

DEFINITY FINANCIAL CORPORATION

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

FOR THE SECOND QUARTER ENDED
JUNE 30, 2022

DEFINITY FINANCIAL CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions of dollars)

		As at	
	Notes	June 30, 2022	December 31, 2021
ASSETS			
Cash and cash equivalents		\$ 268.3	\$ 387.3
Restricted cash		319.1	110.8
Investments	5	4,915.5	5,365.8
Accrued investment income		23.6	21.3
Premiums receivable		1,133.9	1,075.9
Income taxes receivable		103.1	0.2
Reinsurance receivable and recoverable	7	185.9	179.2
Deferred policy acquisition expenses	6	307.9	295.1
Property and equipment		62.4	57.0
Deferred income tax assets		56.8	62.5
Goodwill and intangible assets		229.0	219.7
Other assets	9	165.0	116.6
		\$ 7,770.5	\$ 7,891.4
LIABILITIES AND EQUITY			
Unearned premiums	6	\$ 1,665.7	\$ 1,599.2
Claim liabilities	6	3,246.8	3,336.1
Accounts payable and other liabilities	10	294.2	393.4
Income taxes payable		-	55.6
Demutualization amounts outstanding		319.1	110.8
		5,525.8	5,495.1
EQUITY			
Share capital	11	2,279.9	2,307.8
Contributed surplus		28.2	19.3
Retained earnings (deficit)		23.6	(28.8)
Accumulated other comprehensive (loss) income		(87.0)	98.0
Total equity		2,244.7	2,396.3
		\$ 7,770.5	\$ 7,891.4

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

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

FOR THE PERIODS ENDED JUNE 30

(in millions of dollars)

	Notes	Three months ended		Six months ended	
		2022	2021	2022	2021
Gross written premiums		\$ 984.7	\$ 874.6	\$ 1,727.2	\$ 1,533.3
Net written premiums	7	\$ 929.3	\$ 815.0	\$ 1,677.0	\$ 1,425.5
Net earned premiums		\$ 799.6	\$ 697.2	\$ 1,568.0	\$ 1,363.5
Other underwriting revenues		2.2	2.0	4.4	4.1
Total underwriting revenues		801.8	699.2	1,572.4	1,367.6
Net claims and underwriting expenses:					
Net claims and adjustment expenses	6,7	501.1	422.5	956.9	812.3
Net commissions	7	127.2	110.8	253.8	216.3
Operating expenses		109.8	98.5	209.6	188.6
Premium taxes		29.7	26.2	57.9	51.2
		767.8	658.0	1,478.2	1,268.4
Underwriting income		34.0	41.2	94.2	99.2
Impact of discounting	6	61.3	(10.1)	144.3	33.3
Underwriting income after the impact of discounting		95.3	31.1	238.5	132.5
Investment (loss) income:					
Net investment income	5	31.8	24.2	57.6	47.1
Recognized (losses) gains on investments	5	(97.5)	5.0	(199.8)	(4.4)
		(65.7)	29.2	(142.2)	42.7
Other (expenses) income		(4.8)	(3.6)	(8.7)	(8.6)
Income before income taxes		24.8	56.7	87.6	166.6
Income tax expense	8	(3.8)	(12.8)	(18.3)	(40.3)
Net income		\$ 21.0	\$ 43.9	\$ 69.3	\$ 126.3
Items that may be reclassified subsequently to net income:					
Net unrealized (losses) gains on AFS investments	5	(186.9)	53.3	(297.3)	67.9
Reclassification to net income of net recognized losses (gains) on AFS investments	5	35.3	(1.1)	45.8	(44.2)
Foreign exchange gain (loss) on investments in associates		0.9	(0.4)	0.5	(0.8)
Income tax recovery (expense)	8	39.4	(13.9)	66.0	(6.2)
		(111.3)	37.9	(185.0)	16.7
Items that will not be reclassified subsequently to net income:					
Post-employment benefit obligation gain	13	6.6	-	24.1	-
Income tax expense	8	(1.7)	-	(6.3)	-
		4.9	-	17.8	-
Other comprehensive (loss) income		(106.4)	37.9	(167.2)	16.7
Comprehensive (loss) income		\$ (85.4)	\$ 81.8	\$ (97.9)	\$ 143.0
Earnings per common share (in dollars)	12				
Basic		\$ 0.18	\$ 0.42	\$ 0.60	\$ 1.21
Diluted		\$ 0.18	\$ 0.42	\$ 0.59	\$ 1.21
Weighted average common shares outstanding (millions)	12				
Basic		115.3	104.0	115.6	104.0
Diluted		117.2	104.0	117.4	104.0
Dividends paid per common share (in dollars)	11	\$ 0.125	\$ -	\$ 0.300	\$ -

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30

(in millions of dollars)

2022						
	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
Balance, beginning of the period		\$ 2,307.8	\$ 19.3	\$ (28.8)	\$ 98.0	\$ 2,396.3
Net income		-	-	69.3	-	69.3
Other comprehensive income (loss)		-	-	17.8 ¹	(185.0)	(167.2)
Total comprehensive income (loss)		-	-	87.1	(185.0)	(97.9)
Equity-settled share-based compensation		-	8.9	-	-	8.9
Shares purchased and held in trust	11	(27.9)	-	-	-	(27.9)
Dividends to common shareholders	11	-	-	(34.7)	-	(34.7)
Balance, end of the period		\$ 2,279.9	\$ 28.2	\$ 23.6	\$ (87.0) ²	\$ 2,244.7
2021						
		Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance, beginning of the period		\$ -	\$ -	\$ 1,755.9	\$ 62.1	\$ 1,818.0
Net income		-	-	126.3	-	126.3
Other comprehensive income		-	-	-	16.7	16.7
Total comprehensive income		-	-	126.3	16.7	143.0
Balance, end of the period		\$ -	\$ -	\$ 1,882.2	\$ 78.8 ²	\$ 1,961.0

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

² Included in accumulated other comprehensive (loss) income ("AOCI") is \$4.1 million (December 31, 2021: \$3.6 million) related to the cumulative foreign exchange gain on investments in associates.

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE PERIODS ENDED JUNE 30

(in millions of dollars)

	Notes	Three months ended		Six months ended	
		2022	2021	2022	2021
Operating activities:					
Receipts:					
Premiums collected (net of reinsurance ceded)	\$	814.4	\$ 708.6	\$ 1,619.9	\$ 1,369.4
Interest received		29.9	28.0	51.1	44.7
Dividends received		9.7	8.1	17.7	15.7
		854.0	744.7	1,688.7	1,429.8
Payments:					
Claims paid	6	460.4	337.3	914.7	692.5
Commissions and expenses paid		219.0	173.9	565.3	419.9
Premium taxes paid		38.3	18.7	76.7	60.8
Income taxes paid		22.6	8.0	111.7	34.3
		740.3	537.9	1,668.4	1,207.5
Net cash provided by operating activities		113.7	206.8	20.3	222.3
Investing activities:					
Investments purchased		(1,174.3)	(1,124.1)	(3,142.8)	(2,267.3)
Investments sold, redeemed, or matured		1,143.7	947.1	3,131.3	1,811.2
Commercial loans advanced		(3.0)	-	(8.0)	-
Commercial loans collected		8.8	1.0	9.7	2.0
Other assets purchased		(23.9)	(5.3)	(51.9)	(21.1)
Business acquisitions		(15.0)	-	(15.0)	-
Net cash used in investing activities		(63.7)	(181.3)	(76.7)	(475.2)
Financing activities:					
Dividends paid on common shares	11	(14.4)	-	(34.7)	-
Common shares purchased and held in trust	11	(19.8)	-	(27.9)	-
Change in demutualization amounts outstanding		202.3	-	208.3	-
Net cash provided by financing activities		168.1	-	145.7	-
Cash and cash equivalents, and restricted cash:					
Net increase (decrease) during the period		218.1	25.5	89.3	(252.9)
Balance, beginning of the period		369.3	231.9	498.1	510.3
Balance, end of the period	\$	587.4	\$ 257.4	\$ 587.4	\$ 257.4
Cash		189.2	158.9	189.2	158.9
Cash equivalents		79.1	98.5	79.1	98.5
Total cash and cash equivalents		268.3	257.4	268.3	257.4
Restricted cash		319.1	-	319.1	-
Total cash and cash equivalents, and restricted cash	\$	587.4	\$ 257.4	\$ 587.4	\$ 257.4

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2022

1. NATURE OF OPERATIONS

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

These interim financial statements were authorized for issuance and approved by the Company’s Board of Directors on August 2, 2022.

2. BASIS OF PREPARATION

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

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

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

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

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

3. ACCOUNTING POLICIES

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

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2022

4. SEASONALITY

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

5. INVESTMENTS

(a) Investment (loss) income and balances

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

<i>(in millions of dollars)</i>	Three months ended June 30, 2022			
	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 11.4	\$ 13.2	\$ 0.2	\$ 24.8
Dividends	-	8.2	-	8.2
Investment expenses	-	-	-	(1.2)
Net investment income	11.4	21.4	0.2	31.8
Realized losses on sale of investments	(17.5)	(16.0)	-	(33.5)
Impairment losses on available for sale ("AFS") investments	-	(19.3)	-	(19.3)
Unrealized losses on fair value through profit or loss ("FVTPL") investments	(44.7)	-	-	(44.7)
Recognized losses on investments	(62.2)	(35.3)	-	(97.5)
	\$ (50.8)	\$ (13.9)	\$ 0.2	\$ (65.7)

<i>(in millions of dollars)</i>	Three months ended June 30, 2021			
	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 9.9	\$ 7.4	\$ 0.3	\$ 17.6
Dividends	-	7.6	-	7.6
Investment expenses	-	-	-	(1.0)
Net investment income	9.9	15.0	0.3	24.2
Realized (losses) gains on sale of investments	(0.8)	1.1	-	0.3
Unrealized gains on FVTPL investments	4.7	-	-	4.7
Recognized gains on investments	3.9	1.1	-	5.0
	\$ 13.8	\$ 16.1	\$ 0.3	\$ 29.2

<i>(in millions of dollars)</i>	Six months ended June 30, 2022			
	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 21.6	\$ 22.5	\$ 0.4	\$ 44.5
Dividends	-	15.9	-	15.9
Investment expenses	-	-	-	(2.8)
Net investment income	21.6	38.4	0.4	57.6
Realized losses on sale of investments	(21.3)	(26.5)	-	(47.8)
Impairment losses on AFS investments	-	(19.3)	-	(19.3)
Unrealized losses on FVTPL investments	(132.7)	-	-	(132.7)
Recognized losses on investments	(154.0)	(45.8)	-	(199.8)
	\$ (132.4)	\$ (7.4)	\$ 0.4	\$ (142.2)

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2022

5. INVESTMENTS (continued)

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

<i>(in millions of dollars)</i>	Six months ended June 30, 2021			
	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 19.6	\$ 14.8	\$ 0.6	\$ 35.0
Dividends	-	14.5	-	14.5
Investment expenses	-	-	-	(2.4)
Net investment income	19.6	29.3	0.6	47.1
Realized (losses) gains on sale of investments	(3.7)	44.2	-	40.5
Unrealized losses on FVTPL investments	(44.9)	-	-	(44.9)
Recognized (losses) gains on investments	(48.6)	44.2	-	(4.4)
	\$ (29.0)	\$ 73.5	\$ 0.6	\$ 42.7

The fair value yield as at June 30, 2022 for the FVTPL bond portfolio was 3.77% (June 30, 2021: 1.18%) and for the AFS bond portfolio was 3.85% (June 30, 2021: 1.24%).

Investment carrying values by financial instrument classification are as follows:

<i>(in millions of dollars)</i>	As at June 30, 2022			
	FVTPL	AFS	Loans and receivables	Total
Short-term investments	\$ 43.8	\$ 69.1	\$ -	\$ 112.9
Bonds	1,979.2	1,918.4	-	3,897.6
Preferred stocks	-	349.6	-	349.6
Common stocks	-	492.5	-	492.5
Pooled funds	-	40.3	-	40.3
Commercial loans	-	-	22.6	22.6
	\$ 2,023.0	\$ 2,869.9	\$ 22.6	\$ 4,915.5

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

The commercial loans have an amortized cost of \$22.6 million (December 31, 2021: \$24.3 million) and fair value of \$21.7 million (December 31, 2021: \$23.4 million).

Of the bonds held as at June 30, 2022, 92.4% (December 31, 2021: 93.4%) were rated "A-" or better and 79.8% (December 31, 2021: 78.2%) of the preferred stocks were rated "P2L" or better.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2022

5. INVESTMENTS (continued)

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

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

	As at June 30, 2022	As at December 31, 2021
Financial services	61.5%	64.6%
Utilities	10.2%	9.4%
Energy	9.0%	8.8%
Industrials	6.0%	5.7%
Communication services	5.2%	4.4%
Other	8.1%	7.1%
	100.0%	100.0%

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

	As at June 30, 2022	As at December 31, 2021
Canada	99.6%	99.6%
United States	0.4%	0.4%
	100.0%	100.0%

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

<i>(in millions of dollars)</i>	As at June 30, 2022			
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	\$ 69.1	\$ -	\$ -	\$ 69.1
Bonds:				
Government	1,225.4	0.2	(68.8)	1,156.8
Corporate	808.8	-	(47.2)	761.6
	2,034.2	0.2	(116.0)	1,918.4
Canadian preferred stocks	383.8	7.2	(41.4)	349.6
Common stocks:				
Canadian	318.8	51.8	(9.4)	361.2
Foreign	139.7	7.1	(15.5)	131.3
Pooled funds	48.6	0.7	(9.0)	40.3
	507.1	59.6	(33.9)	532.8
	\$ 2,994.2	\$ 67.0	\$ (191.3)	\$ 2,869.9

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2022

5. INVESTMENTS (continued)

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

(in millions of dollars)

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

(b) Financial instruments measured at fair value

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

- (i) Level 1 fair value measurements reflect unadjusted, quoted prices in active markets for identical assets, and liabilities that the Company has the ability to access at the measurement date.
- (ii) Level 2 fair value measurements use inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable but are not prices such as interest rates and credit risks and inputs that are derived from or corroborated by observable market data.
- (iii) Level 3 fair value measurements use significant non-market observable inputs, including assumptions about risk or liquidity.

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2022

5. INVESTMENTS (continued)

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

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

<i>(in millions of dollars)</i>	As at June 30, 2022			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ -	\$ 112.9	\$ -	\$ 112.9
Bonds	-	3,897.6	-	3,897.6
Preferred stocks	349.6	-	-	349.6
Common stocks	492.5	-	-	492.5
Pooled funds	-	40.3	-	40.3
	\$ 842.1	\$ 4,050.8	\$ -	\$ 4,892.9

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

There were no transfers of financial instruments between the levels during the three-month or six-month period ended June 30, 2022 (December 31, 2021: nil).

(c) Impairment review

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

<i>(in millions of dollars)</i>	Three months ended June 30	
	2022	2021
Common stocks:		
Canadian	\$ 15.4	\$ -
Foreign	3.9	-
	\$ 19.3	\$ -

<i>(in millions of dollars)</i>	Six months ended June 30	
	2022	2021
Common stocks:		
Canadian	\$ 15.4	\$ -
Foreign	3.9	-
	\$ 19.3	\$ -

The remaining gross unrealized losses of \$191.3 million (December 31, 2021: \$23.8 million) on the AFS investments have not been recognized in net income as the Company does not believe there is currently objective evidence of impairment.

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

DEFINITY FINANCIAL CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2022

5. INVESTMENTS (continued)

(d) Derivative financial instruments

The Company holds futures contracts, which are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organized market. The futures contracts are exchange-traded and collateralized by cash. As at June 30, 2022, the Company had derivative financial assets with a notional amount of \$114.4 million (December 31, 2021: \$104.9 million). These derivatives have an expected maturity date within the next year. The fair value of the derivative financial instruments is not significant.

6. POLICY LIABILITIES

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

(a) Premium liabilities

Premium liabilities are represented by the amount of net unearned premiums (“UPR”) less the amount of net deferred policy acquisition expenses (“DPAE”). Generally, broker commissions, premium taxes, and certain direct expenses in respect of the Company’s digital direct business, corresponding to the net UPR are deferrable; however, this amount is written down if the resulting expected future net policy costs are greater than the net UPR. No such write-down to DPAE was considered necessary for the period ended June 30, 2022 (December 31, 2021: nil).

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

<i>(in millions of dollars)</i>	June 30, 2022		
	Gross UPR	Ceded UPR	Net UPR
Personal lines:			
Auto	\$ 754.9	\$ -	\$ 754.9
Property	453.9	-	453.9
Commercial lines	456.9	20.6	436.3
	\$ 1,665.7	\$ 20.6	\$ 1,645.1

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

(b) Claim liabilities

Claim liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the end of the period, including incurred but not reported claims. The ultimate cost of these liabilities may vary from the estimate made at any point in time. Additional information on the judgments, estimates and assumptions used in determining claim liabilities is contained in note 5 to the Company’s audited consolidated financial statements for the year ended December 31, 2021. The discount rate as at June 30, 2022 used to discount the claim liabilities was 3.53% (December 31, 2021: 1.57%).

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June 30, 2022

6. POLICY LIABILITIES (continued)

(b) Claim liabilities (continued)

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

(in millions of dollars)

	Three months ended June 30, 2022		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$ 3,239.4	\$ 118.8	\$ 3,120.6
Current period claims incurred	567.3	45.0	522.3
Prior year favourable claims development	(28.3)	(7.1)	(21.2)
Claims and adjustment expenses	539.0	37.9	501.1
Decrease due to discounting (including provisions for adverse deviations "PfAD")	(63.7)	(2.4)	(61.3)
Claims and adjustment expenses, discounted	475.3	35.5	439.8
Claims paid during the period	467.9	7.5	460.4
Claim liabilities, end of period	\$ 3,246.8	\$ 146.8	\$ 3,100.0

(in millions of dollars)

	Three months ended June 30, 2021		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$ 3,023.3	\$ 75.0	\$ 2,948.3
Current period claims incurred	447.8	17.5	430.3
Prior year favourable claims development	(10.6)	(2.8)	(7.8)
Claims and adjustment expenses	437.2	14.7	422.5
Increase due to discounting (including PfAD)	10.3	0.2	10.1
Claims and adjustment expenses, discounted	447.5	14.9	432.6
Claims paid during the period	346.0	8.7	337.3
Claim liabilities, end of period	\$ 3,124.8	\$ 81.2	\$ 3,043.6

(in millions of dollars)

	Six months ended June 30, 2022		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$ 3,336.1	\$ 134.0	\$ 3,202.1
Current period claims incurred	1,056.1	55.7	1,000.4
Prior year favourable claims development	(62.8)	(19.3)	(43.5)
Claims and adjustment expenses	993.3	36.4	956.9
Decrease due to discounting (including PfAD)	(149.4)	(5.1)	(144.3)
Claims and adjustment expenses, discounted	843.9	31.3	812.6
Claims paid during the period	933.2	18.5	914.7
Claim liabilities, end of period	\$ 3,246.8	\$ 146.8	\$ 3,100.0

(in millions of dollars)

	Six months ended June 30, 2021		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of period	\$ 3,026.3	\$ 69.2	\$ 2,957.1
Current period claims incurred	874.6	34.2	840.4
Prior year favourable claims development	(31.6)	(3.5)	(28.1)
Claims and adjustment expenses	843.0	30.7	812.3
Decrease due to discounting (including PfAD)	(33.8)	(0.5)	(33.3)
Claims and adjustment expenses, discounted	809.2	30.2	779.0
Claims paid during the period	710.7	18.2	692.5
Claim liabilities, end of period	\$ 3,124.8	\$ 81.2	\$ 3,043.6

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6. POLICY LIABILITIES (continued)

(b) Claim liabilities (continued)

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

<i>(in millions of dollars)</i>	June 30, 2022		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	\$ 1,903.1	\$ 43.0	\$ 1,860.1
Property	350.4	34.2	316.2
Commercial lines	993.3	69.6	923.7
	\$ 3,246.8	\$ 146.8	\$ 3,100.0

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

7. REINSURANCE CONTRACTS

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

<i>(in millions of dollars)</i>	As at June 30, 2022	As at December 31, 2021
Individual loss		
Property		
Net company retention ¹	\$ 5.0	\$ 3.0
Maximum limit	100.0	100.0
Auto and general liability		
Net company retention	4.0	4.0
Maximum limit	40.0	40.0
Catastrophe – primary		
Net company retentions ²	30.0	30.0
Maximum limit	1,800.0	1,450.0

¹ In 2021, in addition to the property net retention, the Company had a maximum \$2.0 million per loss participation in lower layers of the treaty.

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

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

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7. REINSURANCE CONTRACTS (continued)

(a) Underwriting impact of reinsurance contracts

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

<i>(in millions of dollars)</i>	Notes	Three months ended June 30	
		2022	2021
Premiums written		\$ 55.4	\$ 59.6
Premiums earned		52.9	53.7
Claims and adjustment expenses	6(b)	37.9	14.7
Commissions earned on ceded reinsurance		4.5	11.0

<i>(in millions of dollars)</i>	Notes	Six months ended June 30	
		2022	2021
Premiums written		\$ 50.2	\$ 107.8
Premiums earned		92.6	104.2
Claims and adjustment expenses	6(b)	36.4	30.7
Commissions earned on ceded reinsurance		8.4	21.5

(b) Reinsurance receivable and recoverable

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

<i>(in millions of dollars)</i>	Notes	As at	
		June 30, 2022	December 31, 2021
Reinsurers' share of UPR	6(a)	\$ 20.6	\$ 63.1
Reinsurers' share of claim liabilities	6(b)	146.8	134.0
Reinsurer receivables		51.3	47.8
Reinsurer payables		(28.3)	(43.7)
Unearned reinsurance commissions		(4.5)	(22.0)
		\$ 185.9	\$ 179.2

8. INCOME TAXES

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

<i>(in millions of dollars)</i>		Three months ended June 30	
		2022	2021
Income tax expense calculated based on statutory tax rates	26.3%	\$ 6.5	26.3% \$ 14.9
Canadian dividend income not subject to tax	(7.8%)	(1.9)	(3.1%) (1.8)
Non-deductible expenses	0.2%	-	-
Other	(3.2%)	(0.8)	(0.6%) (0.3)
Income tax expense recorded in net income	15.5%	\$ 3.8	22.6% \$ 12.8

<i>(in millions of dollars)</i>	Three months ended June 30	
	2022	2021
Current income taxes	\$ 3.8	\$ 16.3
Deferred income taxes	-	(3.5)
Income tax expense	\$ 3.8	\$ 12.8

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June 30, 2022

8. INCOME TAXES (continued)

<i>(in millions of dollars)</i>		Six months ended June 30				
		2022		2021		
Income tax expense calculated based on statutory tax rates	26.3%	\$	23.1	26.3%	\$	43.9
Canadian dividend income not subject to tax	(4.3%)		(3.8)	(2.1%)		(3.5)
Non-deductible expenses	0.2%		0.2	-		-
Other	(1.3%)		(1.2)	-		(0.1)
Income tax expense recorded in net income	20.9%	\$	18.3	24.2%	\$	40.3

<i>(in millions of dollars)</i>	Six months ended June 30				
	2022		2021		
Current income taxes		\$	17.2	\$	43.4
Deferred income taxes			1.1		(3.1)
Income tax expense		\$	18.3	\$	40.3

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

<i>(in millions of dollars)</i>	Three months ended June 30				
	2022		2021		
Income tax on items that may be reclassified subsequently to net income:					
Net unrealized (losses) gains on AFS investments		\$	(50.0)	\$	14.1
Reclassification to net income of net recognized losses (gains) on AFS investments			10.6		(0.2)
			(39.4)		13.9
Income tax on items that will not be reclassified subsequently to net income:					
Post-employment benefit obligation gain			1.7		-
Income tax (recovery) expense		\$	(37.7)	\$	13.9

<i>(in millions of dollars)</i>	Six months ended June 30				
	2022		2021		
Income tax on items that may be reclassified subsequently to net income:					
Net unrealized (losses) gains on AFS investments		\$	(78.3)	\$	17.9
Reclassification to net income of net recognized losses (gains) on AFS investments			12.3		(11.7)
			(66.0)		6.2
Income tax on items that will not be reclassified subsequently to net income:					
Post-employment benefit obligation gain			6.3		-
Income tax (recovery) expense		\$	(59.7)	\$	6.2

9. OTHER ASSETS

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

<i>(in millions of dollars)</i>	Notes	As at			
		June 30, 2022	December 31, 2021		
Investments in associates		\$	97.9	\$	77.1
Pension asset	13		38.6		21.4
Prepaid expenses and other			28.5		18.1
		\$	165.0	\$	116.6

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10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

<i>(in millions of dollars)</i>	Notes	As at June 30, 2022	As at December 31, 2021
Accounts payable and other		\$ 143.0	\$ 191.7
Commissions payable		75.8	86.5
Pension and non-pension benefit obligations	13	27.7	33.9
Premium and other taxes payable		23.3	39.9
Lease liabilities		22.2	18.9
Cash-settled share-based compensation plans		2.2	22.5
		\$ 294.2	\$ 393.4

11. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares issuable in series. The Company's issued and outstanding common shares were as follows:

<i>(in millions of dollars, except as otherwise noted)</i>	Three months ended June 30, 2022	
	Number of shares (in millions)	Amount
Issued and outstanding, beginning and end of period	115.9	\$ 2,307.8
Shares held in trust, beginning of period	(0.3)	(8.1)
Purchased for future settlement of the Medium-Term Incentive Plan ("MTIP") and Long-Term Incentive Plan ("LTIP")	(0.6)	(19.8)
Shares held in trust, end of period	(0.9)	(27.9)
Issued and outstanding, net of shares held in trust, end of period	115.0	\$ 2,279.9

<i>(in millions of dollars, except as otherwise noted)</i>	Six months ended June 30, 2022	
	Number of shares (in millions)	Amount
Issued and outstanding, beginning and end of period	115.9	\$ 2,307.8
Shares held in trust, beginning of period	-	-
Purchased for future settlement of the MTIP and LTIP	(0.9)	(27.9)
Shares held in trust, end of period	(0.9)	(27.9)
Issued and outstanding, net of shares held in trust, end of period	115.0	\$ 2,279.9

On May 12, 2022, the Board of Directors declared a \$0.125 per share dividend, which was paid on June 28, 2022 to shareholders of record at the close of business on June 15, 2022.

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

No preferred shares were issued and outstanding.

DEFINITY FINANCIAL CORPORATION

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12. EARNINGS PER COMMON SHARE

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

<i>(in millions of dollars, except as otherwise noted)</i>	Three months ended June 30	
	2022	2021
Net income	\$ 21.0	\$ 43.9
Weighted average common shares outstanding (in millions)	115.3	104.0
Dilutive effect of share-based compensation plans (in millions)	1.9	-
Weighted average of diluted common shares outstanding (in millions)	117.2	104.0
EPS (in dollars)		
Basic	\$ 0.18	\$ 0.42
Diluted	\$ 0.18	\$ 0.42

<i>(in millions of dollars, except as otherwise noted)</i>	Six months ended June 30	
	2022	2021
Net income	\$ 69.3	\$ 126.3
Weighted average common shares outstanding (in millions)	115.6	104.0
Dilutive effect of share-based compensation plans (in millions)	1.8	-
Weighted average of diluted common shares outstanding (in millions)	117.4	104.0
EPS (in dollars)		
Basic	\$ 0.60	\$ 1.21
Diluted	\$ 0.59	\$ 1.21

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

13. POST-EMPLOYMENT BENEFITS

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

The contribution to be paid by the Company to the defined benefit pension plans is determined each year by the Company’s pension actuaries based on the latest actuarial valuations of all its plans. The total contributions to the defined benefit pension plans made by the Company during the three-month period ended June 30, 2022 were \$0.5 million (June 30, 2021: \$0.4 million). The total contributions to the defined benefit pension plans made by the Company during the six-month period ended June 30, 2022 were \$0.9 million (June 30, 2021: \$0.8 million).

Under the defined contribution component of the pension plan, the Company contributes a fixed percentage of an employee’s pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan during the three-month period ended June 30, 2022 were \$5.1 million (June 30, 2021: \$4.2 million). Contributions under the defined contribution component of the pension plan during the six-month period ended June 30, 2022 were \$10.3 million (June 30, 2021: \$8.6 million).

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13. POST-EMPLOYMENT BENEFITS (continued)

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

<i>(in millions of dollars)</i>	Three months ended June 30	
	2022	2021
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	\$ 25.1	\$ -
Return on plan assets excluding interest income	(18.5)	-
	\$ 6.6	\$ -

<i>(in millions of dollars)</i>	Six months ended June 30	
	2022	2021
Re-measurements related to:		
Changes in discount rate used to determine the benefit obligation	\$ 57.0	\$ -
Return on plan assets excluding interest income	(32.9)	-
	\$ 24.1	\$ -

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

14. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS

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

The impact of the Company's customer relief measures related to the COVID-19 pandemic during the three-month period ended June 30, 2022 was a reduction in gross written premiums of approximately \$8 million (June 30, 2021: \$14 million) and a reduction in net earned premiums of approximately \$13 million (June 30, 2021: \$16 million). The impact of these measures during the six-month period ended June 30, 2022 was a reduction in gross written premiums of approximately \$21 million (June 30, 2021: \$28 million) and a reduction in net earned premiums of approximately \$26 million (June 30, 2021: \$29 million).

Along with many other P&C insurers in Canada, Definity Insurance has been named as a defendant in litigation for certain business interruption losses related to the COVID-19 pandemic, seeking to establish coverage under insurance policies, including national and regional class proceedings. An Ontario action on behalf of a national class (businesses in Canada, excluding Québec) was certified as a class proceeding in 2021 and is expected to proceed to trial in 2023. Definity Insurance and other insurer defendants consented to certification, which is a procedural step and not a determination of the merits. An action in Québec (limited to dentists and dental offices in Québec) was denied authorization as a class proceeding in 2021. The denial represents a rejection of that class proceeding. A second Québec action (all other businesses in Québec) remains outstanding. Definity Insurance denies liability and intends to vigorously defend these proceedings.

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15. SUBSEQUENT EVENT

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