or illegal acts undertaken by an employee or a third party, including fraud in the course of underwriting insurance or settling insurance claims;
- Definity's ability to respond to events impacting its ability to conduct business as normal;
- Definity's ability to implement its strategy or operate its business as management currently expects;
- the impact of public-health crises, such as pandemics or other health risk events including the COVID-19 pandemic and their associated operational, economic, legislative and regulatory impacts, including impacts on Definity's ability to maintain operations and provide services to customers and on the expectations of governmental or regulatory authorities concerning the provision of customer relief;
- general economic, financial, and political conditions, particularly those in Canada;
- the competitive market environment and cyclical nature of the P&C insurance industry;
- the introduction of disruptive innovation;
- distribution channel risk, including Definity's reliance on brokers to sell its products;
- Definity's dividend payments being subject to the discretion of the Board and dependent on a variety of factors and conditions existing from time to time;
- there can be no assurance that Definity's normal course issuer bid ("NCIB") will be maintained, unchanged and/or completed;
- Definity's dependence on the results of operations of its subsidiaries and the ability of the subsidiaries to pay dividends;
- Definity's ability to manage and access capital and liquidity effectively;
- Definity's ability to successfully identify, complete, integrate and realize the benefits of acquisitions or manage the associated risks;
- periodic negative publicity regarding the insurance industry or Definity;
- management's estimates and expectations in relation to interests in the broker distribution channel and the resulting impact on growth, income, and accretion in various financial metrics; and
- the completion and timing of Definity continuing under the *Canada Business Corporations Act*.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in Section 11 – "Risk Management and Corporate Governance" of our MD&A for the year ended December 31, 2021 should be considered carefully by readers.

Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, the factors above are not intended to represent a complete list and there may be other factors not currently known to us or that we currently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as at the date made. The forward-looking information contained in this MD&A represents our expectations as at the date of this MD&A (or as the date they are otherwise stated to be made) and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

1 — CORPORATE OVERVIEW

ABOUT DEFINITY

We are one of the leading property and casualty ("P&C") insurers in Canada.[1] We are the sixth largest provider of P&C insurance in Canada, with a market share of 4.9%.[2] We had over $3.5 billion in gross written premiums ("GWP") for the 12 months ended September 30, 2022.

We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 71% of our GWP in the first nine months of 2022, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance operations, which represented 29% of our GWP in the first nine months of 2022, includes fleet, individually-rated commercial auto, property, liability and specialty insurance products, which are provided to businesses of all sizes in Canada.

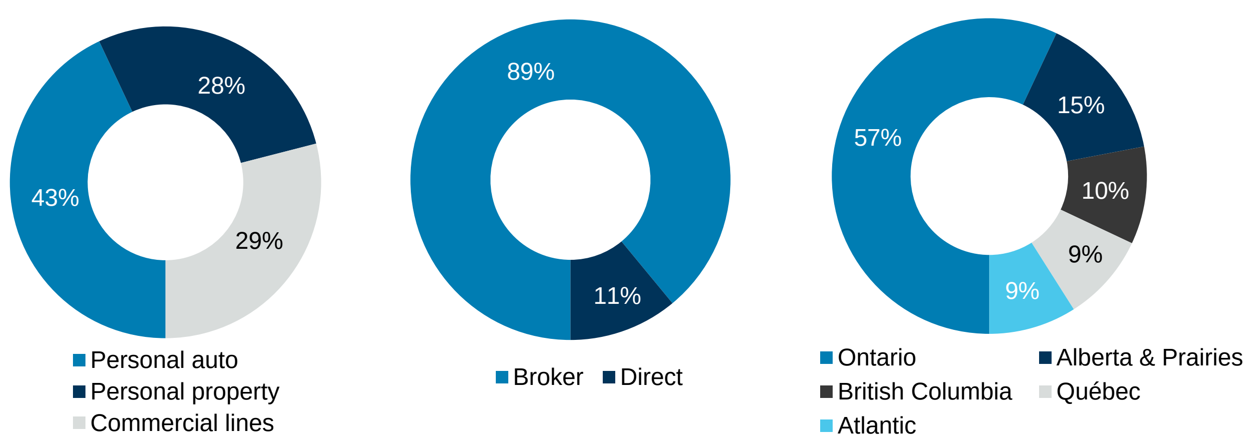
As a multi-channel insurer, we distribute our products on a primarily intermediated basis, through brokers, as well as directly to customers. We have active relationships with a network of over 600 independent brokerage firms and a broker base of more than 30,000 individual brokers. Our direct distribution channel includes Sonnet Insurance; our pet insurer, Petline Insurance; and portions of our group insurance offering. In the first nine months of 2022, broker and direct distribution represented 89% and 11%, respectively, of our total GWP.

We have a national presence and conduct our business in all provinces and territories of Canada. Ontario is our largest market, representing 57% of GWP in the first nine months of 2022.

Our P&C insurance business is supported by our investment management activities. We had approximately $4.9 billion in investments as at September 30, 2022. A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high quality assets. Our investment portfolio is comprised primarily of short-duration, investment grade fixed income investments, which generally reduces the impact of volatility related to macroeconomic conditions.

The following charts illustrate the breakdown of our GWP for the nine months ended September 30, 2022 by business line, distribution channel, and region, respectively.

Q3 2022 YTD GWP



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[1] Based on market share by DWP.
[2] Market share of Canadian P&C insurance industry DWP of $70.5 billion for the twelve months ended June 30, 2022.

Executing on our strategy

We have an objective to become one of the five largest P&C insurers in Canada. As part of our strategy to attain this objective, we intend to diversify and strengthen our growth through acquisitions and partnerships. Distribution partnerships are a key component of our strategy, given the diversification benefits they can provide as a complementary source of income. On October 3, 2022, we increased our ownership interest in McDougall Insurance ("McDougall") from approximately 25% to 75% for cash consideration of $217 million (subject to post-closing adjustments). McDougall is one of Ontario's largest property and casualty insurance brokerages, representing more than 50 insurance companies and with operations across over 40 branches with more than 450 employees. We solidified our long-standing partnership with McDougall with an initial equity investment in 2017. Since then, McDougall has completed 14 broker acquisitions and more than doubled its annual premium base to approximately $500 million.

As equity partners with McDougall for over five years, we believe there was a unique opportunity to expand the partnership and build on their track record of success. With growing revenue and robust operating margins, McDougall is a strong franchise with an entrepreneurial culture and an ability to attract talent. They also have a strong track record of growth, both organically and via proven acquisition capabilities. The partnership will enable McDougall's full leadership team to maintain a meaningful ownership position, which we believe enhances our mutual commitment to McDougall's continued success.

Combining McDougall's operating income with our other broker investments, we expect to generate operating income before taxes and non-controlling interests from them in excess of $40 million annually (versus $8 million for the 12-month period ended December 31, 2021). The transaction is expected to be immediately accretive to operating ROE and operating earnings per share. The acquisition was financed with excess cash on hand. We continue to hold significant excess capital and strong leverage capacity for future opportunities.

2 — FINANCIAL PERFORMANCE

HIGHLIGHTS:

- Premium growth was 10.9% in the quarter, driven by the success of our strategic expansions across the business and ongoing firm market conditions
- Combined ratio of 96.6% included 5.7 points of catastrophe losses (3.5 points of which related to Hurricane Fiona), and was bolstered by an otherwise solid underwriting performance
- Operating net income of $46.5 million in Q3 2022, compared to $60.7 million in Q3 2021, resulting in operating EPS of $0.40 per share. Operating ROE was 9.7% over the last twelve months
- Financial position remained resilient, despite capital market volatility, with book value per share of $19.54, up 0.2% in the quarter and 0.1% higher than a year ago
- Acquired a majority stake in McDougall Insurance on October 3, building a broker partnership with proven M&A expertise that is expected to be immediately accretive and provide earnings diversification via distribution income

RESULTS OF OPERATIONS

The following table sets forth certain of our results from operations for the three and nine months ended September 30, 2022 and 2021:

(in millions of dollars, except as otherwise noted)	Three months ended September 30, 2022	Three months ended September 30, 2021	Change	Nine months ended September 30, 2022	Nine months ended September 30, 2021	Change
Gross written premiums	$ 944.1	$ 851.5	10.9%	$ 2,671.3	$ 2,384.8	12.0%
Net written premiums	888.7	788.7	12.7%	2,565.7	2,214.2	15.9%
Net earned premiums	830.0	725.1	14.5%	2,398.0	2,088.6	14.8%
Net claims and adjustment expenses	530.9	439.0	91.9	1,487.8	1,251.2	236.6
Underwriting expenses (net of other underwriting revenues)(1)	271.2	231.0	40.2	788.1	683.2	104.9
Underwriting income	$ 27.9	$ 55.1	(27.2)	$ 122.1	$ 154.2	(32.1)
Impact of discounting	15.5	1.9	13.6	159.8	35.2	124.6
Underwriting income after the impact of discounting	$ 43.4	$ 57.0	(13.6)	$ 281.9	$ 189.4	92.5
Net investment income	36.0	24.6	11.4	93.6	71.8	21.8
Recognized losses on investments	(23.6)	(7.1)	(16.5)	(223.4)	(11.6)	(211.8)
Other (expenses) income	(4.7)	(5.0)	0.3	(13.4)	(13.5)	0.1
Income before income taxes	$ 51.1	$ 69.5	(18.4)	$ 138.7	$ 236.1	(97.4)
Income tax expense	(10.0)	(16.2)	6.2	(28.3)	(56.5)	28.2
Net income	**$ 41.1**	**$ 53.3**	**(12.2)**	**$ 110.4**	**$ 179.6**	**(69.2)**
Non-operating (losses) gains(1)	(7.2)	(10.1)	2.9	(67.1)	7.6	(74.7)
Operating income(1)	58.3	79.6	(21.3)	205.8	228.5	(22.7)
Operating net income(1)	46.5	60.7	(14.2)	159.9	174.0	(14.1)
Earnings per common share, basic (in dollars)	$ 0.36	$ 0.51	(0.15)	$ 0.96	$ 1.72	(0.76)
Earnings per common share, diluted (in dollars)	$ 0.35	$ 0.51	(0.16)	$ 0.94	$ 1.72	(0.78)
Operating earnings per common share (in dollars)(3)	$ 0.40	$ 0.58	(0.18)	$ 1.37	$ 1.67	(0.30)
Book value per share (in dollars)(2)	$ 19.54	$ 19.52	0.02	$ 19.54	$ 19.52	0.02
Financial capacity(2)	$ 884.4	$ N/A	N/A	$ 884.4	$ N/A	N/A
Claims ratio(2)	64.0%	60.5%	3.5 pts	62.0%	59.9%	2.1 pts
Expense ratio(3)	32.6%	31.9%	0.7 pts	32.9%	32.7%	0.2 pts
Combined ratio(3)	96.6%	92.4%	4.2 pts	94.9%	92.6%	2.3 pts
Return on equity(3) (rolling twelve months)	6.8%	13.1%	(6.3) pts	6.8%	13.1%	(6.3) pts
Operating return on equity(3) (rolling twelve months)	9.7%	13.6%	(3.9) pts	9.7%	13.6%	(3.9) pts

Notes:

(1) Underwriting expenses (net of other underwriting revenues), non-operating (losses) gains, operating income, and operating net income are non-GAAP financial measures. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(2) Book value per share, financial capacity, and claims ratio are supplementary financial measures. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(3) Expense ratio, combined ratio, return on equity, operating return on equity, and operating earnings per common share are non-GAAP ratios. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

GROSS WRITTEN PREMIUMS

GWP for the third quarter of 2022 increased by $92.6 million or 10.9% compared to the third quarter of 2021, driven by growth across all our lines of business. Personal lines GWP was up 8.8% with increases in both our broker and direct businesses. Commercial lines GWP increased 16.7% as we continued to focus on profitable growth in this line of business. Customer relief related to the COVID-19 pandemic ended in May 2022 and did not impact GWP in the third quarter of 2022 (Q3 2021: decrease of approximately $14 million), but did reduce net earned premiums ("NEP") by approximately $10 million (Q3 2021: $15 million).

Year to date, GWP increased by $286.5 million or 12.0% compared to 2021. Personal lines GWP increased 9.8% and commercial lines GWP increased 17.8%. The impact of the customer relief related to the COVID-19 pandemic on our underwriting results year to date was a reduction in GWP of approximately $21 million (2021: $42 million) and a reduction in NEP of approximately $36 million (2021: $44 million).

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

UNDERWRITING RESULTS

The composition of the combined ratio for the three and nine months ended September 30, 2022 and 2021 is as follows:

	Three months ended September 30,						Nine months ended September 30,					
	2022		2021		Change		2022		2021		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Net earned premiums	$830.0		$725.1		$104.9	14.5%	$2,398.0		$2,088.6		$309.4	14.8%
Net claims and adjustment expenses	530.9	64.0%	439.0	60.5%	91.9	3.5 pts	1,487.8	62.0%	1,251.2	59.9%	236.6	2.1 pts
Underwriting expenses (net of other underwriting revenues)[2]	271.2	32.6%	231.0	31.9%	40.2	0.7 pts	788.1	32.9%	683.2	32.7%	104.9	0.2 pts
Combined ratio[3]		96.6%		92.4%		4.2 pts		94.9%		92.6%		2.3 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
(2) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Combined ratio is a non-GAAP ratio. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The growth in NEP was due primarily to a high level of GWP growth in 2021 and in the first nine months of 2022, and the impact of the quota share treaty which was not renewed in 2022.

Our underwriting income for the third quarter of 2022 was $27.9 million and our combined ratio was 96.6%, compared to underwriting income of $55.1 million and a combined ratio of 92.4% in the same quarter a year ago. Our underwriting results were solid despite the impact of catastrophe losses, including Hurricane Fiona in the Atlantic region in September. Catastrophe losses impacted the combined ratio by 5.7 percentage points, compared to 5.1 percentage points in the same quarter a year ago. The combined ratio increased due to a rise in the core accident year claims ratio and higher catastrophe losses, which were partially offset by higher favourable prior year claims development.

Year to date, our underwriting income decreased by $32.1 million and led to a combined ratio of 94.9% in 2022 as compared to 92.6% in 2021. Results were impacted by higher catastrophe losses, which included the wind storm in Ontario and Québec in the second quarter, and Hurricane Fiona in the third quarter, as well as an increase in the core accident year claims ratio. These impacts were partially offset by higher favourable prior year claims development. Catastrophe losses impacted the combined ratio by 4.6 percentage points, compared to only 2.8 percentage points in 2021.

NET CLAIMS AND ADJUSTMENT EXPENSES

The composition of the claims ratio for the three and nine months ended September 30, 2022 and 2021, illustrating the impact of core accident year claims and adjustment expenses incurred, catastrophe losses and prior year claims development, is as follows:

	Three months ended September 30,						Nine months ended September 30,					
	2022		2021		Change		2022		2021		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Core accident year claims and adjustment expenses[2]	$ 510.3	61.3%	$ 416.9	57.5%	$ 93.4	3.8 pts	$ 1,451.9	60.3%	$ 1,236.3	59.2%	$ 215.6	1.1 pts
Catastrophe losses[3]	45.8	5.7%	37.0	5.1%	8.8	0.6 pts	104.6	4.6%	57.9	2.8%	46.7	1.8 pts
Prior year favourable claims development	(25.2)	(3.0%)	(14.9)	(2.1%)	(10.3)	(0.9) pts	(68.7)	(2.9%)	(43.0)	(2.1%)	(25.7)	(0.8) pts
Net claims and adjustment expenses[4]	$ 530.9	64.0%	$ 439.0	60.5%	$ 91.9	3.5 pts	$ 1,487.8	62.0%	$1,251.2	59.9%	$ 236.6	2.1 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of catastrophe losses and prior year favourable claims development as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". In 2022, the impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.
(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses is a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(4) The ratio shown for this line item is our claims ratio, which is a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, increased in the third quarter of 2022 and year to date driven by our auto lines of business, as a result of higher claims frequency, although still below pre-pandemic levels, combined with inflationary cost pressures.

Catastrophe losses increased in the third quarter of 2022 as compared to the same quarter a year ago, driven by Hurricane Fiona in September. Year to date, catastrophe losses increased driven by the wind storm in Ontario and Québec in the second quarter, and Hurricane Fiona in the third quarter. In spite of these notable events, the total catastrophe losses in the quarter were largely within our range of expectations.

We experienced higher levels of favourable prior year claims development in the third quarter of 2022 and year to date as compared to the same periods in the prior year, driven by our personal property and commercial lines of business.

UNDERWRITING EXPENSES

The key components of our underwriting expenses (net of other underwriting revenues) and our expense ratio for the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three months ended September 30,				Change		Nine months ended September 30,				Change	
	2022		2021				2022		2021			
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Net commissions	$ 130.3	15.7%	$ 109.3	15.1%	$ 21.0	0.6 pts	$ 384.1	16.0%	$ 325.7	15.6%	$ 58.4	0.4 pts
Operating expenses (net of other underwriting revenues)[2]	110.0	13.2%	94.3	13.0%	15.7	0.2 pts	315.2	13.2%	278.9	13.3%	36.3	(0.1) pts
Premium taxes	30.9	3.7%	27.4	3.8%	3.5	(0.1) pts	88.8	3.7%	78.6	3.8%	10.2	(0.1) pts
Underwriting expenses (net of other underwriting revenues)[2][3]	$ 271.2	32.6%	$ 231.0	31.9%	$ 40.2	0.7 pts	$ 788.1	32.9%	$ 683.2	32.7%	$ 104.9	0.2 pts

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of net commissions and premium taxes as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(2) Operating expenses (net of other underwriting revenues) and underwriting expenses (net of other underwriting revenues) are non-GAAP financial measures. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(3) The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The net commissions ratio increased in the third quarter of 2022 and year to date as compared to the same periods in the prior year, due primarily to the loss of commission income resulting from the non-renewal of the quota share treaty in January 2022.

The operating expense ratio increased slightly in the third quarter of 2022 but declined year to date. The increase in operating expenses is commensurate with the growth in the business as we continue to invest in technology and our people.

NET INVESTMENT INCOME

The composition of net investment income for the three and nine months ended September 30, 2022 and 2021 is as follows:

	Three months ended September 30,		Change	Nine months ended September 30,		Change
(in millions of dollars)	2022	2021		2022	2021	
Interest income	$ 28.5	$ 18.0	$ 10.5	$ 73.0	$ 53.0	$ 20.0
Dividend income	8.7	7.7	1.0	24.6	22.2	2.4
Investment expenses	(1.2)	(1.1)	(0.1)	(4.0)	(3.4)	(0.6)
Net investment income	$ 36.0	$ 24.6	$ 11.4	$ 93.6	$ 71.8	$ 21.8

Net investment income increased in the third quarter of 2022 and year to date, driven primarily by higher fixed income yields, as well as the investment of funds generated from our underwriting results and business growth, and net proceeds retained by the Company from the initial public offering ("IPO") and related transactions.

NON-OPERATING (LOSSES) GAINS

The composition of non-operating (losses) gains for the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three months ended September 30,			Nine months ended September 30,		
(in millions of dollars)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Recognized (losses) gains on investments						
Realized (losses) gains on sale of AFS investments	$ (12.2)	$ 2.2	$ (14.4)	$ (38.7)	$ 46.3	$ (85.0)
Net losses on FVTPL investments	(10.2)	(9.3)	(0.9)	(164.2)	(57.9)	(106.3)
Impairment losses on AFS investments	(1.2)	-	(1.2)	(20.5)	-	(20.5)
Impact of discounting	15.5	1.9	13.6	159.8	35.2	124.6
Demutualization and IPO-related expenses(1)	1.3	(4.7)	6.0	(1.0)	(13.4)	12.4
Amortization of intangible assets recognized in business combinations(1)	(0.7)	(0.8)	0.1	(1.9)	(2.9)	1.0
Other(1)(2)	0.3	0.6	(0.3)	(0.6)	0.3	(0.9)
Non-operating (losses) gains(3)	$ (7.2)	$ (10.1)	$ 2.9	$ (67.1)	$ 7.6	$ (74.7)

Notes:
(1) Included in Other (expenses) income in our consolidated financial statements.
(2) Other represents foreign currency translation of an insurtech venture capital fund, acquisition-related expenses, and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.
(3) Non-operating (losses) gains is a non-GAAP financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Realized losses on our Available for Sale ("AFS") portfolio shifted from gains in the third quarter of 2021 and year to date to losses in 2022. In 2022, the significant increase in fixed income yields resulted in increased volatility in the period. In the first quarter of 2021, we recorded realized gains of $37.5 million on our equity portfolio that were triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities. The investment impairment losses in 2022 were driven by the volatility in equity markets.

Net losses of $10.2 million on our Fair Value Through Profit or Loss ("FVTPL") portfolio in the third quarter of 2022 were offset by the discounting recovery of $15.5 million, both of which were driven by the increase in yields. Year to date, discounting was a recovery of $159.8 million, and the FVTPL investment portfolio had net losses of $164.2 million. Refer to Section 5 — "Financial position" for additional details of our investment portfolio mix.

Demutualization and IPO-related expenses decreased due to the completion of the demutualization process, and the initial public offering and cornerstone private placements in the fourth quarter of 2021.

INCOME TAX EXPENSE

The effective tax rate for the third quarter of 2022 was 19.4% compared to 23.3% for the third quarter of 2021. The year-to-date effective tax rate was 20.4% compared to 23.9% in 2021. The effective tax rates for the third quarter and year to date 2022 and 2021 were lower than the statutory rate of 26.3% (2021: 26.3%) due primarily to the impact of non-taxable Canadian dividend income, which had a larger impact in 2022 as it represented a larger percentage of the net earnings of the Company.

NET INCOME

Net income was $41.1 million in the third quarter of 2022 compared to $53.3 million in the third quarter of 2021. Net income decreased due primarily to lower underwriting income, partially offset by higher net investment income.

Year to date, net income was $110.4 million compared to $179.6 million in 2021 due primarily to the same factors that impacted the third quarter, and investment impairment charges of $20.5 million in 2022 reflective of the significant volatility in equity markets. In 2021, we also recorded realized gains of $37.5 million on our equity portfolio that were triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities.

In the third quarter of 2022 and year to date, the significant increase in fixed income yields resulted in higher market value losses on our bond portfolio, which were largely offset by a discounting recovery on our claim liabilities.

OPERATING NET INCOME

Operating net income decreased to $46.5 million in the third quarter of 2022 compared to $60.7 million in the third quarter of 2021 driven by lower underwriting income, partly offset by an increase in net investment income. Year to date, operating net income was $159.9 million compared to $174.0 million in 2021. Operating net income is a non-GAAP financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

OPERATING ROE

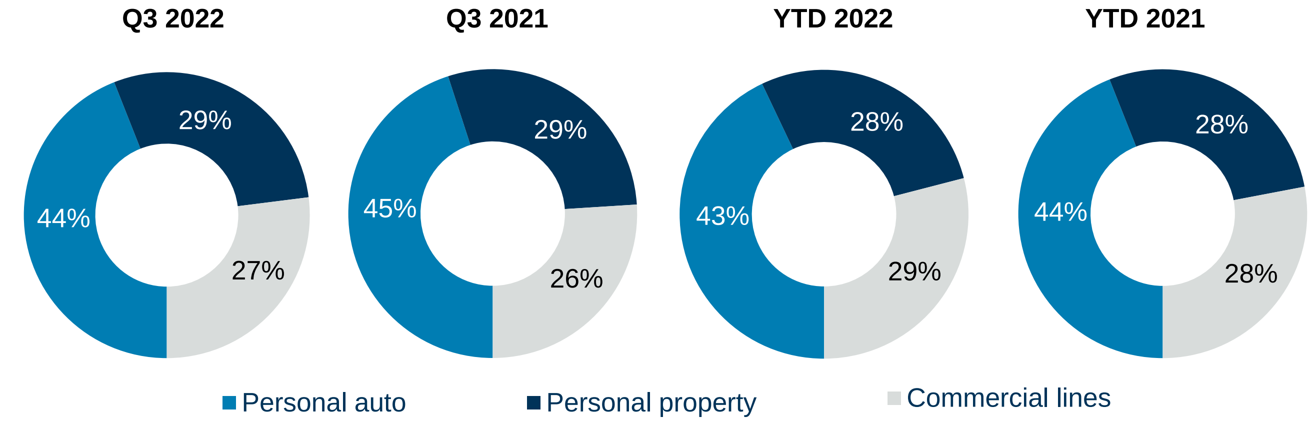
Operating ROE was 9.7% for the twelve-month period ended September 30, 2022 compared to 13.6% in 2021. Operating ROE was lower due to the dilutive impact of higher average equity as well as lower operating net income generated during the twelve-month period ended September 30, 2022. Operating ROE is a non-GAAP ratio. Refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

3 — RESULTS BY LINE OF BUSINESS

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

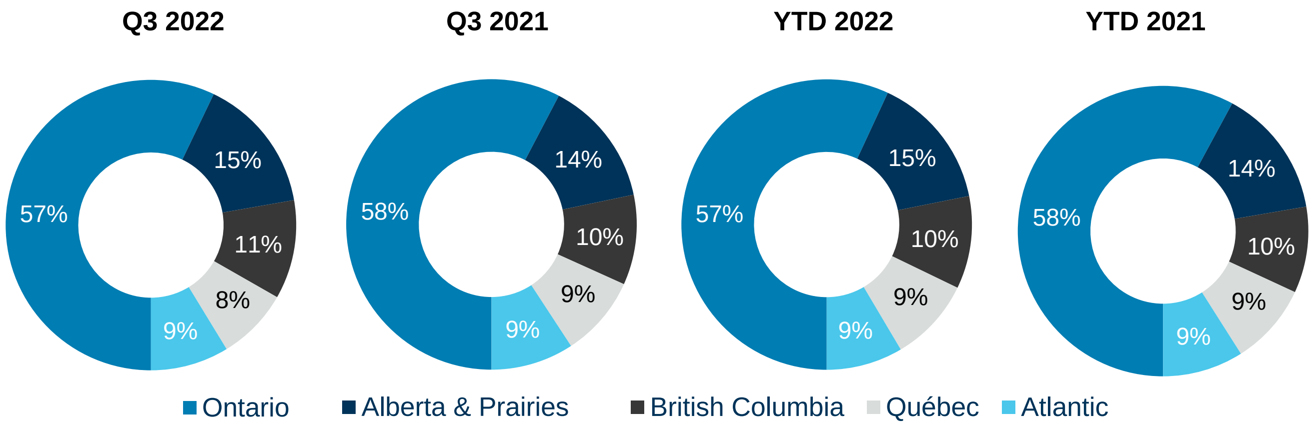
The following charts illustrate our GWP mix on this basis for the three and nine months ended September 30, 2022 and 2021:

GWP by Line of Business



The shift in business mix for the third quarter of 2022 and year to date was due to growth in our commercial lines reflecting our focus on profitable growth in this line of business.

GWP by Region



There were slight shifts in the regional mix in the third quarter of 2022 and year to date compared to the same periods in the prior year.

UNDERWRITING — PERSONAL LINES

The table below sets forth selected results of operations of our personal lines of business for the three and nine months ended September 30, 2022 and 2021 and the policies in force as at September 30, 2022 and 2021.

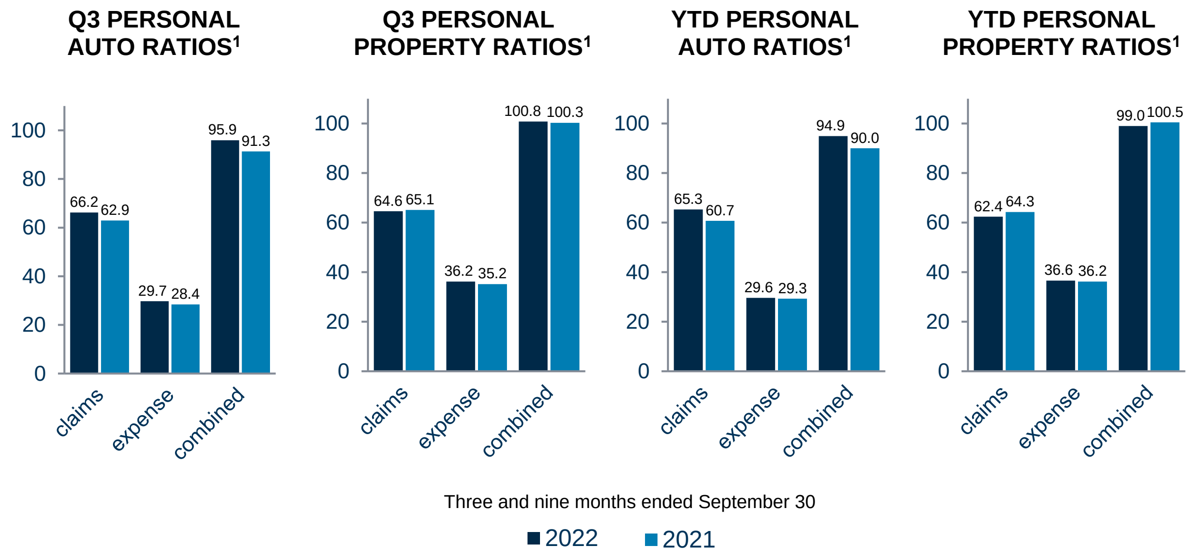
	Three months ended September 30,			Nine months ended September 30,		
(in millions of dollars, except as otherwise noted)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Policies in force (thousands) (at period end)						
Auto	785.1	759.4	3.4%	785.1	759.4	3.4%
Property	826.0	767.0	7.7%	826.0	767.0	7.7%
Total	1,611.1	1,526.4	5.5%	1,611.1	1,526.4	5.5%
Gross written premiums						
Auto	$ 411.2	$ 381.7	7.7%	$ 1,153.4	$ 1,071.0	7.7%
Property	275.6	249.3	10.5%	744.7	657.5	13.3%
Total	$ 686.8	$ 631.0	8.8%	$ 1,898.1	$ 1,728.5	9.8%
Net earned premiums						
Auto	$ 375.5	$ 337.0	11.4%	$ 1,091.3	$ 988.2	10.4%
Property	231.8	195.7	18.4%	666.9	557.4	19.6%
Total	$ 607.3	$ 532.7	14.0%	$ 1,758.2	$ 1,545.6	13.8%
Net claims and adjustment expenses						
Auto	$ 248.5	$ 212.0	$ 36.5	$ 713.1	$ 599.5	$ 113.6
Property	149.8	127.4	22.4	416.0	358.4	57.6
Total	$ 398.3	$ 339.4	$ 58.9	$ 1,129.1	$ 957.9	$ 171.2
Underwriting expenses (net of other underwriting revenues)(1)						
Auto	$ 111.5	$ 95.5	$ 16.0	$ 322.8	$ 289.6	$ 33.2
Property	83.9	68.9	15.0	244.0	202.0	42.0
Total	$ 195.4	$ 164.4	$ 31.0	$ 566.8	$ 491.6	$ 75.2
Underwriting income (loss)						
Auto	$ 15.5	$ 29.5	$ (14.0)	$ 55.4	$ 99.1	$ (43.7)
Property	(1.9)	(0.6)	(1.3)	6.9	(3.0)	9.9
Total	$ 13.6	$ 28.9	$ (15.3)	$ 62.3	$ 96.1	$ (33.8)

Notes:

(1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Overall, personal lines GWP increased 8.8% in the third quarter of 2022 (9.8% year to date). Sonnet GWP was $95.6 million in the third quarter of 2022, an increase of 9.0% compared to $87.7 million in the third quarter of 2021. Sonnet GWP was $245.2 million year to date, an increase of 13.7% compared to $215.6 million in 2021. In the quarter, we experienced a lower growth rate in Sonnet personal auto attributed to current market conditions, which include higher customer acquisition costs and lower levels of online shopping. Personal auto GWP increased 7.7% in the quarter (7.7% year to date), driven by improved retention in our broker business, an increase in average written premiums, and the growth in Sonnet. Customer relief related to the COVID-19 pandemic ended in May 2022. The impact of customer relief was nil in the quarter versus a reduction in GWP of approximately $11 million in the third quarter of 2021. Personal property GWP increased 10.5% in the quarter (13.3% year to date), benefitting from continued firm market conditions and the growth in Sonnet.

Personal lines underwriting income was $13.6 million in the third quarter of 2022 compared to $28.9 million in the same quarter a year ago. Year to date, personal lines underwriting income was $62.3 million compared to $96.1 million in 2021.



Notes:
(1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The composition of the claims ratio for the three and nine months ended September 30, 2022 and 2021 for our personal auto line of business is as follows:

	Three months ended September 30(1)			Nine months ended September 30(1)		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses(2)	69.1%	64.6%	4.5 pts	68.0%	64.3%	3.7 pts
Catastrophe losses(3)	0.3%	1.5%	(1.2) pts	0.4%	0.6%	(0.2) pts
Prior year favourable claims development	(3.2%)	(3.2%)	-	(3.1%)	(4.2%)	1.1 pts
Claims ratio(3)	66.2%	62.9%	3.3 pts	65.3%	60.7%	4.6 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The personal auto combined ratio of 95.9% in the third quarter of 2022 increased over the 91.3% combined ratio in the same quarter a year ago due primarily to an increase in the core accident year claims ratio driven by higher claims frequency combined with inflationary cost pressures, largely within the auto physical damage coverage. Year to date, the personal auto combined ratio was impacted by an increase in the core accident year claims ratio and a decrease in favourable prior year claims development.

The composition of the claims ratio for the three and nine months ended September 30, 2022 and 2021 for our personal property line of business is as follows:

	Three months ended September 30[(1)]			Nine months ended September 30[(1)]		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses[(2)]	55.7%	51.2%	4.5 pts	54.6%	55.7%	(1.1) pts
Catastrophe losses[(3)]	10.9%	15.5%	(4.6) pts	10.2%	8.2%	2.0 pts
Prior year (favourable) adverse claims development	(2.0%)	(1.6%)	(0.4) pts	(2.4%)	0.4%	(2.8) pts
Claims ratio[(3)]	64.6%	65.1%	(0.5) pts	62.4%	64.3%	(1.9) pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. In 2022, the impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.
(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The personal property combined ratio was 100.8% in the third quarter of 2022, a slight increase from 100.3% in the same quarter a year ago, as the increase in the core accident year claims ratio from an unusually strong third quarter of 2021 and slightly higher expenses were largely offset by a decrease in catastrophe losses. Catastrophe losses accounted for 10.9 percentage points to the combined ratio in the third quarter of 2022 compared to 15.5 percentage points in 2021. Year to date, the personal property combined ratio improved due to an increase in favourable prior year claims development and a decrease in the core accident year claims ratio.

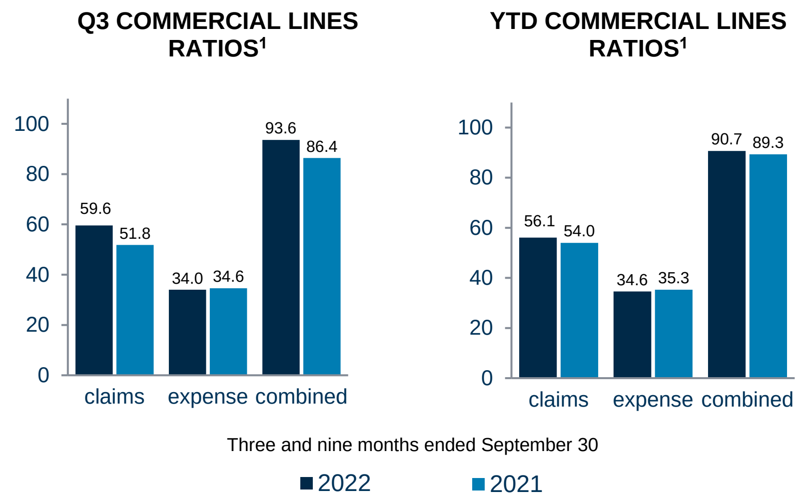
UNDERWRITING — COMMERCIAL LINES

The table below sets forth selected results of operations of our commercial lines of business for the three and nine months ended September 30, 2022 and 2021.

	Three months ended September 30,			Nine months ended September 30,		
(in millions of dollars, except as otherwise noted)	2022	2021	Change	2022	2021	Change
Gross written premiums	$ 257.3	$ 220.5	16.7%	$ 773.2	$ 656.3	17.8%
Net earned premiums	$ 222.7	$ 192.4	15.7%	$ 639.8	$ 543.0	17.8%
Net claims and adjustment expenses	$ 132.6	$ 99.6	$ 33.0	$ 358.7	$ 293.3	$ 65.4
Underwriting expenses (net of other underwriting revenues)[(1)]	$ 75.8	$ 66.6	$ 9.2	$ 221.3	$ 191.6	$ 29.7
Underwriting income	$ 14.3	$ 26.2	$ (11.9)	$ 59.8	$ 58.1	$ 1.7

Notes:
(1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Growth in commercial lines continued in the third quarter of 2022. GWP increased 16.7% in the third quarter of 2022 (17.8% year to date), as we benefitted from continued strong broker support, higher retention levels, strong rate achievement in a firm market environment, and continued scaling of specialty capabilities.



Notes:

(1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The composition of the claims ratio for the three and nine months ended September 30, 2022 and 2021 for our commercial lines of business is as follows:

	Three months ended September 30(1)			Nine months ended September 30(1)		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses(2)	54.3%	51.5%	2.8 pts	53.4%	53.5%	(0.1) pts
Catastrophe losses(3)	9.1%	0.8%	8.3 pts	5.7%	1.2%	4.5 pts
Prior year favourable claims development	(3.8%)	(0.5%)	(3.3) pts	(3.0%)	(0.7%)	(2.3) pts
Claims ratio(3)	59.6%	51.8%	7.8 pts	56.1%	54.0%	2.1 pts

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. In 2022, the impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.

(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Commercial lines underwriting income was $14.3 million in the third quarter of 2022 compared to $26.2 million in the same quarter a year ago. Year to date, the commercial lines underwriting income was $59.8 million compared to $58.1 million in 2021.

The commercial lines combined ratio of 93.6% in the third quarter of 2022 increased from the unusually strong combined ratio of 86.4% in the same quarter a year ago. The combined ratio increase was largely driven by the impact of catastrophe losses. Catastrophe losses accounted for 9.1 percentage points to the combined ratio in the third quarter of 2022 compared to only 0.8 percentage points in 2021. Year to date, the commercial lines combined ratio was 90.7% compared to 89.3% in 2021. The year-to-date commercial lines combined ratio increased due to an increase in catastrophe losses, partially offset by higher favourable prior year claims development.

4 — OPERATING ENVIRONMENT AND OUTLOOK

OPERATING ENVIRONMENT

Economic uncertainty	• 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. • We do not have direct investments nor underwriting exposures of significance in Russia or Ukraine, and are continuing to monitor the evolving economic impact of the above on our operations and capital position. • We remain well capitalized with a high-quality-focused investment portfolio and a DBRS Limited financial strength rating of A (low) for Definity Insurance Company ("Definity Insurance"). Our liquidity remains strong and our bank facilities remain undrawn and fully accessible. • Our strong balance sheet and capital level positions us well for continued uncertainty.
Personal auto environment	• Over the course of the COVID-19 pandemic, many auto insurers lowered their rates and/or provided rebates as relief to their customers because of the associated lockdowns. • We provided support to our customers in the form of rate relief and other measures. The impact of these measures was a reduction in GWP of approximately $11 million in the third quarter of 2021. The customer relief measures ended in the second quarter of 2022. • With government lockdown measures removed, people have been driving more with the frequency of claims increasing and moving towards pre-pandemic levels. A persistent impact from the pandemic, and the more recent lockdowns in China, has been the low supply of microchips. This has resulted in a shortage of new vehicles in the market and increased the price of used vehicles. New and used vehicles are the primary costs when replacing a fully damaged vehicle. These costs reached record highs in late 2021 and have continued to remain elevated in 2022. With the tight supply driving up used vehicle values, vehicle theft has increased significantly over the last year, further driving loss replacement costs. Costs for parts and labour used to repair damaged vehicles have also increased due to general inflation in the economy, but to a lesser extent. • These pressures on the frequency and average claim cost have led to many insurers unwinding their COVID-19 relief measures and, in some cases, increasing rates beyond pre-pandemic levels. • As these trends continue to persist, we expect an active rate environment.
Investment environment	• In the third quarter of 2022 virtually every global asset class was down, driven by the knock-on effects of decades-high inflation, aggressive rate hikes by major central banks, and rising risks of a global recession. • Canadian stocks outperformed their global peers with the TSX60 falling 2.6% in the third quarter of 2022 compared with the S&P 500 falling 5.3%. • The Bank of Canada raised rates by 1.75 percentage points in the third quarter of 2022, bringing the policy rate to 3.25% (followed by an additional 0.50 percentage-point increase in October) which is now in restrictive territory based on the Bank's 2-3% neutral range, while recent guidance from the Bank of Canada indicates that policy will need to become more restrictive in the near term. • Government bond yields continued to rise alongside persistent rate hikes from developed economy central banks, with further hikes anticipated before year end, presenting new opportunities for active management of fixed income holdings where we continue to favour liquid, high-quality assets. • Our investment strategy focuses on maximizing our long-term capital strength, while seeking to optimize risk-adjusted returns. We have an established investment policy and strategy that is based on our risk appetite, the prudent person approach, regulatory guidelines, and reflects the expected settlement pattern of claim liabilities.

INDUSTRY OUTLOOK

Below is an overview of our expectations for the P&C insurance industry over the next 12 months.

Industry results improved significantly in 2021 and remained solid in the first half of 2022, bolstered by unusually low claims frequency in auto portfolios and strong results in property and commercial insurance. Overall, the industry reported a return on equity of approximately 16.5% in 2021 and 14.1% in the first half of 2022.[3] We continue to expect the combination of normalizing auto claims frequency and higher severity related to inflation to bring the industry's return on equity closer to its long run average of 10% over time.

The fixed income yields have increased significantly in recent quarters and are now supporting growth in net investment income, albeit at the cost of mark to market valuations. Given the heightened macro risk environment, we believe underwriting discipline remains important for the industry to achieve desirable levels of profitability.

Despite the current solid profitability at the industry level, we believe the operating environment is one that is conducive to sustaining firm market conditions. We expect firm market conditions in property lines will persist over the next 12 months, while conditions in auto lines have begun to firm as a result of normalizing claims frequency and inflationary cost pressures.

Personal auto	• With COVID-19 subsiding, we expect the frequency of claims to continue to normalize to pre-pandemic levels over the next six to nine months as people return to on-site work environments. We also expect the inflationary pressures affecting vehicle damage claims to persist during this period with auto production supply chains still constrained. • Both these frequency and severity trends are expected to continue to drive firming industry pricing.
Personal property	• The volatility of weather events, such as floods, severe winds, and wildfires, continues to be a key risk for this line of business across most regions of the country. Combined with the ongoing inflationary pressure on building materials and labour, claim costs are expected to increase and will be reflected in firm premium pricing over the next 12 months. • We expect this volatility to continue, with commensurate rate actions, coverage and appetite changes, and an enhanced focus on loss prevention and mitigation. It could also lead to changes in the capacity or pricing provided by global reinsurers. • This volatility has prompted the federal government to engage insurers in consultations on options for residential flood insurance for high-risk properties and on options for relocating residents in the highest risk areas. A federal task force submitted its final report to the federal government. The government has committed to have a national flood insurance program in place next year.
Commercial lines	• Central banks are raising interest rates and tightening financial conditions to combat inflation, which increases the probability of a recessionary environment over the next several quarters. This will increase pressure on industry growth. • We expect inflation to remain elevated for the next 12 months and continue to add loss cost pressures industry-wide. • 2022 continues to experience a trend of increasing weather events. Climate change mitigation and management actions need to continue to evolve in a joint effort across government, regulatory, and industry participants. • We expect the commercial lines market to remain firm over the next 12 months as carriers focus on ensuring long-term profitability and sustainable availability of capacity. In addition, we expect pricing to be influenced by global reinsurance pressures, inflation trends, weather events, expected investment returns, as well as the industry's overall underwriting performance.

[3] MSA Research.

5 — FINANCIAL POSITION

FINANCIAL HIGHLIGHTS AS AT SEPTEMBER 30, 2022:

- Our financial position remained strong with total equity exceeding $2.2 billion at the end of the quarter, which decreased from December 31, 2021 driven by a decline in the value of our bond and equity portfolios as a result of the ongoing volatility in capital markets, partially offset by strong underwriting income and growing net investment income
- Total assets increased by $52.0 million (0.7%) compared to December 31, 2021
- Gross claim liabilities decreased by $12.9 million (0.4%) compared to December 31, 2021 and benefitted from a $159.8 million discounting recovery

The following table summarizes our consolidated balance sheets as at September 30, 2022 and December 31, 2021:

(in millions of dollars)	As at September 30, 2022	As at December 31, 2021	Change
ASSETS			
Cash and cash equivalents	$ 193.9	$ 387.3	$ (193.4)
Restricted cash	310.3	110.8	199.5
Cash held in escrow	203.1	-	203.1
Investments	4,854.9	5,365.8	(510.9)
Accrued investment income	28.0	21.3	6.7
Premiums receivable	1,160.1	1,075.9	84.2
Income taxes receivable	103.4	0.2	103.2
Reinsurance receivable and recoverable	247.7	179.2	68.5
Deferred policy acquisition expenses	319.1	295.1	24.0
Property and equipment	62.1	57.0	5.1
Deferred income tax assets	59.3	62.5	(3.2)
Goodwill and intangible assets	234.5	219.7	14.8
Other assets	167.0	116.6	50.4
Total assets	$ 7,943.4	$ 7,891.4	$ 52.0
LIABILITIES			
Unearned premiums	1,725.2	1,599.2	126.0
Claim liabilities	3,323.2	3,336.1	(12.9)
Accounts payable and other liabilities	343.8	393.4	(49.6)
Income taxes payable	-	55.6	(55.6)
Demutualization amounts outstanding	310.3	110.8	199.5
Total liabilities	$ 5,702.5	$ 5,495.1	$ 207.4
EQUITY			
Share capital	2,267.4	2,307.8	(40.4)
Contributed surplus	34.4	19.3	15.1
Retained earnings (deficit)	50.4	(28.8)	79.2
Accumulated other comprehensive (loss) income	(111.3)	98.0	(209.3)
Total equity	$ 2,240.9	$ 2,396.3	$ (155.4)
Total liabilities and equity	$ 7,943.4	$ 7,891.4	$ 52.0

CASH AND INVESTMENTS

The composition of our cash and cash equivalents and investments as at September 30, 2022 and December 31, 2021 is as follows:

(in millions of dollars, except as otherwise noted)	As at September 30, 2022 Carrying value	As at September 30, 2022 Percent of carrying value	As at December 31, 2021 Carrying value	As at December 31, 2021 Percent of carrying value
Cash and cash equivalents	$ 193.9	3.8%	$ 387.3	6.7%
Short-term investments	175.2	3.5%	88.8	1.5%
Bonds	3,808.8	75.4%	4,233.8	73.7%
Preferred stocks	327.4	6.5%	405.7	7.1%
Common stocks	488.6	9.7%	570.5	9.9%
Pooled funds	40.3	0.8%	42.7	0.7%
Commercial loans	14.6	0.3%	24.3	0.4%
Total investments	$ 4,854.9	96.2%	$ 5,365.8	93.3%
Total cash and cash equivalents, and investments	$ 5,048.8	100.0%	$ 5,753.1	100.0%

Total cash and cash equivalents and investments decreased in the third quarter of 2022, due primarily to a decrease in the market values of our investment portfolio arising from a significant increase in fixed income yields as well as the volatility in equity markets. In addition, we advanced $203.1 million of cash to counsel in escrow on September 29, 2022, net of a holdback for post-closing adjustments, related to our increased ownership interest in McDougall. Our proportionate share of investments in fixed income securities, including cash and cash equivalents, increased slightly to 82.7% of the total portfolio as at September 30, 2022, compared with 81.9% as at December 31, 2021. We maintained a focus on a high-quality investment portfolio.

Refer to Note 3 — "Summary of significant accounting policies" of our audited consolidated financial statements for the year ended December 31, 2021, which provides further details pertaining to the classification and measurement of our financial instruments.

Investment sector mix

Our investment sector mix demonstrates the secure and liquid nature of our overall investment portfolio with a significant concentration in the government and financials sectors. As at September 30, 2022 and December 31, 2021, the breakdown of these investments is as follows:

	As at September 30, 2022					As at December 31, 2021
(in millions of dollars, except as otherwise noted)	**Short-term investments and bonds**	**Preferred stocks**	**Common stocks**	**Pooled funds**	**Total**	**Total**
Government	60%	-	-	-	49%	49%
Financials	25%	67%	29%	10%	28%	29%
Energy	2%	17%	15%	3%	4%	4%
Communication services	2%	4%	6%	8%	3%	2%
Industrials	3%	-	12%	7%	4%	4%
Utilities	5%	10%	3%	2%	5%	4%
Consumer discretionary	1%	-	5%	10%	2%	2%
Materials	-	-	9%	2%	1%	1%
Consumer staples	1%	-	6%	5%	1%	1%
Information technology	-	-	10%	38%	1%	2%
Health care	-	-	4%	12%	1%	1%
Real estate	1%	2%	1%	3%	1%	1%
Total (%)	100%	100%	100%	100%	100%	100%
Total ($)	$ 3,984.0	$ 327.4	$ 488.6	$ 40.3	$ 4,840.3	$ 5,341.5

Investment credit quality

The tables below of credit ratings in our portfolio illustrate the credit quality of our fixed income securities and preferred stocks, respectively, as at September 30, 2022 and December 31, 2021.

Credit rating[1] — bonds

	As at September 30, 2022		As at December 31, 2021	
(in millions of dollars, except as otherwise noted)	**Carrying value**	**Percent of carrying value**	**Carrying value**	**Percent of carrying value**
AAA	$ 1,346.0	35.4%	$ 1,072.6	25.4%
AA	1,139.0	29.9%	1,800.5	42.5%
A	1,048.0	27.5%	1,080.1	25.5%
BBB	275.3	7.2%	280.6	6.6%
BB	0.5	-	-	-
Total bonds	$ 3,808.8	100.0%	$ 4,233.8	100.0%

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

Credit rating[1] — preferred stocks

	As at September 30, 2022		As at December 31, 2021	
(in millions of dollars, except as otherwise noted)	**Carrying value**	**Percent of carrying value**	**Carrying value**	**Percent of carrying value**
P1	$ 5.5	1.7%	$ 11.9	2.9%
P2	250.2	76.4%	305.4	75.3%
P3 or not rated	71.7	21.9%	88.4	21.8%
Total preferred stocks	$ 327.4	100.0%	$ 405.7	100.0%

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

We monitor the credit ratings of investments within our investment portfolio on an ongoing basis and take the necessary actions, in an attempt to ensure that a high level of quality is maintained. As at September 30, 2022, this resulted in 92.8% (December 31, 2021: 93.4%) of the bonds in the portfolio being rated "A-" or better and 78.1% (December 31, 2021: 78.2%) of the preferred stocks in the portfolio being rated "P2L" or better. "A-" and "P2L" represent the ratings provided by two recognized rating services for high-grade bonds and preferred stocks, respectively.

Investment portfolio region of issuer

The geographic mix of our investment portfolio as at September 30, 2022 and December 31, 2021 is as follows:

(in millions of dollars, except as otherwise noted)	As at September 30, 2022			As at December 31, 2021		
		Carrying value	Percent of carrying value		Carrying value	Percent of carrying value
Canada	$	4,645.4	96.0%	$	5,112.6	95.7%
United States		141.6	2.9%		164.6	3.1%
Europe		31.6	0.7%		37.0	0.7%
Other		21.7	0.4%		27.3	0.5%
Total	$	4,840.3	100.0%	$	5,341.5	100.0%

Our investment portfolio is concentrated mainly in Canada. Our estimated exposure to foreign exchange is outlined in Section 11 — "Risk management and corporate governance" of our MD&A for the year ended December 31, 2021.

Unrealized (losses) gains on AFS securities

The unrealized (losses) gains on AFS securities by type of security as at September 30, 2022 and December 31, 2021 are as follows:

(in millions of dollars, except as otherwise noted)		As at September 30, 2022		As at December 31, 2021
Short-term investments	$	0.4	$	0.1
Bonds		(115.0)		9.3
Preferred stocks		(60.9)		10.9
Common stocks		24.0		106.8
Pooled funds		(8.5)		0.1
Unrealized (losses) gains	$	(160.0)	$	127.2

The unrealized losses in our AFS investment portfolio as at September 30, 2022 were driven by losses on bonds due to a significant increase in fixed income yields, lower gains on common stocks as a result of the volatility in capital markets, and losses on preferred stocks.

PREMIUMS RECEIVABLE, DEFERRED POLICY ACQUISITION EXPENSES, AND UNEARNED PREMIUMS

The premiums receivable, deferred policy acquisition expenses, and unearned premiums balances increased as at September 30, 2022, driven primarily by GWP growth in 2022.

INCOME TAXES RECEIVABLE AND PAYABLE

Income tax amounts outstanding shifted from a net payable of $55.4 million as at December 31, 2021, to a receivable of $103.4 million as at September 30, 2022 due primarily to final payments made in the first quarter of 2022 for the deemed year end that occurred in November 2021 upon the completion of the IPO and for the December 31, 2021 year end, income tax instalments paid in 2022, and the tax impact of unrealized losses in our investment portfolio.

REINSURANCE RECEIVABLE AND RECOVERABLE

Reinsurance receivable and recoverable increased as at September 30, 2022 due primarily to higher recoveries for catastrophe and large losses, and the increased impact from the growing large account relationships in our commercial segment, partially offset by the impact of the quota share treaty which was not renewed in 2022.

Consistent with industry practice, our reinsurance receivables and amounts recoverable from licensed Canadian reinsurers ($182.7 million as at September 30, 2022; $143.5 million as at December 31, 2021) are usually unsecured. Canadian regulatory requirements, as set out by OSFI, require these reinsurers to maintain adequate assets to meet their Canadian obligations. Claim liabilities take precedence over the reinsurers' subordinated creditors. Amounts receivable and recoverable from unregistered reinsurers are secured by cash deposits and marketable securities.

OTHER ASSETS

Other assets increased $50.4 million as at September 30, 2022 due primarily to an increase in our investments in associates and our pension asset driven by changes in the discount rate used to determine the benefit obligation.

NET CLAIM LIABILITIES

The net unpaid claim liabilities (discounted) as at September 30, 2022 decreased by 2.5% or $78.5 million from December 31, 2021 and benefitted from the impact of discounting.

The level of prior year claims development as a percentage of opening net unpaid claim liabilities and the impact on the claims ratio by fiscal year, are as follows:

	For the nine months ended September 30	For the year ended December 31,									
(in millions of dollars, except as otherwise noted)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Net unpaid claim liabilities, beginning of year, undiscounted	$ 3,043.8	$ 2,754.1	$ 2,654.0	$ 2,555.2	$ 2,410.4	$ 2,199.7	$ 2,122.8	$ 2,163.3	$ 2,108.6	$ 2,052.1	$ 2,122.6
(Favourable) adverse development on prior year claims, undiscounted	$ (68.7)	$ (76.0)	$ (29.6)	$ (37.9)	$ (18.8)	$ 32.6	$ (40.1)	$ (73.1)	$ (2.9)	$ (63.0)	$ (57.4)
(Favourable) adverse development on prior year closing claims, undiscounted	(2.3%)	(2.8%)	(1.1%)	(1.5%)	(0.8%)	1.5%	(1.9%)	(3.4%)	(0.1%)	(3.1%)	(2.7%)
Impact on claims ratio[1] ...	(2.9%)	(2.7%)	(1.2%)	(1.6%)	(0.8%)	1.5%	(2.1%)	(3.8%)	(0.2%)	(3.6%)	(3.4%)

Notes:
(1) The ratio of prior year (favourable) adverse claims development as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities decreased as at September 30, 2022 due primarily to a decrease in employee incentives payable which are paid in the first quarter, a decrease in demutualization and IPO-related payables, and a decrease in costs associated with our strategic initiatives.

TOTAL EQUITY

Total equity decreased by $155.4 million in the nine-month period ended September 30, 2022 driven by market value declines in our AFS bond portfolio due to a significant increase in fixed income yields, and the declines in equity markets. These were partially offset by strong underwriting income and increasing net investment income.

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.

6 — SUMMARY OF QUARTERLY RESULTS

(in millions of dollars, except as otherwise noted)	For the three months ended							
	September 30, 2022	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**	**December 31, 2020**
Gross written premiums.............	$ 944.1	$ 984.7	$ 742.5	$ 846.6	$ 851.5	$ 874.6	$ 658.7	$ 755.9
Net earned premiums.............	$ 830.0	$ 799.6	$ 768.4	$ 745.0	$ 725.1	$ 697.2	$ 666.3	$ 665.5
Underwriting income..................	$ 27.9	$ 34.0	$ 60.2	$ 40.3	$ 55.1	$ 41.2	$ 58.0	$ 72.7
Net income	$ 41.1	$ 21.0	$ 48.3	$ 33.7	$ 53.3	$ 43.9	$ 82.4	$ 66.7
Earnings per common share (in dollars)								
Basic	$ 0.36	$ 0.18	$ 0.42	$ 0.31	$ 0.51	$ 0.42	$ 0.79	$ 0.64
Diluted..............	$ 0.35	$ 0.18	$ 0.41	$ 0.31	$ 0.51	$ 0.42	$ 0.79	$ 0.64
Operating earnings per common share (in dollars)............	$ 0.40	$ 0.42	$ 0.55	$ 0.42	$ 0.58	$ 0.51	$ 0.58	$ 0.71

The P&C insurance business is seasonal in nature. As such, underwriting income may vary significantly between quarters, particularly due to weather-related losses. Net income is further impacted by fluctuations in investment gains and losses. In particular, net income in the first quarter of 2021 benefitted from the recognition from other comprehensive income of unrealized gains on common stocks which were sold as a result of a change in foreign equity managers. Results for 2020 and 2021 were impacted by reduced auto claims frequency due primarily to the COVID-19 pandemic. Auto claims frequency in the first three quarters of 2022 have started to increase as driving volumes started to increase. The second quarter of 2022 included an investment impairment charge of $19.3 million, reflective of the significant volatility in equity markets.

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

7 — LIQUIDITY AND CAPITAL RESOURCES

CAPITAL MANAGEMENT FRAMEWORK

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

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

Capital deployment will be considered using the following priorities:

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

On May 12, 2022, we announced that we had received the necessary approvals to commence an NCIB. In connection with the NCIB, we may, during the period commencing May 17, 2022 and ending May 16, 2023, purchase up to 3,476,781 common shares, representing 3% of our issued and outstanding common shares. As at September 30, 2022, no common shares had been repurchased and cancelled under the NCIB.

Regulatory capital

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

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

Management actively monitors the MCT and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the estimated impact on capital before entering into any significant transactions to seek to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels. The Board of Directors reviews the MCT on, at least, a quarterly basis. In accordance with regulatory requirements and our capital management policies, the Board of Directors has set internal targets at levels higher and more stringent than OSFI's minimum requirements. Management also conducts its own risk and solvency assessment on at least an annual basis and provides regular updates to its Management Risk Committee, the Risk Review Committee, and the Board of Directors. Regulatory capital guidelines change from time to time and may impact our capital levels. We carefully monitor all proposed and actual changes to those guidelines.

Capital position

All of our regulated P&C insurance subsidiaries are well capitalized on an individual basis, with capital levels in excess of regulatory supervisory minimum levels and our internal capital action levels. The table below shows the consolidated regulatory capital position as at September 30, 2022 and December 31, 2021 for Definity Insurance and the financial capacity of the Company. Capital available and capital required included in the table below are determined in the manner prescribed by OSFI.

(in millions of dollars, except as otherwise noted)	**As at September 30, 2022**	**As at December 31, 2021**
Capital available[1]	$ 1,285.5	$ 1,789.1
Capital required[1]	$ 629.7	$ 651.6
MCT %[1]	204%	275%
Excess capital at 200% for Definity Insurance	$ 26.1	$ 485.9
Additional capital at Definity Financial Corporation	$ 567.0	$ 273.4
Total excess capital	$ 593.1	$ 759.3
Leverage capacity[2,3]	$ 291.3	$ 298.5
Financial capacity[3]	$ 884.4	$ 1,057.8

[1] Consolidated Definity Insurance.
[2] Of this amount, approximately $83.7 million (December 31, 2021: $117.9 million) of the 2% debt limit under the ICA was utilized as at September 30, 2022.
[3] Leverage capacity and financial capacity are supplementary financial measures. For more information, refer to Section 11 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The MCT ratio as at September 30, 2022 decreased from December 31, 2021 due mainly to a reduction in stated capital of Definity Insurance and the subsequent transfer of $400 million of investments and cash from Definity Insurance and certain of the other insurance subsidiaries to Definity. This transaction positions Definity Insurance nearer to its expected operating range and more efficiently positions excess capital in the group structure. As a result of this transaction, the consolidated excess capital at 200% at Definity was unchanged.

The federal government recently announced proposed amendments to regulations under the ICA, which would (1) create a path to enable a holding company (established under the ICA) that holds a demutualized insurance company, such as Definity, to apply for continuance to the *Canada Business Corporations Act* (the "CBCA") during the period which that holding company is required to remain widely held after demutualization, and (2) increase the duration of that period from two years to four years. The government's stated objectives for this proposal are to expand the range of corporate structures available to demutualized P&C companies after demutualization, to promote competition within the P&C industry, and to provide sufficient time for the demutualized company to adjust to its new corporate structure and strengthen its competitive position. We are supportive of these objectives and the proposal. Subject to the proposal being enacted, we intend to apply to continue Definity under the CBCA. While there is no certainty about whether the proposal will ultimately be enacted, the proposal (if enacted as announced) would come into effect on the date when final amending regulations are registered as legislation.

Own Risk and Solvency Assessment ("ORSA")

The ORSA is a framework for federally-regulated insurers to internally assess their risks and determine the level of capital required to support future solvency. The ORSA documents how risk assessment and capital management are integrated into our decision-making process and are monitored to maintain financial viability.

We integrate the ORSA with our enterprise risk management framework, management reporting, and decision-making processes. Our Board of Directors, Risk Review Committee, and Management Risk Committee review and provide challenge, advice, and guidance on the ORSA, critically assessing assumptions and results to confirm we consider them to be reasonable in the circumstances.

We develop the ORSA by reviewing our key risks and identifying key risk indicators, then performing a range of quantitative risk sensitivity, stress testing, and other analyses, to relate our key risks to capital requirements. In conjunction with the Appointed Actuary and the Chief Actuary, we aligned Financial Condition Testing and ORSA where appropriate, and developed a framework to segment Economic Capital associated with the business plan to enable more granular measurement of capital consumption. This process includes thoroughly assessing the methodology for relating risks to capital reflected in OSFI's MCT guidelines and determining the appropriateness to our risk profile. As that regulatory methodology has been developed with consideration to the entire industry, some capital factors are more suitable than others in addressing our risks. Depending on the risk, the regulatory approach may need to be modified to our circumstances, or we may determine that a different methodology is appropriate. We may also determine that the regulatory method is adequate and adopt it without modification. We incorporate the output from our Economic Capital Model to evaluate the required capital for Insurance, Market, and Credit risks. This results in the ORSA capital requirements using both deterministic and stochastic methodologies. Stress testing is then utilized to assess the resiliency of our capital under a range of adverse conditions, including extreme scenarios. The ORSA is integrated into the budgeting and planning process to determine our ability to meet internal and regulatory capital targets in the future, and to identify contingency plans and procedures should capital levels threaten to fall below pre-determined early-warning levels, as specified in our capital management policy. Our ORSA capital level is higher than our internal targets established in our capital management policy.

FINANCIAL STRENGTH AND ISSUER RATINGS

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

	Credit Rating Agency	Rating	Outlook	Date
Financial strength ratings				
Definity Insurance	AM Best	A- (Excellent)	Stable	October 28, 2021
Definity Insurance	DBRS	A (low)	Positive	July 8, 2022
Issuer rating				
Definity	DBRS	BBB	Positive	July 8, 2022

CASH FLOWS

As at September 30, 2022, we had $193.9 million (December 31, 2021: $387.3 million) of cash and cash equivalents, $310.3 million of restricted cash (December 31, 2021: $110.8 million), $203.1 million of cash held in escrow, and $175.2 million (December 31, 2021: $88.8 million) of short-term investments. The cash held in escrow represents cash advanced to counsel in escrow on September 29, 2022, net of a holdback for post-closing adjustments, related to our increased ownership interest in McDougall which closed on October 3, 2022. We also have a highly liquid investment portfolio comprised of actively-traded securities, including Canadian fixed income investments issued or guaranteed by domestic governments, investment-grade corporate bonds, publicly-traded Canadian and foreign equities and pooled funds. We believe that our internal resources will provide sufficient funds to fulfill our operating cash requirements during the next 12 months. The liquidity policy seeks to ensure that we have sufficient cash and liquid resources to meet our financial obligations and to support our future growth initiatives, and that excess cash is appropriately invested.

On August 2, 2022, we renewed our $150 million unsecured committed credit facility, which will automatically increase to $600 million if and when the Company is continued under the CBCA. This latter amount represents an increase of $200 million over the pre-existing facility, providing us with increased financial capacity post continuance. 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, we are in compliance with the financial covenants and no amounts have been drawn under this facility.

A summary of cash flows for the three and nine months ended September 30, 2022 and 2021 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in millions of dollars)	2022	2021	2022	2021
Operating activities				
Net cash provided by operating activities	$ 173.0	$ 256.2	$ 193.3	$ 478.5
Investing activities				
Investments purchased, net of investments sold	(7.1)	(152.7)	(18.6)	(608.8)
Commercial loans collected, net of commercial loans advanced	8.0	1.0	9.7	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	(14.3)	-	(49.0)	-
Common shares purchased and held in trust	(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	-
Net increase (decrease) in cash and cash equivalents, restricted cash, and cash held in escrow	$ 119.9	$ 82.5	$ 209.2	$ (170.4)

Cash Provided by Operating Activities in the Three and Nine Months Ended September 30

Cash provided by operating activities decreased in the third quarter of 2022 and year to date, driven by increased claims paid, increased broker commission payments due to GWP growth and an increase in broker underwriting profitability, payments related to employee salaries and bonuses, and premium taxes paid. Year to date, cash provided by operating activities also decreased due to an increase in income taxes paid. These were partially offset by an increase in premiums collected due to the strong growth in GWP.

Cash Used in Investing Activities in the Three and Nine Months Ended September 30

Cash used in investing activities decreased in the third quarter of 2022 and year to date due primarily to a decrease in net investments purchased. Year to date, the decrease in cash used in investing activities was partially offset by a business acquisition in the second quarter of 2022.

Cash (Used in) Provided by Financing Activities in the Three and Nine Months Ended September 30

Cash used in financing activities in the third quarter of 2022 was due primarily to the payment of dividends on our common shares and shares purchased and held in trust. Year to date, cash provided by financing activities was due primarily to the change in demutualization amounts outstanding. The amounts outstanding to eligible recipients are reflected as restricted cash. The increase in demutualization amounts outstanding as at the end of the third quarter was largely driven by the reclassification of amounts represented by uncashed cheques distributed in the fourth quarter of 2021. Eligible policyholders became "Lost Recipients" in accordance with the Conversion Plan because they had not acted upon their demutualization benefits within six months of the date on which those benefits were sent. Accordingly, there was a corresponding increase in both demutualization amounts outstanding and restricted cash. We continue to make efforts to facilitate the unification of the remaining amounts outstanding with the eligible recipients. The cash provided by financing activities was partially offset by the payment of dividends on our common shares and shares purchased and held in trust.

OFF-BALANCE SHEET LIABILITIES AND CONTINGENCIES

We are subject to litigation relating to claims made in respect of insurance policies written by us, as well as other litigation arising in the normal course of conducting our business. We are of the opinion that this non-claims litigation will not have a significant effect on our financial position, results of operations, or cash flows. Refer to Section 11 — "Risk management and corporate governance", Reserve estimate risk, of our MD&A for the year ended December 31, 2021, which describes our process for ensuring appropriate provisions are recorded for reported and unreported claims.

We participate in a securities lending program managed by a major Canadian and U.S. financial institution, whereby we lend securities we own to borrowers to allow them to meet delivery commitments. The lending agents assume the risk of borrower default associated with the lending activity. As at September 30, 2022, securities with an estimated fair value of $842.7 million (December 31, 2021: $598.9 million) have been loaned and securities with an estimated fair value of $875.4 million (December 31, 2021: $620.1 million) have been received as collateral from the financial institutions. Lending collateral as at September 30, 2022 was 100.0% (December 31, 2021: 100.0%) held in cash and government-backed securities. The securities loaned under this program have not been removed from "Investments" in the consolidated balance sheets because we retain the risks and rewards of ownership.

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

8 — INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) AND DISCLOSURE CONTROLS AND PROCEDURES

We are responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is reported to management on a timely basis so that information used internally and disclosed externally is complete and reliable.

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

In designing such controls, it should be recognized that due to inherent limitations or changes in conditions, any control system, no matter how well designed, can provide only reasonable assurance of achieving the desired control objectives.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting in the first nine months of 2022 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

9 — CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of our audited consolidated financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that materially affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as at the reporting date, and the reported amounts of revenues and expenses during the period. Actual results could differ materially from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. Refer to Note 3 — "Summary of significant accounting policies" of our audited consolidated financial statements for the year ended December 31, 2021 for a summary of our significant accounting policies.

The most complex and significant judgments, estimates, and assumptions used in preparing our audited consolidated financial statements are discussed in Note 5 — "Significant accounting judgments, estimates and assumptions" of our audited consolidated financial statements for the year ended December 31, 2021.

During the first nine months of 2022, there were no significant changes to our critical accounting policies, judgments, estimates, or assumptions.

FUTURE ACCOUNTING AND REPORTING CHANGES

IFRS standards issued but not yet effective are discussed in Note 4 — "Standards issued but not yet effective" of our interim consolidated financial statements for the quarter ended September 30, 2022. In the quarter, we have provided an update surrounding our transition to IFRS 17 – *Insurance Contracts* ("IFRS 17"), and IFRS 9 – *Financial Instruments* ("IFRS 9"), including our current accounting policy decisions and the expected qualitative impact on our financial statement presentation. We are currently assessing the impact of IFRS 17 and IFRS 9 on our presentation, but do not expect it to have a material impact on how we describe our business in the MD&A.

10 — RISK MANAGEMENT AND CORPORATE GOVERNANCE

OVERVIEW

A strong risk management culture contributes to making sound business decisions, both strategically and operationally. Our corporate governance and enterprise risk management frameworks are designed to provide reasonable assurance that:

(i) our business is understood from a risk perspective and our actions are consistent with our governing objectives, risk management capabilities, risk-taking capacity, and risk appetite; and
(ii) we maintain an appropriate risk and reward balance to protect us from events that have the potential to materially impair our financial strength or our achievement of business objectives.

Our enterprise risk management framework is rooted in the understanding that we are in the business of taking risk for an appropriate return. Balancing risk and reward is achieved through dynamic alignment between business strategy and risk appetite, diversifying risk, seeking appropriate compensation for risk, managing risk through preventive, detective, and mitigating controls, and transferring risk to third parties, where appropriate. We have an integrated approach to the identification, assessment, monitoring, reporting and mitigation of risks across the organization, including emerging risks. All identified top and emerging risks are assessed relative to their potential impact on our corporate strategy, competitive position, operational results, reputation, and financial condition.

The Board, directly or through its Risk Review Committee, oversees the effective implementation of the enterprise risk management framework providing challenge, advice and guidance to senior management to confirm appropriate risk management policies are in place, the effectiveness and outcomes of risk management processes and the decisions and actions of senior management are consistent with our business plans, strategy, and risk appetite. Regular reports on our risk profile, including significant risks, risk appetite exposures, and significant exceptions to risk management policies and controls, are provided to senior management, the Board, and its committees.

The key risks we manage include insurance, financial, operational, and strategic risks, which are explained in greater detail in our MD&A for the year ended December 31, 2021. Although we described those risks that we believed to be material, other risks and uncertainties exist.

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

We measure and evaluate performance of our business using a number of financial measures. Among these measures are the "supplementary financial measures", "non-GAAP financial measures", and "non-GAAP ratios" (as such terms are defined under Canadian Securities Administrators' National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure). These supplementary financial measures are calculated using amounts in, or components of line items in, our interim consolidated financial statements; however, they are not themselves disclosed in our interim consolidated financial statements. The non-GAAP financial measures in this MD&A are derived from one or more financial measures disclosed in our interim consolidated financial statements, and the non-GAAP ratios have at least one of those non-GAAP financial measures as a component, and in each case are not standardized financial measures under GAAP. The supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios in this MD&A may not be comparable to similar measures presented by other companies. These measures should not be considered in isolation or as a substitute for analysis of our financial information reported under GAAP.

These supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios are used by financial analysts and others in the P&C insurance industry and facilitate management's comparisons to our historical operating results in assessing our results and strategic and operational decision-making. These measures are outlined and defined below:

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

Supplementary Financial Measures:

Claims ratio	Net claims and adjustment expenses during a defined period expressed as a percentage of net earned premiums for the same period. This is a relevant metric to evaluate our level of claims activity relative to our net earned premiums in a given period.
Core accident year claims and adjustment expenses	Net claims and adjustment expenses less catastrophe losses and prior year claims development.
Catastrophe losses	An event causing gross losses in excess of $2 million, and generally greater than 100 claims, or a single claim with a gross loss in excess of $3 million.
Book value per share	The Company's total equity divided by the total common shares outstanding, net of shares held in trust, as at the balance sheet date.
Financial capacity	The sum of excess capital at 200% and leverage capacity.
Leverage capacity	The amount of financial leverage that can be assumed, comprised of the Company's current debt limit as an entity established under the ICA (2% of total assets) and a target capitalization level of 5% in preferred shares and hybrids.
Certain other ratios	In our discussion of our financial results, we disclose certain ratios as a percentage of net earned premiums during a defined period for the following financial measures: core accident year claims and adjustment expenses, catastrophe losses, prior year claims development, net commissions, and premium taxes.

Non-GAAP Financial Measures:

Operating net income	Net income less (or plus) non-operating gains (losses) net of applicable income taxes. Management uses operating net income to measure and evaluate the ongoing operational performance of the business. Management believes that operating net income is useful information for investors for such purpose. Although they may calculate these measures in a different manner, operating net income and similar measures are used by other insurers and analysts in the P&C insurance industry.
Operating income	Net income less (or plus) income tax expense (recovery) and non-operating gains (losses). This financial measure is used to calculate operating net income.
Non-operating gains (losses)	Recognized gains (losses) on investments, impact of discounting, demutualization and IPO-related expenses, amortization of intangible assets recognized in business combinations, transaction costs in business combinations, restructuring costs, and other expenses or revenues that in the view of management are not part of our insurance operations. This financial measure is used to calculate operating net income.

Net income is the most directly comparable GAAP financial measure disclosed in our interim consolidated financial statements to operating net income, operating income, and non-operating gains (losses). Below is a quantitative reconciliation of operating net income, operating income, and non-operating gains (losses) to net income for the three and nine months ended September 30, 2022 and 2021:

(in millions of dollars)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net income	$ 41.1	$ 53.3	$ 110.4	$ 179.6
Remove: income tax expense	(10.0)	(16.2)	(28.3)	(56.5)
Income before income taxes	**$ 51.1**	**$ 69.5**	**$ 138.7**	**$ 236.1**
Remove: non-operating gains (losses)				
Recognized (losses) gains on investments				
Realized (losses) gains on sale of AFS investments	$ (12.2)	$ 2.2	$ (38.7)	$ 46.3
Net losses on FVTPL investments	(10.2)	(9.3)	(164.2)	(57.9)
Impairment losses on AFS investments	(1.2)	-	(20.5)	-
Impact of discounting	15.5	1.9	159.8	35.2
Demutualization and IPO-related expenses(1)	1.3	(4.7)	(1.0)	(13.4)
Amortization of intangible assets recognized in business combinations(1)	(0.7)	(0.8)	(1.9)	(2.9)
Other(1)(2)	0.3	0.6	(0.6)	0.3
Non-operating (losses) gains	**$ (7.2)**	**$ (10.1)**	**$ (67.1)**	**$ 7.6**
Operating income	**$ 58.3**	**$ 79.6**	**$ 205.8**	**$ 228.5**
Operating income tax expense	(11.8)	(18.9)	(45.9)	(54.5)
Operating net income	**$ 46.5**	**$ 60.7**	**$ 159.9**	**$ 174.0**

Notes:
(1) Included in Other (expenses) income in our consolidated financial statements.
(2) Other represents foreign currency translation of an insurtech venture capital fund, acquisition-related expenses, and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.

Underwriting expenses (net of other underwriting revenues) /

Operating expenses (net of other underwriting revenues)

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

Net claims and underwriting expenses is the most directly comparable GAAP financial measure disclosed in our interim consolidated financial statements to underwriting expenses (net of other underwriting revenues). Operating expenses is the most directly comparable GAAP financial measure disclosed in our interim consolidated financial statements to operating expenses (net of other underwriting revenues). Below are quantitative reconciliations of underwriting expenses (net of other underwriting revenues) to net claims and underwriting expenses, and operating expenses (net of other underwriting revenues) to operating expenses for the three and nine months ended September 30, 2022 and 2021:

(in millions of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net claims and underwriting expenses	$ 804.5	$ 672.1	$ 2,282.7	$ 1,940.6
Remove: net claims and adjustment expenses	530.9	439.0	1,487.8	1,251.2
Remove: other underwriting revenues	2.4	2.1	6.8	6.2
Underwriting expenses (net of other underwriting revenues)	**$ 271.2**	**$ 231.0**	**$ 788.1**	**$ 683.2**

Underwriting expenses (net of other underwriting revenues) by line of business is as shown in the following table for the three and nine months ended September 30, 2022 and 2021:

(in millions of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Personal auto	$ 111.5	$ 95.5	$ 322.8	$ 289.6
Personal property	83.9	68.9	244.0	202.0
Commercial lines	75.8	66.6	221.3	191.6
Underwriting expenses (net of other underwriting revenues)	**$ 271.2**	**$ 231.0**	**$ 788.1**	**$ 683.2**

Below is the quantitative reconciliation of operating expenses (net of other underwriting revenues) to operating expenses for the three and nine months ended September 30, 2022 and 2021:

(in millions of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Operating expenses	$ 112.4	$ 96.4	$ 322.0	$ 285.1
Remove: other underwriting revenues	2.4	2.1	6.8	6.2
Operating expenses (net of other underwriting revenues)	**$ 110.0**	**$ 94.3**	**$ 315.2**	**$ 278.9**

Non-GAAP Ratios:

Combined ratio

The total of our net claims and adjustment expenses and underwriting expenses (net of other underwriting revenues) during a defined period expressed as a percentage of net earned premiums for the same period. We also disclose a component of the combined ratio, underwriting expenses (net of other underwriting revenues) as a percentage of net earned premiums. Management uses combined ratio to evaluate the underlying insurance underwriting results relative to our net earned premiums in a given period. Management believes combined ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, combined ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

Expense ratio

The total of our net commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period, expressed as a percentage of net earned premiums for the same period. We also disclose a component of the expense ratio, operating expenses (net of other underwriting revenues) as a percentage of net earned premiums. Management uses expense ratio to evaluate our underwriting expenses relative to our net earned premiums in a given period. Management believes expense ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, expense ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

Return on equity ("ROE")

Net income for the 12 months ended at a specified date divided by the average total equity, adjusted for significant capital transactions if applicable, over the same 12-month period. ROE is a metric used by management to evaluate our net return, including investment returns, relative to our overall balance sheet position. Management believes that ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of ROE for the periods ended September 30:

	For the 12 months ended September 30,	
(in millions of dollars, except as otherwise noted)	**2022**	**2021**
Net income	$ 144.1	$ 246.3
Total equity(1)	$ 2,240.9	$ 2,029.8
Adjustment for Over-Allotment option and Anti-Dilution Adjustment(2)	$ (37.0)	$ -
Adjusted total equity	$ 2,203.9	$ 2,029.8
Average adjusted total equity(3)	$ 2,116.8	$ 1,876.2
Return on equity	6.8%	13.1%

Notes:
(1) Total equity is as at September 30, 2022 and 2021.
(2) Over-Allotment option and Anti-Dilution Adjustment were prorated for the 53 days prior to the IPO date of November 23, 2021.

(3) Average adjusted total equity is the average of adjusted total equity (total equity as shown on our consolidated balance sheet, adjusted for significant capital transactions, if applicable) at the end of the period and the end of the preceding 12-month period. Total equity and adjusted total equity as at September 30, 2020 was $1,722.7 million.

Operating return on equity ("operating ROE")

Operating net income (a non-GAAP financial measure as described above) for the 12 months ended at a specified date divided by the average of total equity, excluding accumulated other comprehensive (loss) income ("AOCI"), adjusted for significant capital transactions if applicable, over the same 12-month period. Management uses operating ROE to measure and evaluate our performance with respect to the periodic return that our operational performance is providing relative to the equity position of the organization. Management believes that operating ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, operating ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of operating ROE for the periods ended September 30:

	For the 12 months ended September 30,	
(in millions of dollars, except as otherwise noted)	**2022**	**2021**
Operating net income[(1)]	$ 206.3	$ 247.4
Total equity, excluding AOCI[(2)]	$ 2,352.2	$ 1,949.1
Adjustment for Over-Allotment option and Anti-Dilution Adjustment[(3)]	$ (37.0)	$ -
Adjusted total equity, excluding AOCI	$ 2,315.2	$ 1,949.1
Average adjusted total equity, excluding AOCI[(4)]	$ 2,132.2	$ 1,822.4
Operating ROE	9.7%	13.6%

Notes:

(1) Operating net income is a non-GAAP financial measure. See "— Non-GAAP Financial Measures", above.
(2) Total equity, excluding AOCI is as at September 30, 2022 and 2021.
(3) Over-Allotment option and Anti-Dilution Adjustment were prorated for the 53 days prior to the IPO date of November 23, 2021.
(4) Average adjusted total equity, excluding AOCI is the average of adjusted total equity, excluding AOCI (total equity and AOCI each as shown on our consolidated balance sheet, adjusted for significant capital transactions, if applicable) at the end of the period and the end of the preceding 12-month period. Total equity, excluding AOCI, and adjusted total equity, excluding AOCI, as at September 30, 2020 was $1,695.8 million.

Operating earnings per share ("operating EPS")

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

12 — OUTSTANDING SHARE DATA

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

13 — DEFINITIONS

Refer to Section 11 — "Supplementary Financial Measures and Non-GAAP financial measures and ratios" for definitions of supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios that we use to measure and evaluate the performance of our business.

Claims development	The difference between prior year-end estimates of ultimate undiscounted claim costs and the current estimates for the same block of claims. A favourable development represents a reduction in the estimated ultimate claim costs during the period for that block of claims.
Customer relief related to the COVID-19 pandemic	Actions taken to ease the burden of the COVID-19 pandemic on our individual and business customers, in the form of rate relief and flexibility in underwriting rules.
Discounting	To reflect the time value of money, the expected future payments of claim liabilities are discounted back to present value using the market yield rate of the investments used to support those liabilities. Provisions for adverse deviation are also included when determining the discounted value.
Frequency	A measure of how often a claim is reported as a function of PIF.
Gross written premiums (GWP)	The total premiums from the sale of insurance during a specified period.
Incurred but not reported (IBNR)	The amount that is added to case reserves to establish the total claim liabilities. It is intended to cover future development on reported claims, as well as claims that have occurred but not yet been reported to the Company.
Large loss	A single claim with a gross loss in excess of $1 million but less than $3 million.
Minimum capital test (MCT)	A regulatory formula defined by the Office of the Superintendent of Financial Institutions, that is a risk-based test of capital available relative to capital required.
Net earned premiums (NEP)	The portion of NWP equal to the expired period of time an insurance policy is in effect in the current period presented.
Net written premiums (NWP)	GWP less the cost of reinsurance coverage.

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