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**Definity Financial Corporation**  
**Management's Discussion and Analysis**  
For the first quarter ended March 31, 2023

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



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# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## INTRODUCTION

May 11, 2023

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-month period ended March 31, 2023, compared to the corresponding period in 2022. 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 March 31, 2023, our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2022, and the annual MD&A included in our 2022 Annual Report. Comparative information for 2022 has been restated in this MD&A for the impacts of IFRS 17 — *Insurance Contracts* ("IFRS 17") and IFRS 9 — *Financial Instruments* ("IFRS 9") which were effective on January 1, 2023, unless otherwise noted. 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 May 11, 2023.

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 March 31, 2023 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:

<b>Supplementary Financial Measures:</b>	Book value per share, catastrophe losses, financial capacity, gross written premiums, and leverage capacity.
<b>Non-GAAP Financial Measures:</b>	Core accident year claims and adjustment expenses, distribution income, net claims and adjustment expenses, net commissions, net underwriting revenue, non-operating gains (losses), operating income, operating net income, prior year claims development, underwriting expenses, and underwriting income.
<b>Non-GAAP Ratios:</b>	Claims ratio, combined ratio, expense ratio, return on equity ("ROE"), operating return on equity ("operating ROE"), operating earnings per common share, and certain other ratios.

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 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

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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, particularly in provinces where the regulatory environment requires auto insurance rate increases to be approved or that otherwise impose regulatory constraints on auto insurance rate increases;
- 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;

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- Definity's reliance on information technology systems and 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;
- general economic, financial, political, and social 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;
- management's estimates and judgements in respect of the adoption of IFRS 17 and the financial impact on various financial metrics;
- 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, 2022 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 at 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.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



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## 1 — CORPORATE OVERVIEW

### ABOUT DEFINITY

We are one of the leading property and casualty (“P&C”) insurers in Canada<sup>1</sup>. We are the sixth largest provider of P&C insurance in Canada, with a market share of 4.9%.<sup>2</sup> We had over \$3.7 billion in gross written premiums (“GWP”) for the 12 months ended March 31, 2023.

We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 69% of our GWP in the first quarter of 2023, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance operations, which represented 31% of our GWP in the first quarter of 2023, 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 quarter of 2023, 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 58% of GWP in the first quarter of 2023.

As part of our strategy to become one of the five largest P&C insurers in Canada, 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 Brokers Limited (“McDougall”) from approximately 25% to 75%. We further expanded our distribution platform with the acquisition of McFarlan Rowlands Insurance Brokers Inc. and affiliated entities (“McFarlan Rowlands”) on May 8, 2023. Combining McFarlan Rowlands with McDougall establishes a leading broker platform with significant scale in Ontario and provides a solid foundation for national expansion.

Our P&C insurance business is supported by our investment management activities. We had approximately \$4.9 billion in investments as at March 31, 2023. 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.

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<sup>1</sup> Based on market share by DWP.

<sup>2</sup> Market share of Canadian P&C insurance industry DWP of \$73.2 billion for the twelve months ended December 31, 2022.

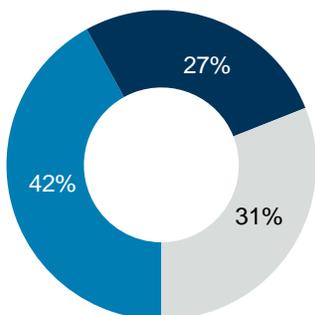
# Management's Discussion and Analysis

For the first quarter ended March 31, 2023

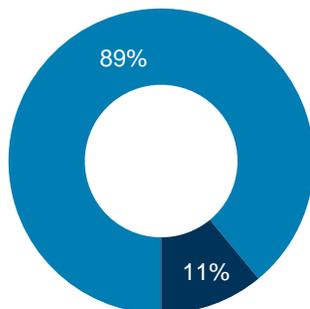


The following charts illustrate the breakdown of our GWP for the three months ended March 31, 2023 by business line, distribution channel, and region, respectively.

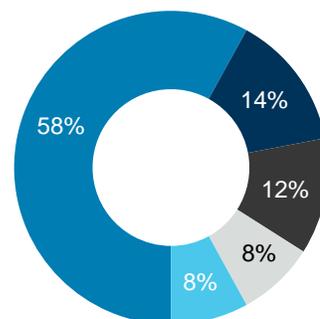
Q1 2023 GWP<sup>3</sup>



- Personal auto
- Personal property<sup>4</sup>
- Commercial lines



- Broker
- Direct



- Ontario
- Alberta & Prairies
- British Columbia
- Québec
- Atlantic

<sup>3</sup> GWP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios."

<sup>4</sup> Personal property includes pet insurance business.

# Management's Discussion and Analysis

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## 2 — FINANCIAL PERFORMANCE

### HIGHLIGHTS:

- Gross written premium growth of 11.4% in 2023 Q1 supported by ongoing firm market conditions in property and commercial lines
- Combined ratio of 95.3% in 2023 Q1 was bolstered by the strong performance in personal property and ongoing strong performance from commercial lines
- Personal auto combined ratio of 100.9% reflects business seasonality, heightened theft, and recent elevated claims trends in both frequency and severity
- Operating net income of \$63.4 million in 2023 Q1, relatively unchanged from 2022 Q1, resulting in Operating EPS of \$0.54 per share; trailing 12-month Operating ROE was 9.3%
- Book value per share increased to \$22.90, 10.4% higher than December 31, 2022 measured under IFRS 4
- Definity, through its subsidiary McDougall, acquired 100% of McFarlan Rowlands on May 8, establishing a leading broker platform with significant scale in Ontario that is expected to be immediately accretive and increase earnings from distribution by approximately 50%

### RESULTS OF OPERATIONS

The following table summarizes our consolidated statements of income for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,		Change
	2023	2022 (Restated)	
<i>(in millions of dollars, except as otherwise noted)</i>			
Insurance revenue.....	\$ 907.5	\$ 814.3	\$ 93.2
Insurance service expenses.....	(782.3)	(664.2)	(118.1)
Net expenses from reinsurance contracts held.....	(31.3)	(34.1)	2.8
Insurance service result.....	\$ 93.9	\$ 116.0	\$ (22.1)
Net investment income.....	41.0	25.8	15.2
Recognized gains (losses) on FVTPL investments.....	91.7	(197.8)	289.5
Investment income (loss).....	\$ 132.7	\$ (172.0)	\$ 304.7
Finance (expenses) income from insurance contracts issued.....	(64.5)	52.7	(117.2)
Finance income (expenses) from reinsurance contracts held.....	5.6	(3.2)	8.8
Net insurance financial result.....	\$ (58.9)	\$ 49.5	\$ (108.4)
Net insurance and investment result.....	167.7	(6.5)	174.2
Distribution revenues.....	25.5	-	25.5
Other (expenses) income.....	(60.0)	(41.0)	(19.0)
Income (loss) before income taxes.....	\$ 133.2	\$ (47.5)	\$ 180.7
Income tax (expense) recovery.....	(31.1)	14.9	(46.0)
<b>Net income (loss).....</b>	<b>\$ 102.1</b>	<b>\$ (32.6)</b>	<b>\$ 134.7</b>
Net income (loss) attributable to common shareholders.....	100.9	(32.6)	133.5
Net income attributable to non-controlling interests.....	1.2	-	1.2
Earnings (loss) per common share, basic (in dollars).....	\$ 0.88	\$ (0.28)	\$ 1.16
Earnings (loss) per common share, diluted (in dollars).....	\$ 0.87	\$ (0.28)	\$ 1.15

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The following table sets forth certain additional financial measures that we use to measure and evaluate performance of our business for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,		Change
	2023	2022 (Restated)	
<i>(in millions of dollars, except as otherwise noted)</i>			
Gross written premiums <sup>(1)</sup>	\$ 846.9	\$ 760.1	11.4%
Net underwriting revenue <sup>(2)</sup>	839.1	765.3	9.6%
Underwriting income <sup>(2)</sup>	39.5	57.8	(18.3)
Distribution income <sup>(2)</sup>	8.9	4.7	4.2
Operating income <sup>(2)</sup>	80.6	82.6	(2.0)
Non-operating gains (losses) <sup>(2)</sup>	50.9	(130.1)	181.0
Operating net income <sup>(2)</sup>	63.4	63.3	0.1
Operating earnings per common share (in dollars) <sup>(3)</sup>	\$ 0.54	\$ 0.54	\$ -
Book value per share (in dollars) <sup>(1)</sup>	\$ 22.90	\$ 21.68	\$ 1.22
Claims ratio <sup>(3)</sup>	62.6%	59.1%	3.5 pts
Expense ratio <sup>(3)</sup>	32.7%	33.3%	(0.6) pts
Combined ratio <sup>(3)</sup>	95.3%	92.4%	2.9 pts
Return on equity <sup>(3)(4)</sup>	9.5%	4.3%	5.2 pts
Operating return on equity <sup>(3)(4)</sup>	9.3%	9.4%	(0.1) pts

Notes:

- (1) Gross written premiums and book value per share are supplementary financial measures.
  - (2) Net underwriting revenue, underwriting income, distribution income, operating income, operating net income, and non-operating gains (losses) are non-GAAP financial measures.
  - (3) Claims ratio, expense ratio, combined ratio, return on equity, operating return on equity, and operating earnings per common share are non-GAAP ratios.
  - (4) Return on equity and operating return on equity for 2022 are for the twelve-month period ended December 31, 2022.
- Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

## GROSS WRITTEN PREMIUMS

GWP for the first quarter of 2023 increased by \$86.8 million or 11.4% compared to the first quarter of 2022, with growth across all our lines of business. Personal lines GWP was up 7.9% with increases in both our broker and direct businesses. Commercial lines GWP increased 20.0% as we continued to focus on profitable growth in this line of business.

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

## INSURANCE REVENUE

The growth in insurance revenue was 11.4% in line with the GWP growth of 11.4%.

## INSURANCE SERVICE RESULT

Insurance service result decreased by \$22.1 million as our auto lines were impacted by continued elevated inflation, heightened levels of auto theft, and an increase in claims frequency as the first quarter of 2022 benefitted from lower auto claims frequency due to COVID-19 pandemic lockdowns.

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## UNDERWRITING INCOME

The composition of the combined ratio for the three months ended March 31, 2023 and 2022 is as follows:

	Three months ended March 31,				Change	
	2023		2022 (Restated)			
<i>(in millions of dollars, except as otherwise noted)</i>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio
Net underwriting revenue <sup>(2)</sup> .....	\$ 839.1		\$ 765.3		\$ 73.8	9.6%
Net claims and adjustment expenses <sup>(2)</sup> .....	525.1	62.6%	452.0	59.1%	73.1	3.5 pts
Underwriting expenses <sup>(2)</sup> .....	274.5	32.7%	255.5	33.3%	19.0	(0.6) pts
Underwriting income <sup>(2)</sup> .....	39.5		57.8		(18.3)	
Combined ratio <sup>(3)</sup> .....		<u>95.3%</u>		<u>92.4%</u>		<u>2.9 pts</u>

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue.

(2) Net underwriting revenue, net claims and adjustment expenses, underwriting expenses, and underwriting income are non-GAAP financial measures.

(3) Combined ratio is a non-GAAP ratio.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The growth in net underwriting revenue was due primarily to a high level of GWP growth in 2022.

Our underwriting income for the first quarter of 2023 was \$39.5 million and our combined ratio was 95.3%, compared to underwriting income of \$57.8 million and a combined ratio of 92.4% in the same quarter a year ago. The combined ratio in our auto lines was impacted by continued elevated inflation, heightened levels of auto theft, and an increase in claims frequency as the first quarter of 2022 benefitted from lower auto claims frequency due to COVID-19 pandemic lockdowns.

## NET CLAIMS AND ADJUSTMENT EXPENSES

The composition of the claims ratio for the three months ended March 31, 2023 and 2022, 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 March 31,				Change	
	2023		2022 (Restated)			
<i>(in millions of dollars, except as otherwise noted)</i>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio
Core accident year claims and adjustment expenses <sup>(2)</sup> .....	\$ 512.8	61.1%	\$ 456.6	59.7%	\$ 56.2	1.4 pts
Catastrophe losses <sup>(3)</sup> .....	20.0	2.4%	17.3	2.3%	2.7	0.1 pts
Prior year favourable claims development <sup>(2)</sup> .....	(7.7)	(0.9%)	(21.9)	(2.9%)	14.2	2.0 pts
Net claims and adjustment expenses <sup>(4)</sup> .....	<u>\$ 525.1</u>	<u>62.6%</u>	<u>\$ 452.0</u>	<u>59.1%</u>	<u>\$ 73.1</u>	<u>3.5 pts</u>

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.

(2) Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.

(3) Catastrophe losses is a supplementary financial measure.

(4) The ratio shown for this line item is our claims ratio, which is a non-GAAP ratio.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, increased in the first quarter of 2023 driven by the impacts of inflation, heightened levels of auto theft, as well as increased claims frequency in our auto lines of business.

# Management's Discussion and Analysis

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Catastrophe losses in the first quarter of 2023 were relatively consistent with the same quarter a year ago.

We experienced lower levels of favourable prior year claims development in the first quarter of 2023 as compared to the same quarter a year ago, driven primarily by personal property and our commercial lines of business.

## UNDERWRITING EXPENSES

The key components of our underwriting expenses and our expense ratio for the three months ended March 31, 2023 and 2022 are as follows:

	Three months ended March 31,				Change	
	2023		2022 (Restated)			
<i>(in millions of dollars, except as otherwise noted)</i>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio
Net commissions <sup>(2)</sup> .....	\$ 124.8	14.9%	\$ 122.9	16.1%	\$ 1.9	(1.2) pts
Operating expenses .....	118.4	14.1%	104.2	13.5%	14.2	0.6 pts
Premium taxes.....	31.3	3.7%	28.4	3.7%	2.9	- pts
Underwriting expenses <sup>(2)(3)</sup> .....	<u>\$ 274.5</u>	<u>32.7%</u>	<u>\$ 255.5</u>	<u>33.3%</u>	<u>\$ 19.0</u>	<u>(0.6) pts</u>

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of net commissions, operating expenses, and premium taxes as a percentage of net underwriting revenue is a non-GAAP ratio.

(2) Net commissions and underwriting expenses are non-GAAP financial measures.

(3) The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The net commissions ratio decreased in the first quarter of 2023 as compared to the same quarter a year ago, due primarily to the elimination on consolidation of commission paid to McDougall and a decrease in profit commissions. The operating expense ratio increased in the first quarter of 2023 due in part to increased staffing and technology costs as we continue to scale the business and invest in our people and infrastructure.

## NET INVESTMENT INCOME

The composition of net investment income for the three months ended March 31, 2023 and 2022 is as follows:

<i>(in millions of dollars)</i>	Three months ended March 31,		
	2023	2022	Change
Interest income .....	\$ 34.3	\$ 19.7	\$ 14.6
Dividend income .....	8.4	7.7	0.7
Investment expenses.....	(1.7)	(1.6)	(0.1)
Net investment income .....	<u>\$ 41.0</u>	<u>\$ 25.8</u>	<u>\$ 15.2</u>

Net investment income increased in the first quarter of 2023 driven primarily by higher fixed income yields that we captured through actively managing the fixed income portfolio over the past six months, combined with higher reinvestment rates.

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For the first quarter ended March 31, 2023



## NON-OPERATING GAINS (LOSSES)

The composition of non-operating gains (losses) for the three months ended March 31, 2023 and 2022 are as follows:

	Three months ended March 31,		
	2023	2022 (Restated)	Change
<i>(in millions of dollars)</i>			
Recognized gains (losses) on FVTPL investments .....	\$ 91.7	\$ (197.8)	\$ 289.5
Discounting <sup>(1)</sup> .....	16.4	16.9	(0.5)
Risk adjustment <sup>(1)</sup> .....	2.3	4.1	(1.8)
Finance (expenses) income from insurance contracts issued.....	(64.5)	52.7	(117.2)
Finance income (expenses) from reinsurance contracts held .....	5.6	(3.2)	8.8
Interest on restricted cash, and demutualization and IPO-related expenses <sup>(2)</sup> .....	2.5	(1.9)	4.4
Amortization of intangible assets recognized in business combinations <sup>(2)</sup> .....	(3.2)	(0.6)	(2.6)
Other <sup>(2),(3)</sup> .....	0.1	(0.3)	0.4
Non-operating gains (losses) <sup>(4)</sup> .....	<u>\$ 50.9</u>	<u>\$ (130.1)</u>	<u>\$ 181.0</u>

Notes:

(1) Included in insurance service expenses and net expenses from reinsurance contracts held in our interim consolidated financial statements.

(2) Included in Other (expenses) income in our interim consolidated financial statements.

(3) Other represents foreign currency translation of the fintech venture capital funds 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.

(4) Non-operating gains (losses) is a non-GAAP financial measure.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

Recognized gains (losses) on FVTPL investments shifted to gains in the first quarter of 2023 due to a decrease in fixed income yields, impacting the valuation of our bond portfolio. This compared to losses in the first quarter of 2022 due primarily to the impact of rising interest rates during 2022.

Finance (expenses) income from insurance contracts issued shifted to an expense in the first quarter of 2023 due to a decrease in the yield curve, whereas the yield curve increased in the first quarter of 2022.

## DISTRIBUTION INCOME

On October 3, 2022, we increased our ownership interest in McDougall from approximately 25% to 75% and acquired 100% of the shares of T.G Colley & Sons Limited and Integrisure Group Insurance Inc. Distribution income was \$8.9 million in the first quarter of 2023 compared to \$4.7 million in the first quarter of 2022, due primarily to the increased ownership position in McDougall and strong contingent profit commissions recognized in the first quarter of 2023.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## NET INCOME (LOSS)

Net income attributable to common shareholders was \$100.9 million in the first quarter of 2023 compared to a net loss of \$32.6 million in the first quarter of 2022. Net income attributable to common shareholders increased as a result of a shift to unrealized gains on investments in the first quarter of 2023 compared to losses in 2022, as well as the factors impacting operating net income.

## OPERATING NET INCOME

Operating net income was \$63.4 million in the first quarter of 2023 compared to \$63.3 million in the first quarter of 2022 as higher net investment income and distribution income offset lower underwriting income.

## OPERATING INCOME TAX EXPENSE

The reconciliation of income tax calculated at the Canadian statutory tax rate to the effective tax rate in operating net income is provided in the table below:

	Three months ended March 31,		
	2023	2022 (Restated)	Change
<i>(in millions of dollars)</i>			
Statutory tax rate .....	26.3%	26.3%	- pts
Canadian dividend income not subject to tax .....	(2.5%)	(2.3%)	(0.2) pts
Non-deductible expenses .....	0.1%	0.2%	(0.1) pts
Other .....	(2.6%)	(0.8%)	(1.8) pts
Effective tax rate .....	21.3%	23.4%	(2.1) pts

The effective tax rate for the first quarter was lower than the statutory rate of 26.3% (Q1 2022: 26.3%) due primarily to the impact of non-taxable Canadian dividend income and an adjustment to income tax expense in respect of prior years.

## OPERATING ROE

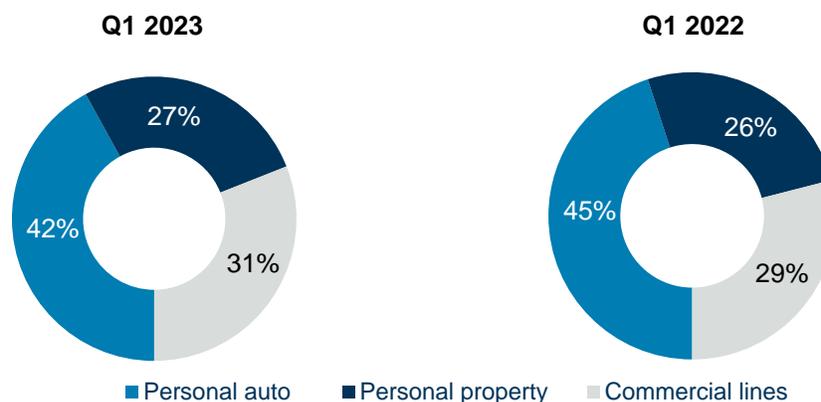
Operating ROE was 9.3% for the twelve-month period ended March 31, 2023 compared to 9.4% for the full year ended December 31, 2022.

## 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.

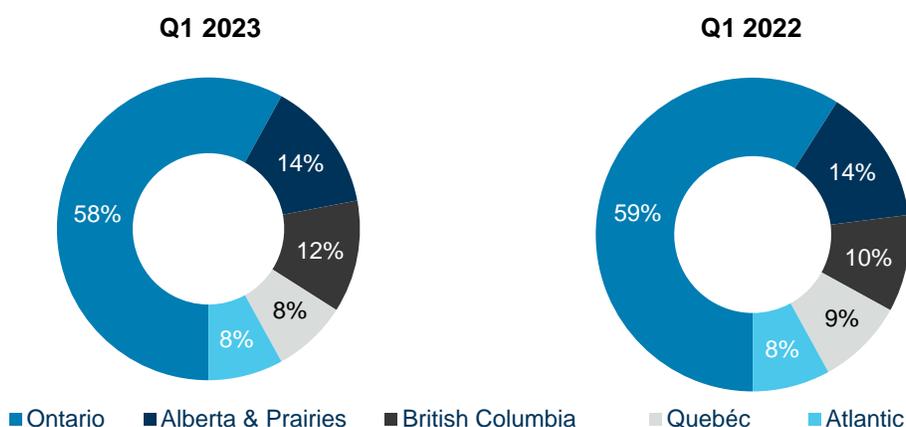
The following charts illustrate our GWP mix on this basis for the three months ended March 31, 2023 and 2022:

**GWP by Line of Business<sup>(1)</sup>**



The shift in business mix was due to our strategy to diversify the portfolio by a heightened focus on growth in our personal property and commercial lines businesses.

**GWP by Region<sup>(1)</sup>**



There were slight shifts in the regional mix in the first quarter of 2023 compared to the same quarter in the prior year.

**Notes:**

(1) GWP is a supplementary financial measure. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios.”

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## UNDERWRITING — PERSONAL LINES

The table below sets forth selected results of operations of our personal lines of business for the three months ended March 31, 2023 and 2022 and the policies in force as at March 31, 2023 and 2022.

	Three months ended March 31,		Change
	2023	2022 (Restated)	
<i>(in millions of dollars, except as otherwise noted)</i>			
Policies in force (thousands) (at period end)			
Auto.....	784.2	770.5	1.8%
Property .....	842.5	805.9	4.5%
Total .....	1,626.7	1,576.4	3.2%
Gross written premiums <sup>(1)</sup>			
Auto.....	\$ 357.8	\$ 339.8	5.3%
Property .....	225.3	200.4	12.4%
Total .....	\$ 583.1	\$ 540.2	7.9%
Net underwriting revenue <sup>(2)</sup>			
Auto.....	\$ 365.7	\$ 346.2	5.6%
Property .....	241.0	215.5	11.8%
Total .....	\$ 606.7	\$ 561.7	8.0%
Net claims and adjustment expenses <sup>(2)</sup>			
Auto.....	\$ 264.7	\$ 230.9	\$ 33.8
Property .....	130.6	119.6	11.0
Total .....	\$ 395.3	\$ 350.5	\$ 44.8
Underwriting expenses <sup>(2)</sup>			
Auto.....	\$ 104.2	\$ 102.3	\$ 1.9
Property .....	88.9	79.9	9.0
Total .....	\$ 193.1	\$ 182.2	\$ 10.9
Underwriting (loss) income <sup>(2)</sup>			
Auto.....	\$ (3.2)	\$ 13.0	\$ (16.2)
Property .....	21.5	16.0	5.5
Total .....	\$ 18.3	\$ 29.0	\$ (10.7)

Notes:

(1) Gross written premiums is a supplementary financial measure.

(2) Net underwriting revenue, net claims and adjustment expenses, underwriting expenses, and underwriting (loss) income are non-GAAP financial measures.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

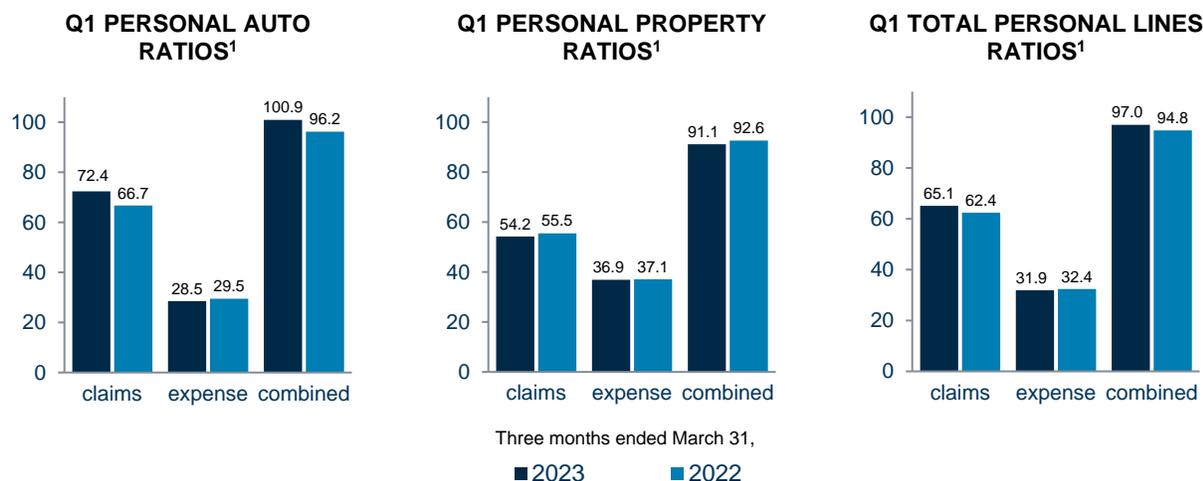
Overall, personal lines GWP increased 7.9% in the first quarter of 2023. The direct channel GWP was \$94.3 million in the first quarter of 2023, an increase of 6.9% compared to \$88.2 million in the first quarter of 2022. Personal auto GWP increased 5.3% in the quarter, reflecting an increase in average written premiums and our efforts to protect profitability amid the Alberta auto rate freeze. Personal property GWP increased 12.4% in the quarter, benefitting from continued firm market conditions including increases in average written premiums.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



Personal lines underwriting income was \$18.3 million in the first quarter of 2023 compared to \$29.0 million in the same quarter a year ago.



Notes:

(1) Claims ratio, expense ratio, and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

The composition of the claims ratio for the three months ended March 31, 2023 and 2022 for our personal auto line of business is as follows:

	Auto <sup>(1)</sup>		
	Three months ended March 31		Change
	2023	2022 (Restated)	
Core accident year claims and adjustment expenses <sup>(2)</sup>	72.9%	67.7%	5.2 pts
Catastrophe losses <sup>(3)</sup>	0.1%	0.1%	- pts
Prior year favourable claims development <sup>(2)</sup>	(0.6%)	(1.1%)	0.5 pts
Claims ratio <sup>(4)</sup>	72.4%	66.7%	5.7 pts

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.

(2) Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.

(3) Catastrophe losses is a supplementary financial measure.

(4) Claims ratio is a non-GAAP ratio.

Refer to Section 12- “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The personal auto combined ratio of 100.9% in the first quarter of 2023 (Q1 2022: 96.2%) was impacted by expected increases in frequency from normalization of driving, continued elevated levels of claims severity from persistent inflation and heightened levels of theft. Results in the first quarter of 2022 also benefitted from significantly lower auto claims frequency related to COVID-19 pandemic lockdowns.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



The composition of the claims ratio for the three months ended March 31, 2023 and 2022 for our personal property line of business is as follows:

	Property <sup>(1)</sup>		Change
	Three months ended March 31		
	2023	2022 (Restated)	
Core accident year claims and adjustment expenses <sup>(2)</sup>	50.7%	52.7%	(2.0) pts
Catastrophe losses <sup>(3)</sup>	3.8%	7.2%	(3.4) pts
Prior year favourable claims development <sup>(2)</sup>	(0.3%)	(4.4%)	4.1 pts
Claims ratio <sup>(4)</sup>	54.2%	55.5%	(1.3) pts

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.

(2) Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.

(3) Catastrophe losses is a supplementary financial measure.

(4) Claims ratio is a non-GAAP ratio.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

The personal property combined ratio was 91.1% in the first quarter of 2023 (Q1 2022: 92.6%) with improvements driven by a decrease in catastrophe losses and an improved core accident year claims ratio, reflecting the impact of ongoing actions to improve the profitability of this line of business. These results were partially offset by lower favourable prior year claims development.

## UNDERWRITING — COMMERCIAL LINES

The table below sets forth selected results of operations of our commercial lines of business for the three months ended March 31, 2023 and 2022.

	Three months ended March 31,		Change
	2023	2022 (Restated)	
<i>(in millions of dollars, except as otherwise noted)</i>			
Gross written premiums <sup>(1)</sup>	\$ 263.8	\$ 219.9	20.0%
Net underwriting revenue <sup>(2)</sup>	\$ 232.4	\$ 203.6	14.1%
Net claims and adjustment expenses <sup>(2)</sup>	\$ 129.8	\$ 101.5	\$ 28.3
Underwriting expenses <sup>(2)</sup>	\$ 81.4	\$ 73.3	\$ 8.1
Underwriting income <sup>(2)</sup>	\$ 21.2	\$ 28.8	\$ (7.6)

Notes:

(1) Gross written premiums is a supplementary financial measure.

(2) Net underwriting revenue, net claims and adjustment expenses, underwriting expenses, and underwriting income are non-GAAP financial measures.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

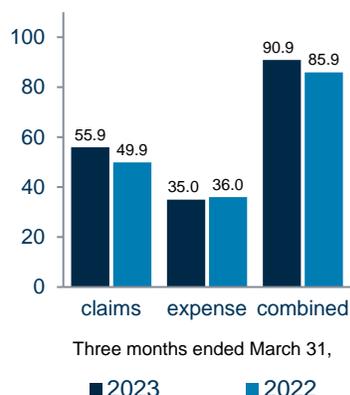
Strong growth momentum in commercial lines continued in the first quarter of 2023 as we benefitted from broad support from our broker partners across Canada. GWP increased 20.0% in the first quarter of 2023 driven by strong retention and rate achievement in a firm market environment and further scaling of our specialty capabilities.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## Q1 COMMERCIAL LINES RATIOS<sup>1</sup>



Notes:

(1) Claims ratio, expense ratio, and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

The composition of the claims ratio for the three months ended March 31, 2023 and 2022 for our commercial lines of business is as follows:

	Three months ended March 31 <sup>(1)</sup>		Change
	2023	2022 (Restated)	
Core accident year claims and adjustment expenses <sup>(2)</sup> .....	53.5%	53.4%	0.1 pts
Catastrophe losses <sup>(3)</sup> .....	4.5%	0.7%	3.8 pts
Prior year favourable claims development <sup>(2)</sup> .....	(2.1%)	(4.2%)	2.1 pts
Claims ratio <sup>(4)</sup> .....	55.9%	49.9%	6.0 pts

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of net underwriting revenue. The ratio of each of core accident year claims and adjustment expenses, catastrophe losses, and prior year favourable claims development as a percentage of net underwriting revenue is a non-GAAP ratio.

(2) Core accident year claims and adjustment expenses, and prior year favourable claims development are non-GAAP financial measures.

(3) Catastrophe losses is a supplementary financial measure.

(4) Claims ratio is a non-GAAP ratio.

Refer to Section 12- “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios” for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

Commercial lines underwriting income was \$21.2 million in the first quarter of 2023 compared to \$28.8 million in the same quarter a year ago.

The commercial lines combined ratio was 90.9% in the first quarter of 2023, compared to the unusually strong combined ratio of 85.9% in the same quarter a year ago. The combined ratio increased due to higher catastrophe losses largely as a result of two individually large commercial property losses, and lower favourable prior year claims development. Results in the first quarter of 2022 also benefitted from lower auto claims frequency related to COVID-19 pandemic lockdowns.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## 4 — ADOPTION OF IFRS 17 AND IFRS 9

Effective January 1, 2023, we adopted IFRS 9 and IFRS 17 as discussed in Note 3 — “Adoption of new accounting standards” of our interim consolidated financial statements for the quarter ended March 31, 2023. We have restated comparative information for 2022 in the MD&A for the impacts of IFRS 9 and IFRS 17, unless otherwise noted. Our equity attributable to common shareholders as of January 1, 2022 increased by \$158.1 million or 6.6% on the adoption of IFRS 17 as a result of the changes shown in the table below.

The estimated effects of adopting IFRS 17 and IFRS 9 on retained (deficit) earnings and AOCI as at January 1, 2022 are as follows:

<i>(in millions of dollars)</i>	As at January 1, 2022	
	Retained (deficit) earnings	AOCI
Balance as at December 31, 2021, as previously reported	\$ (28.8)	\$ 98.0
IFRS 17 adjustments:		
Change from provision for adverse deviation to risk adjustment	140.0	-
Difference in discounting under IFRS 17	28.0	-
Increased deferral of insurance acquisition cash flows	73.6	-
Establishment of onerous loss provision	(26.3)	-
Income tax impact on transition adjustments	(56.5)	-
<b>Total IFRS 17 adjustments</b>	<b>158.8</b>	<b>-</b>
IFRS 9 adjustments:		
Reclass AFS unrealized gains, excluding FVTOCI preferred stocks, from AOCI to retained (deficit) earnings	122.9	(122.9)
Fair value adjustment to commercial loans	(0.9)	-
Income tax impact on transition adjustments	(31.2)	31.4
<b>Total IFRS 9 adjustments</b>	<b>90.8</b>	<b>(91.5)</b>
<b>Restated balance as at January 1, 2022</b>	<b>\$ 220.8</b>	<b>\$ 6.5</b>

Below is a quantitative reconciliation of underwriting income and combined ratio as previously reported to those restated for the impacts of IFRS 17 for the three months ended March 31, 2022:

<i>(in millions of dollars)</i>	Three months ended March 31, 2022			Three months ended March 31, 2022				
	Underwriting income (as previously reported)	Insurance acquisition cash flows	Onerous loss provision	Other underwriting revenues	Reinstatement premiums	Other	Underwriting income (restated)	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	Ratio
Net earned premiums / Net underwriting revenue	768.4	-	-	2.2	(2.2)	(3.1)	765.3	
Net claims and adjustment expenses	455.8	-	(0.8)	-	(2.2)	(0.8)	452.0	59.1%
Underwriting expenses	252.4	4.4	-	2.2	-	(3.5)	255.5	33.3%
Underwriting income	60.2	(4.4)	0.8	-	-	1.2	57.8	92.4%

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023

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## Risk adjustment & discounting

Under IFRS 17, the risk adjustment replaces the provision for adverse deviation ("PfAD") under IFRS 4 – *Insurance Contracts* ("IFRS 4"). The PfAD was selected by applying a factor, based on a qualitative review of risk characteristics, by segment. The sum of the provisions across all segments was the PfAD recorded on the balance sheet under IFRS 4. Under IFRS 17, the risk adjustment is calculated by segment at a confidence level provided by management and the sum of the risk adjustment by segment, after the application of a diversification benefit, is the total risk adjustment recorded in the balance sheet. The diversification benefit is calculated to reflect the degree of diversification between segments.

Under IFRS 17, the liabilities for incurred claims is discounted by way of a yield curve constructed from risk free assets plus a liquidity premium to account for the liquidity characteristics of the liabilities. Under IFRS 4, the claim liabilities were discounted at a yield rate derived from the assets supporting the liabilities, adjusted for PfAD in the yield rate to account for uncertainty associated with the selected yield rate.

The diversification benefit in the risk adjustment accounts for the majority of the difference between the liabilities for incurred claims under IFRS 17 compared to IFRS 4.

## Insurance acquisition cash flows

Under IFRS 17, there is an increase in the amount of insurance acquisition cash flows that are eligible to be deferred on the balance sheet. This increased deferred cost will be recognized into net income (loss) over the term of the policy.

## Onerous contracts

Where facts and circumstances indicate that a group of insurance contracts may be non-profitable at initial recognition we perform analyses to determine if the group of contracts is onerous. For groups of contracts that are considered onerous, we recognize a loss in net income (loss) for the expected net outflow at the time of issuance of the associated contracts, resulting in earlier recognition compared to IFRS 4. These losses are reversed to net income (loss) over the term of the contracts to offset the actual losses as they are incurred.

## Other underwriting revenues

Other underwriting revenues, which consist of various customer service fees, were previously netted against underwriting expenses in our definition of the expense ratio. These fees are now included in net underwriting revenue. This will result in an increase in the calculation of our expense ratio, but no impact on total underwriting income.

## Reinstatement premiums

Certain reinsurance reinstatement premiums were previously reported in net earned premiums and are now reported in expenses. This change in classification has no impact on total underwriting income.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



The following is a summary of the impacts of IFRS 17 and IFRS 9 on certain financial measures:

KEY METRIC	SUMMARY OF IMPACT
<b>GWP</b>	GWP is now defined as premiums from the sale of insurance during a specified period including premiums assumed. GWP no longer includes the negative impact of amounts ceded to risk sharing pools, which is consistent with the treatment of insurance revenue reported under IFRS 17.
<b>Underwriting and operating income</b>	Underwriting income as noted above was primarily impacted by the deferral of additional acquisition costs and the impact of onerous contracts. Our operating net income is impacted by these same factors.
<b>Claims ratio</b>	The calculation of claims ratio under IFRS 17 is impacted primarily by onerous contracts and the reclassification of certain reinsurance reinstatement premiums from net earned premiums to net claims and adjustment expenses. The net impact on these changes was a decrease in the claims ratio.
<b>Expense ratio</b>	<p>Other underwriting revenues were previously netted against underwriting expenses in our definition of the expense ratio but are now included in net underwriting revenue. As a result, our expense ratio has increased and our claims ratio has decreased, with no impact on total underwriting income.</p> <p>Included in the expense ratio is the impact of the deferral of additional insurance acquisition costs. IFRS 17 broadened the costs eligible for deferral which changes the timing of expense recognition.</p>
<b>Combined ratio</b>	The new accounting standards do not change how we manage performance and evaluate results. Management continues to use combined ratio excluding the impact of discounting and risk adjustment to evaluate our underlying insurance underwriting results. We have included in combined ratio certain costs reclassified to other (expenses) income under IFRS 17.
<b>Investment classifications, ROE, and Operating ROE</b>	<p>In addition to the above changes resulting from the adoption of IFRS 17, the transition to IFRS 9 has resulted in changes in classification of certain investments. We now manage our bond portfolio on a combined basis in order to gain efficiencies in asset management. Our focus is on maximizing the total return of the portfolio while still supporting our underlying claim liabilities by appropriate matching of amounts and duration. We have therefore designated the majority of our investments as FVTPL under IFRS 9. Unrealized gains and losses on certain investments which previously were recorded in OCI will now be recorded in net income (loss), likely resulting in increased volatility in ROE and EPS.</p> <p>Our operating net income continues to exclude recognized gains and losses on our investments. In the denominator of the operating ROE calculation, we have excluded unrealized gains (losses) on FVTPL equity instruments from equity attributable to common shareholders. As a result, the changes to classifications arising from IFRS 9 are expected to have a minimal impact on operating net income and operating ROE.</p>
<b>BVPS</b>	Our equity attributable to common shareholders as of January 1, 2022 increased due to the IFRS 17 transition adjustments as described above, which has resulted in a corresponding increase in BVPS. The IFRS 9 transition adjustments had only a minor impact on total equity.
<b>EPS</b>	We expect there may be additional volatility in net income (loss) and earnings per common share due to the IFRS 17 and IFRS 9 impacts discussed above, including the impact of mark to market gains and losses on our investments designated as FVTPL.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023

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The adoption of IFRS 17 does not significantly impact the way in which we manage our business, capital allocation, nor our assessment of our financial capacity and resources. In July 2022, the Office of the Superintendent of Financial Institutions (“OSFI”) released the final Minimum Capital Test (“MCT”) 2023 guidelines to reflect the implementation of IFRS 17. Under IFRS 17, our excess capital, within our regulated insurance companies, will now be measured at 190% MCT in order to recalibrate our expected operating range to the new capital guidelines. Furthermore, with the transition to IFRS 17, we now reflect the benefits of diversification within our insurance business in the calculation of our risk adjustment and discounting impact. This has somewhat increased our view of the excess capital levels in our business.

## 5 — OPERATING ENVIRONMENT AND OUTLOOK

### OPERATING ENVIRONMENT

<p><b>Economic uncertainty</b></p>	<ul style="list-style-type: none"> <li>• Inflation and geopolitical events have continued to result in economic uncertainty.</li> <li>• To manage inflation, central banks have significantly increased interest rates while governments have implemented numerous programs to address affordability issues. Inflation has come off its recent highs but remains at elevated levels with increased risk of a near-term global recession.</li> <li>• Significant changes in interest rates would result in fluctuations in recurring investment returns as well as the market value of our interest sensitive assets and liabilities (such as claims and pension obligations).</li> <li>• We remain well capitalized and our liquidity remains strong with a high-quality-focused investment portfolio and a DBRS Limited financial strength rating of A (low) for Definity Insurance Company (“Definity Insurance”).</li> <li>• Our strong balance sheet and capital level positions us well for a period of continued uncertainty.</li> </ul>
<p><b>Auto environment</b></p>	<ul style="list-style-type: none"> <li>• Driving mileage has returned to pre-pandemic levels which has resulted in increased claims frequency. However, commuting patterns in the larger urban centres continue to be impacted by hybrid working environments and auto claims frequencies in these areas remain slightly lower than pre-pandemic levels.</li> <li>• Increased severity with respect to auto physical damage has been a persistent issue since the fourth quarter of 2021. Cost increases are due to automotive part supply chain challenges and to inflation. Supply chain challenges have resulted in a shortage of new and used vehicles, delays in repair, and extended car rental days. Inflation has increased vehicle and parts costs and labour rates. While supply issues declined in the latter half of 2022 and the rate of inflation began to level off in the fourth quarter of 2022, both categories remain elevated relative to pre-pandemic trends.</li> <li>• Increasing trends in frequency and severity have led insurers to unwind their COVID-19 relief measures and, in many cases, increase rates beyond pre-pandemic levels.</li> <li>• Vehicle theft in Canada continues to be a troubling issue for the industry with minimal offsets from recovery. Frequency with respect to vehicle thefts remained elevated in the first quarter while severity appears to be slightly declining from the fourth quarter.</li> <li>• In response to rising consumer costs in general, the Alberta government paused personal auto rate increase approvals until the end of 2023 and has issued a series of rules to prevent insurers from amending their underwriting and customer payment plan practices. Auto insurers are currently reassessing the impact of the rate pause.</li> </ul>
<p><b>Investment environment</b></p>	<ul style="list-style-type: none"> <li>• Global financial markets were impacted in the quarter by the collapse of two large US commercial banks. Global equity markets recovered to post the strongest start of the year since 2019, while bond markets went from pricing in rate hikes to discounting rate cuts through the end of the year.</li> <li>• The Bank of Canada increased its key rate by 25 bps in the first quarter of 2023 to 4.50% while signaling further hikes may be needed amid a tight labour market and employment growth that continues to be strong, while the Federal Reserve raised the Federal Funds target by 50 bps in the first quarter to a range of 4.75-5.00%.</li> <li>• In Canada and the US, core inflation gauges rose less than expected in March leading to speculation that further rate hikes will be limited.</li> <li>• 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 and regulatory guidelines, and reflects the expected settlement pattern of claim liabilities.</li> </ul>

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## INDUSTRY OUTLOOK

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

Industry results began to normalize in 2022, following very strong results in 2021 which had benefitted from unusually low claims frequency in auto portfolios. Overall, the industry reported a return on equity of approximately 12.0% in 2022, down from 16.5% in 2021.<sup>3</sup> We expect the combination of normalizing auto claims frequency, continued weather events, and severity related to inflation to continue to pressure the industry's return on equity closer to its long run average of 10% over time.

Fixed income yields increased meaningfully in 2022 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 sustainably achieve desirable levels of profitability.

Despite the recent 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, particularly following the dynamics of the recent reinsurance renewal season, while conditions in auto lines will continue to firm as insurers aim to keep pace with the combined impact of normalizing claims frequency, elevated theft, and lingering inflationary cost pressures.

<b>Personal auto</b>	<ul style="list-style-type: none"><li>• We expect the frequency of claims to normalize toward pre-pandemic levels as people continue to return to on-site work environments. We expect the inflationary pressures affecting vehicle damage claims to remain elevated, but with some early indicators of improving supply chain in production and a slight decline in used car prices, we expect to see severity continue to level off or slightly decline in the coming quarters. Both frequency and severity trends as well as elevated theft levels are expected to continue to drive firming industry pricing and a focus on disciplined underwriting.</li></ul>
<b>Personal property</b>	<ul style="list-style-type: none"><li>• 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 should be reflected in firm premium pricing over the next 12 months.</li><li>• We expect this volatility to continue, with commensurate rate actions, coverage and appetite changes, and an enhanced focus on loss prevention and mitigation.</li><li>• We expect the reinsurance market to remain firm throughout the remainder of the year, putting a greater emphasis on primary insurers to manage catastrophe exposures in the higher catastrophe risk regions of the country.</li></ul>
<b>Commercial lines</b>	<ul style="list-style-type: none"><li>• The expectations for an economic slowdown have increased, with inflation being more persistent than anticipated and continued volatility in financial markets. This will likely impact industry growth somewhat in the near term.</li><li>• We expect the commercial lines market to remain firm through 2023 as carriers focus on ensuring long-term profitability and sustainable availability of capacity. We expect the hard pricing environment to be influenced by inflation trends, weather events, expected investment returns, and the industry's overall underwriting performance.</li><li>• Elevated reinsurance costs are expected to prolong firm commercial lines market conditions and pricing.</li></ul>

<sup>3</sup> MSA Research.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



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## FINANCIAL TARGETS

Our continuing focus on key strategic priorities is to leverage Vyne to increase our share of the broker channel, grow and diversify our commercial insurance business, capitalize on the expanding digital direct insurance market, maintain our pace of innovation, diversify and strengthen our growth through acquisitions and partnerships including in our distribution business, and attract and retain top talent to continue to empower a high-performance culture that delivers on our brand. As a leading Canadian P&C insurer, with a seasoned management team focused on key priorities, we have confidence in our ability to achieve these objectives and inform our financial targets. The financial targets set out below are based on certain other factors and assumptions, including the key assumptions and factors set out below.

Over the next year, our financial targets are to:

- **Grow GWP at an upper single digit to approximately 10% rate** supported by, among other things, leveraging our investments in the broker channel, expanding our core commercial insurance and specialty capabilities, and continuing to focus on expansion of our direct-to-consumer offerings. This target compares to our GWP growth rate of 11.4% in the first quarter of 2023 (as compared to the first quarter of 2022);
- **Maintain a full year combined ratio in the mid-90s** as our strategic investments drive scale and we continue to generate operational improvements across our business, including our concerted efforts to diversify our business. This target compares to our combined ratio of 95.3% in the first quarter of 2023; and
- **Generate an annual operating ROE in the upper single digit to below teens range** through underwriting profitability, investment performance and distribution income, and reflective of the capital levels generated by our business. This target compares to our operating ROE of 9.3% in the twelve months ended March 31, 2023.

We expect to achieve further improvements to operating ROE over time, targeting the low teens, through future capital optimization and the benefits of increased scale.

The above financial targets are based on management's current views and strategies, assumptions and expectations concerning our growth opportunities, and assessment of the opportunities for our business and the insurance industry. The financial targets have been calculated using accounting policies that we used to prepare the financial statements or, in the case of operating ROE, in the manner described under Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". In particular, the above financial targets are reflective of the adoption of IFRS 17 and IFRS 9.

All three of our targets are also based on the following key assumptions and factors:

- we are able to maintain overall rate adequacy, particularly for auto rates in regulated provinces;
- firm market conditions across most commercial line and personal property segments continue in line with our industry outlook over the next 12 months, and will support continued rate increases for these lines of business;
- catastrophe losses of approximately 4% of net underwriting revenue for the full year;
- auto claims frequencies normalize in line with those experienced prior to the COVID-19 pandemic between 2016 and 2019 as customer driving patterns and behaviour return to historical trends;
- recorded claim liabilities are adequate with no significant prior year claims development or overall reserve strengthening required during the outlook period for the financial targets;
- claims severity in 2023 will grow at a normal rate compared to the elevated level in 2022;
- there are no significant changes in the P&C insurance regulatory environment, including with respect to capital requirements;
- there is no downgrade of the financial strength ratings of Definity Insurance;

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



- our operating environment is in line with our expectations for the P&C insurance industry over the next 12 months described above under "Industry Outlook"; and
- unanticipated cost increases can be addressed during the outlook period by pricing changes.

In addition, our operating ROE target is also based on the following key assumptions and factors and assumes we achieve the above combined ratio target:

- fixed income market yields remain at current levels throughout the outlook period, resulting in net investment income of approximately \$160 million in 2023;
- investment market returns and the capital appreciation generated in our investment portfolio normalize over the outlook period from the volatile levels experienced in 2022;
- broker investments generate operating income, before finance costs, taxes, and minority interests of approximately \$50 million in 2023 (reflective of the mid-year acquisition of McFarlan Rowlands) through a combination of distribution income and lower commission expenses;
- taxation rates remain consistent with the current substantively enacted rates; and
- retained earnings increase commensurate with expected net income attributable to common shareholders less expected dividends to common shareholders.

Our expectation for further improvements in operating ROE through future capital optimization assumes that we receive regulatory approval for, and proceed with, continuing the Company under the *Canada Business Corporations Act* (the "Continuance"), and will be, in part, dependent on whether we are successful in identifying and completing appropriate acquisition opportunities. As such, there is currently no definitive time frame for this balance sheet optimization.

Management currently believes that the above financial targets, and the factors and assumptions underlying those targets, are reasonable in the current industry environment. However, there is no assurance that we will be able to achieve these targets or that the factors and assumptions underlying these targets will prove to be accurate. Our ability to achieve the above targets is subject to a number of risks, challenges and uncertainties that could cause actual future results to differ materially from these targets.

The above outlook and financial targets, and the assumptions and factors underlying them, constitute forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above. See "Cautionary note regarding forward-looking information".

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## 6 — FINANCIAL POSITION

### FINANCIAL HIGHLIGHTS AS AT MARCH 31, 2023:

- Our financial position remained strong with equity attributable to common shareholders exceeding \$2.6 billion at the end of the quarter, an increase of \$87.4 million or 3.4% compared to December 31, 2022, driven by higher recognized gains on investments and net investment income.
- Total assets decreased by \$80.2 million (1.2%) compared to December 31, 2022, due primarily to a decrease in cash and cash equivalents and investments due in part to operating cash outflows in the first quarter.
- Insurance contract liabilities decreased by \$114.1 million (3.2%) compared to December 31, 2022 due primarily to claims paid outpacing claims incurred.

The following table summarizes our consolidated balance sheets as at March 31, 2023 and December 31, 2022:

<i>(in millions of dollars)</i>	As at March 31,	As at December 31,	Change
	2023	2022 (Restated)	
<b>ASSETS</b>			
Cash and cash equivalents .....	\$ 164.2	\$ 200.5	\$ (36.3)
Restricted cash .....	286.7	302.1	(15.4)
Investments .....	4,881.5	4,897.2	(15.7)
Income taxes receivable .....	45.8	81.7	(35.9)
Reinsurance contract assets .....	315.0	305.1	9.9
Property and equipment .....	82.8	83.8	(1.0)
Deferred income tax assets .....	22.5	25.2	(2.7)
Goodwill and intangible assets .....	771.1	771.6	(0.5)
Other assets .....	169.9	152.5	17.4
Total assets .....	<u>\$ 6,739.5</u>	<u>\$ 6,819.7</u>	<u>\$ (80.2)</u>
<b>LIABILITIES</b>			
Insurance contract liabilities .....	3,463.6	3,577.7	(114.1)
Accounts payable and other liabilities .....	109.1	139.0	(29.9)
Income taxes payable .....	0.6	-	0.6
Deferred income tax liabilities .....	94.6	103.5	(8.9)
Demand loans .....	38.1	39.1	(1.0)
Demutualization amounts outstanding .....	286.7	302.1	(15.4)
Total liabilities .....	<u>\$ 3,992.7</u>	<u>\$ 4,161.4</u>	<u>\$ (168.7)</u>
<b>EQUITY</b>			
Share capital .....	2,281.6	2,254.2	27.4
Contributed surplus .....	24.4	40.2	(15.8)
Retained earnings .....	362.1	287.8	74.3
Accumulated other comprehensive loss .....	(30.9)	(32.4)	1.5
Equity attributable to common shareholders .....	<u>2,637.2</u>	<u>2,549.8</u>	<u>87.4</u>
Non-controlling interests .....	109.6	108.5	1.1
Total equity .....	<u>\$ 2,746.8</u>	<u>\$ 2,658.3</u>	<u>\$ 88.5</u>
Total liabilities and equity .....	<u>\$ 6,739.5</u>	<u>\$ 6,819.7</u>	<u>\$ (80.2)</u>

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## CASH AND INVESTMENTS

The composition of our cash and cash equivalents and investments as at March 31, 2023 and December 31, 2022 is as follows:

<i>(in millions of dollars, except as otherwise noted)</i>	As at March 31, 2023		As at December 31, 2022	
	Carrying value	Percent of carrying value	Carrying value (Restated)	Percent of carrying value
Cash and cash equivalents .....	\$ 164.2	3.3%	\$ 200.5	3.9%
Short-term investments .....	58.6	1.2%	89.3	1.8%
Bonds .....	3,906.3	77.4%	3,923.7	77.0%
Preferred stocks .....	305.2	6.0%	298.0	5.8%
Common stocks .....	544.2	10.8%	517.7	10.2%
Pooled funds.....	56.3	1.1%	57.2	1.1%
Commercial loans.....	10.9	0.2%	11.3	0.2%
Total investments.....	\$ 4,881.5	96.7%	\$ 4,897.2	96.1%
Total cash and cash equivalents, and investments.....	\$ 5,045.7	100.0%	\$ 5,097.7	100.0%

Total cash and cash equivalents and investments decreased in the first quarter of 2023, due primarily to operating cash outflows. The investments balance decreased due primarily to net sales of investments, which were largely offset by an increase in the market values of our investment portfolio.

Our proportionate share of investments in fixed income securities, including cash and cash equivalents, decreased slightly to 81.9% of the total portfolio as at March 31, 2023, compared with 82.7% as at December 31, 2022. We maintained our focus on a high-quality investment portfolio.

Refer to Note 4 — “Accounting policies” of our interim consolidated financial statements for the quarter ended March 31, 2023, which provides further details pertaining to the classification and measurement of our financial instruments under IFRS 9.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## Investment sector mix

Our investment sector mix demonstrates the largely secure and liquid nature of our overall investment portfolio with its significant concentration in the government and financials sectors. As at March 31, 2023 and December 31, 2022, the breakdown of these investments is as follows:

<i>(in millions of dollars, except as otherwise noted)</i>	As at March 31, 2023					As at December 31, 2022
	Short-term investments and bonds	Preferred stocks	Common stocks	Pooled funds	Total	Total
Government .....	59%	-	-	-	48%	48%
Financials .....	20%	68%	29%	9%	23%	24%
Energy .....	4%	17%	14%	3%	6%	6%
Communication services .....	5%	4%	7%	7%	5%	6%
Industrials .....	3%	-	12%	6%	4%	4%
Utilities .....	3%	10%	3%	15%	4%	4%
Consumer discretionary .....	3%	-	6%	9%	3%	2%
Materials .....	-	-	8%	2%	1%	1%
Consumer staples .....	1%	-	6%	5%	1%	1%
Information technology .....	-	-	10%	31%	2%	1%
Health care .....	-	-	4%	11%	1%	1%
Real estate .....	2%	1%	1%	2%	2%	2%
Total (%) .....	100%	100%	100%	100%	100%	100%
Total (\$) .....	\$ 3,964.9	\$ 305.2	\$ 544.2	\$ 56.3	\$ 4,870.6	\$ 4,885.9

## 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 March 31, 2023 and December 31, 2022.

### Credit rating<sup>1</sup> — bonds

<i>(in millions of dollars, except as otherwise noted)</i>	As at March 31, 2023		As at December 31, 2022	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
AAA .....	\$ 1,303.2	33.4%	\$ 1,325.4	33.8%
AA .....	1,125.8	28.8%	1,034.1	26.4%
A .....	870.9	22.3%	926.9	23.6%
BBB .....	570.4	14.6%	606.0	15.4%
BB .....	36.0	0.9%	31.3	0.8%
Total bonds .....	\$ 3,906.3	100.0%	\$ 3,923.7	100.0%

<sup>1</sup> Using the lowest of S&P and DBRS ratings.

### Credit rating<sup>1</sup> — preferred stocks

<i>(in millions of dollars, except as otherwise noted)</i>	As at March 31, 2023		As at December 31, 2022	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
P1 .....	\$ 3.8	1.2%	\$ 5.4	1.8%
P2 .....	247.5	81.1%	236.0	79.2%
P3 or not rated .....	53.9	17.7%	56.6	19.0%
Total preferred stocks .....	\$ 305.2	100.0%	\$ 298.0	100.0%

<sup>1</sup> Using the lowest of S&P and DBRS ratings.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



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 March 31, 2023, this resulted in 84.5% (December 31, 2022: 83.8%) of the bonds in the portfolio being rated "A-" or better and 82.3% (December 31, 2022: 81.0%) 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 March 31, 2023 and December 31, 2022 is as follows:

<i>(in millions of dollars, except as otherwise noted)</i>	As at March 31, 2023		As at December 31, 2022	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Canada .....	\$ 4,642.5	95.3%	\$ 4,669.9	95.6%
United States .....	162.2	3.3%	152.8	3.1%
Europe .....	42.9	0.9%	36.9	0.8%
Other .....	23.0	0.5%	26.3	0.5%
Total .....	<u>\$ 4,870.6</u>	<u>100.0%</u>	<u>\$ 4,885.9</u>	<u>100.0%</u>

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, 2022.

## INSURANCE CONTRACT LIABILITIES

The composition of our insurance contract liabilities as at March 31, 2023 and December 31, 2022 is as follows:

<i>(in millions of dollars)</i>	As at March 31, 2023	As at December 31, 2022	Change
Premiums receivable .....	(1,112.8)	(1,187.3)	74.5
Unearned premiums .....	1,720.8	1,782.8	(62.0)
Unearned premiums received .....	\$ 608.0	\$ 595.5	\$ 12.5
Unamortized insurance acquisition cash flows .....	(302.9)	(292.1)	(10.8)
Onerous loss provision .....	26.5	27.7	(1.2)
Provision for unpaid claims and other directly attributable payables .....	3,132.0	3,246.6	(114.6)
Total .....	<u>\$ 3,463.6</u>	<u>\$ 3,577.7</u>	<u>\$ (114.1)</u>

Insurance contract liabilities as at March 31, 2023 decreased from December 31, 2022 due primarily to claims paid in the quarter outpacing claims incurred.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



The level of prior year claims development and the impact on the claims ratio by fiscal year, are as follows:

<i>(in millions of dollars, except as otherwise noted)</i>	For the three months ended March 31	For the year ended December 31, <sup>(1)</sup>									
	2023	2022 Restated	2021	2020	2019	2018	2017	2016	2015	2014	2013
(Favourable) adverse development on prior year claims, undiscounted <sup>(2)</sup> .....	\$ (7.7)	\$ (86.3)	\$ (76.0)	\$ (29.6)	\$ (37.9)	\$ (18.8)	\$ 32.6	\$ (40.1)	\$ (73.1)	\$ (2.9)	\$ (63.0)
Impact on claims ratio <sup>(3)</sup> .....	(0.9%)	(2.7%)	(2.7%)	(1.2%)	(1.6%)	(0.8%)	1.5%	(2.1%)	(3.8%)	(0.2%)	(3.6%)

Notes:

(1) 2013 - 2021 under IFRS 4. 2022-2023 under IFRS 17.

(2) Prior year (favourable) adverse claims development is a non-GAAP financial measure.

(3) Claims ratio is a non-GAAP ratio.

Refer to Section 12- "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios" for more information on supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios.

## ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities decreased as at March 31, 2023 due primarily to payments that are made once a year in the first quarter, and a decrease in payables associated with our strategic initiatives.

## EQUITY

Equity attributable to common shareholders increased by \$87.4 million as at March 31, 2023 or 3.4%, due primarily to recognized gains on our investment portfolio and higher net investment income. Our equity attributable to common shareholders as of January 1, 2022 increased by \$158.1 million or 6.6% on the adoption of IFRS 17 and IFRS 9.

On February 9, 2023, the Board of Directors declared a \$0.1375 per share dividend. This represented a 10% increase over the level of ordinary quarterly dividends paid in 2022, consistent with our objective to grow our dividend over time. On May 11, 2023, the Board of Directors declared a \$0.1375 per share dividend, payable on June 28, 2023 to shareholders of record at the close of business on June 15, 2023.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## 7 — SUMMARY OF QUARTERLY RESULTS

<i>(in millions of dollars, except as otherwise noted)</i>	For the three months ended							
	March 31, 2023	December 31, 2022 <sup>(1)</sup>	September 30, 2022 <sup>(1)</sup>	June 30, 2022 <sup>(1)</sup>	March 31, 2022 (Restated)	December 31, 2021 <sup>(1)</sup>	September 30, 2021 <sup>(1)</sup>	June 30, 2021 <sup>(1)</sup>
Insurance revenue	907.5				814.3	N/A	N/A	N/A
Net underwriting revenue.....	\$ 839.1	\$ 850.6	\$ 830.0	\$ 799.6	\$ 765.3	\$ 745.0	\$ 725.1	\$ 697.2
Net income (loss) ...	\$ 102.1	\$ 142.2	\$ 41.1	\$ 21.0	\$ (32.6)	\$ 33.7	\$ 53.3	\$ 43.9
Net income (loss) attributable to common shareholders.....	\$ 100.9	\$ 141.6	\$ 41.1	\$ 21.0	\$ (32.6)	\$ 33.7	\$ 53.3	\$ 43.9
Earnings (loss) per common share (in dollars)								
Basic .....	\$ 0.88	\$ 1.23	\$ 0.36	\$ 0.18	\$ (0.28)	\$ 0.31	\$ 0.51	\$ 0.42
Diluted.....	\$ 0.87	\$ 1.21	\$ 0.35	\$ 0.18	\$ (0.28)	\$ 0.31	\$ 0.51	\$ 0.42

Notes:

(1) Results do not reflect the adoption of IFRS 17 and IFRS 9. The quarterly 2022 results will be restated as the year progresses.

The P&C insurance business is seasonal in nature. As such, net income (loss) may vary significantly between quarters, particularly due to weather-related losses. Results are further impacted by fluctuations in investment gains and losses. The transition to IFRS 9 has resulted in changes to the composition of gains and losses on investments between net income (loss) and OCI in the interim consolidated statements of income (loss). As more of the Company's investments are designated as FVTPL, unrealized gains and losses on these investments which previously were recorded in OCI are now recorded in net income (loss). Unrealized losses on investments of \$94.7 million have been recognized in net income (loss) in the three-month period ended March 31, 2022 that were previously recognized in OCI.

Results for 2021 were impacted by reduced auto claims frequency due primarily to the COVID-19 pandemic. Auto claims frequency in 2022 and the first quarter of 2023 started to increase as driving volumes began to normalize toward pre-pandemic levels. The fourth quarter of 2022 included a revaluation gain of \$67.0 million on our previous ownership interest in McDougall.

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 each quarter of 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.

## 8 — 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, introduce leverage and, if required, access the equity capital markets
Share Buybacks	We will consider the use of share buybacks as a flexible capital management tool

On May 12, 2022, we announced the establishment of a 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 March 31, 2023, no common shares had been repurchased and cancelled under the NCIB. On May 11, 2023, our Board of Directors approved the renewal of the NCIB, on the same terms and conditions as the initial NCIB, subject to regulatory approval, including the approval of TSX, which has not yet been obtained.

#### *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 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 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

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



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 March 31, 2023 and December 31, 2022 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.

	As at March 31, 2023	As at December 31, 2022 <sup>(1)</sup>
<i>(in millions of dollars, except as otherwise noted)</i>		
Capital available <sup>2</sup> .....	\$ 1,489.1	\$ 1,323.6
Capital required <sup>2</sup> .....	\$ 680.3	\$ 647.5
MCT % <sup>2</sup> .....	219%	204%
Excess capital for Definity Insurance <sup>3</sup> .....	\$ 196.5	\$ 28.7
Additional capital at Definity Financial Corporation .....	\$ 357.9	\$ 357.5
Total excess capital .....	\$ 554.4	\$ 386.2
Leverage capacity <sup>4,5</sup> .....	\$ 291.5	\$ 272.3
Financial capacity <sup>5</sup> .....	\$ 845.9	\$ 658.5

### Notes:

- (1) Results for 2022 do not reflect the adoption of IFRS 17 and IFRS 9, and have not been restated for OSFI's MCT 2023 guidelines.
- (2) Consolidated Definity Insurance.
- (3) Excess capital measured at 190% for Definity Insurance (December 31, 2022: 200%)
- (4) Approximately \$69.1 million (December 31, 2022: \$108.7 million) of the 2.5% (December 31, 2022: 2.0%) debt limit under the ICA was utilized as at March 31, 2023, including demand loans of \$38.1 million (December 31, 2022: \$39.1 million) which has reduced the amount of leverage capacity.
- (5) Leverage capacity and financial capacity are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The financial capacity as at March 31, 2023 increased from December 31, 2022 due primarily to an increase in capital available from the generation of net income, inclusive of the unrealized gains generated on the FVTPL investments, and the impact of our transition to IFRS 17.

In 2022, the federal government amended demutualization regulations applicable to P&C insurance companies under the ICA. The amendments: (1) created a path for Definity, as a holding company of a demutualized insurance company, to apply for continuance from the ICA to the *Canada Business Corporations Act* (the "CBCA") during the period for which that holding company is required to remain widely held after demutualization, and (2) increased the duration of that restricted ownership period from two to four years.

In 2023, Definity began the process to apply to the Minister of Finance for approval to continue under the CBCA. Definity's application is subject to government and regulatory approval. The new restricted ownership period came into effect with the regulatory amendments and automatically extended the requirement for Definity to be widely held until November 22, 2025. One of the effects of Continuance is expected to be, among other things, that Definity will no longer be subject to the leverage restrictions applicable under the ICA.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## REINSURANCE

We reinsure certain risks with reinsurers to limit our maximum loss for catastrophe events or other significant large losses. Our objectives related to reinsurance are capital protection, reduction in earnings volatility, increase in underwriting capacity, and accessing expertise of our reinsurer partners. The placement of ceded reinsurance is mainly on an excess-of-loss basis (per event or per risk), but some proportional cessions are made for specific portfolios. Ceded reinsurance complies with regulatory guidelines, including with respect to coverage limits for Canadian earthquake risk.

Annually, we review and adjust our reinsurance coverage to reflect our current exposures, capital base, and growth projections. The most material components of our reinsurance program are the catastrophe treaties, for which we provide more detail in the table below:

<i>(in millions of dollars)</i>	As at March 31, 2023	As at December 31, 2022
Catastrophe – primary		
Net company retention <sup>(1)</sup>	40.0	30.0
Maximum limit <sup>(2)</sup>	1,950.0	1,800.0
Catastrophe – aggregate		
Annual aggregate deductible <sup>(3)</sup>	65.0	65.0
Annual aggregate limit <sup>(3)</sup>	25.0	25.0

Notes:

- (1) Excludes reinstatement premiums, co-participations between the retention level and maximum limit, and tax impacts.
- (2) Excludes co-participation.
- (3) Contributing event to the annual aggregate deductible and limit is a maximum of \$27 million on events above \$3 million as at March 31, 2023 and December 31, 2022.

We retain participations on reinsurance layers between the retention and maximum limit averaging 8.6% as at March 31, 2023 (December 31, 2022: 3.4%) including an average of 42.5% between the net Company retention and up to a \$100 million loss (December 31, 2022: 0%). We also continued with our 100% placement of the catastrophe aggregate treaty as at March 31, 2023 on the same terms as at December 31, 2022. This treaty extends to December 31, 2024.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers are generally unsecured as Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claim liabilities take priority over the reinsurer's subordinated creditors. We have collateral in place to support amounts receivable and recoverable from unregistered reinsurers.

We ensure our placement of reinsurance is diversified to avoid excessive concentration to a specific reinsurance group. We are selective with respect to our choice of reinsurers, placing reinsurance with only those reinsurers having a strong financial condition.

## 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, creditors, and others.

	Credit Rating Agency	Rating	Outlook	Date
Financial strength ratings				
Definity Insurance .....	AM Best	A- (Excellent)	Stable	November 18, 2022
Definity Insurance .....	DBRS	A (low)	Positive	July 8, 2022
Issuer rating				
Definity .....	DBRS	BBB	Positive	July 8, 2022

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## CASH FLOWS

As at March 31, 2023, we had \$164.2 million (December 31, 2022: \$200.5 million) of cash and cash equivalents, \$286.7 million of restricted cash (December 31, 2022: \$302.1 million), and \$58.6 million (December 31, 2022: \$89.3 million) of short-term investments. 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.

The Company and certain of its subsidiaries have access to a \$150 million unsecured committed credit facility, which will automatically increase to \$700 million if and when the Company is continued under the CBCA. The facility has a term ending on July 22, 2028, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at May 11, 2023, we are in compliance with the covenants and an amount of \$35.7 million is outstanding under this facility.

A summary of cash flows for the three months ended March 31, 2023 and 2022 is as follows:

<i>(in millions of dollars)</i>	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Operating activities		
Net cash used in operating activities .....	\$ (90.6)	\$ (93.4)
Investing activities		
Investments sold, net of investments purchased .....	112.2	19.1
Commercial loans collected, net of commercial loans advanced .....	0.4	(4.1)
Purchases of intangible assets and property and equipment .....	(28.3)	(28.0)
Business acquisitions, net of cash acquired .....	(8.2)	-
Net cash provided by (used in) investing activities .....	76.1	(13.0)
Financing activities		
Dividends paid on common shares .....	(15.8)	(20.3)
Dividends paid to non-controlling interests	(0.1)	-
Common shares purchased and held in trust .....	(4.9)	(8.1)
Change in demutualization amounts outstanding .....	(15.4)	6.0
Repayment of demand loans	(1.0)	-
Net cash used in financing activities .....	(37.2)	(22.4)
Net decrease in cash and cash equivalents, and restricted cash .....	\$ (51.7)	\$ (128.8)

Cash used in operating activities in the first quarter of 2023 was relatively consistent with the first quarter of 2022. The cash used was due primarily to payments that are made once a year in the first quarter combined with lower premiums collected as our business is seasonal, resulting in generally fewer premiums written in the first quarter.

Cash used in financing activities includes distribution of cash benefits of the demutualization to Lost Recipients. Eligible policyholders in our demutualization 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. We have been actively notifying eligible policyholders throughout our demutualization process, and continue to be active in facilitating the unification of the remaining amounts outstanding with the eligible recipients prior to the expiration of the claim deadline. We have engaged a third-party service provider to help us locate Lost Recipients and assist them to claim their demutualization benefits.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



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## 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, 2022, 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 March 31, 2023, securities with an estimated fair value of \$857.3 million (December 31, 2022: \$841.6 million) have been loaned and securities with an estimated fair value of \$887.0 million (December 31, 2022: \$874.6 million) have been received as collateral from the financial institutions. Lending collateral as at March 31, 2023 was 100.0% (December 31, 2022: 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 income in “Net investment income”.

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## 9 — 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.

Management has limited the scope of design of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of businesses acquired not more than 365 days before March 31, 2023. Refer to Note 6 — “Business combinations” of our audited consolidated financial statements for the year ended December 31, 2022 for the impact on the financial statements. Management will be removing this limitation within the required one-year regulatory timeline.

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 quarter of 2023 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. The Company adopted IFRS 17 effective January 1, 2023 and has updated and modified certain internal controls over financial reporting as a result of the new accounting standard. Refer to Note 4 — “Accounting policies” of our interim consolidated financial statements for the quarter ended March 31, 2023 for further information on changes to accounting policies and Note 3 — “Adoption of new accounting standards” regarding the transition impact on adoption of IFRS 17.

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## 10 — 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, 2022 for a summary of our significant accounting policies, excluding the changes arising from the adoption of IFRS 9 and IFRS 17 which are discussed in Note 4 — “Accounting policies” of our interim consolidated financial statements for the quarter ended March 31, 2023.

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, 2022, excluding the changes arising from the adoption of IFRS 9 and IFRS 17 which are discussed in Note 5 — “Significant accounting judgments, estimates and assumptions” of our interim consolidated financial statements for the quarter ended March 31, 2023.

### ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2023, we adopted IFRS 9 and IFRS 17 as discussed in Note 3 — “Adoption of new accounting standards” of our interim consolidated financial statements for the quarter ended March 31, 2023 and Section 4 — “Adoption of IFRS 17 and IFRS 9” in this MD&A.

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## 11 — 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, 2022. Although we described those risks that we believed to be material, other risks and uncertainties exist.

## 12 — 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 have been updated to reflect the estimated impact arising from the adoption of IFRS 17 and IFRS 9. These measures are outlined and defined below:

### Supplementary Financial Measures:

<b>Book value per share</b>	The Company’s equity attributable to common shareholders divided by the total common shares outstanding, net of shares held in trust, as at the balance sheet date.
<b>Catastrophe losses</b>	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. Catastrophe losses are presented net of reinsurance recoveries.
<b>Financial capacity</b>	The sum of excess capital over 190% MCT and leverage capacity.
<b>Gross written premiums (GWP)</b>	The total premiums from the sale of insurance during a specified period including premiums assumed.
<b>Leverage capacity</b>	The amount of financial leverage that can be assumed, comprised of the Company’s current debt limit as an entity established under the ICA (2.5% of total assets) and a target capitalization level of 5% in preferred shares and hybrids.

### Non-GAAP Financial Measures:

<b>Core accident year claims and adjustment expenses</b>	Net claims and adjustment expenses less catastrophe losses and prior year claims development. Management uses core accident year claims and adjustment expenses to describe the changes in the claims ratio period over period.
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# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## Distribution income

Income before taxes and amortization of intangible assets recognized in business combinations from our consolidated brokers and broker associates. Distribution income is calculated using distribution revenue earned on commissions from external insurance companies, and components of other (expenses) income (Distribution business expenses currently including finance costs and share of distribution profit from investments in associates). Management uses distribution income to measure the performance of our consolidated brokers and broker associates.

Below is a quantitative reconciliation of distribution income for the three months ended March 31, 2023 and 2022:

<i>(in millions of dollars)</i>	Three months ended March 31,	
	2023	2022
Distribution revenues <sup>(1)</sup> .....	\$ 25.5	\$ -
Distribution business expenses <sup>(2)</sup> .....	(16.6)	-
Share of distribution profit from investments in associates <sup>(2)</sup>	-	3.4
Remove: Income taxes included in share of distribution profit from investments in associates .....	-	1.3
<b>Distribution income .....</b>	<b>\$ 8.9</b>	<b>\$ 4.7</b>

Notes:

(1) Distribution revenues includes commissions on policies underwritten by external insurance companies.

(2) Included in Other (expenses) income in our interim consolidated financial statements. These amounts exclude amortization of intangible assets recognized in business combinations.

## Net claims and adjustment expenses

Claims and adjustment expenses (excluding the impact of discounting and risk adjustment) and gains or losses on onerous insurance contracts, net of amounts recoverable from reinsurers for incurred claims. This financial measure is used to calculate underwriting income and the claims ratio.

Below is a quantitative reconciliation of net claims and adjustment expenses for the three months ended March 31, 2023 and 2022:

<i>(in millions of dollars)</i>	Three months ended March 31,	
	2023	2022 (Restated)
Claims and adjustment expenses <sup>(1),(2)</sup> .....	\$ 557.5	\$ 460.7
Impact of onerous insurance contracts <sup>(3)</sup> .....	(1.2)	(0.7)
Claims recoverable from reinsurers for incurred claims <sup>(2),(4)</sup> .....	(31.2)	(8.0)
<b>Net claims and adjustment expenses .....</b>	<b>\$ 525.1</b>	<b>\$ 452.0</b>

Notes:

(1) Included in Insurance service expenses and other (expenses) income in our interim consolidated financial statements.

(2) Excludes the impact of discounting and risk adjustment.

(3) Included in Insurance service expenses

(4) Included in Net expenses from reinsurance contracts held in our interim consolidated financial statements.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## Net commissions

Commissions expense less commissions earned on ceded reinsurance. This financial measure is used to calculate underwriting expenses and underwriting income.

Below is a quantitative reconciliation of net commissions for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022 (Restated)
<i>(in millions of dollars)</i>		
Commissions <sup>(1)</sup> .....	\$ 136.5	\$ 131.6
Commissions earned on ceded reinsurance <sup>(2)</sup> .....	(11.7)	(8.7)
Net commissions.....	<u>\$ 124.8</u>	<u>\$ 122.9</u>

Notes:

(1) Included in Insurance service expenses in our interim consolidated financial statements.

(2) Included in Net expenses from reinsurance contracts held in our interim consolidated financial statements.

## Net underwriting revenue

Insurance revenue less earned reinsurance premiums. This financial measure is used to calculate the claims, expense, and combined ratios and is used to calculate underwriting income.

Below is a quantitative reconciliation of net underwriting revenue for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022 (Restated)
<i>(in millions of dollars)</i>		
Insurance revenue .....	\$ 907.5	\$ 814.3
Earned reinsurance premiums ceded <sup>(1)</sup> .....	(68.4)	(49.0)
Net underwriting revenue .....	<u>\$ 839.1</u>	<u>\$ 765.3</u>

Notes:

(1) Included in Net expenses from reinsurance contract held in our interim consolidated financial statements.

## Non-operating gains (losses)

Recognized gains (losses) on FVTPL investments, discounting income or expense, risk adjustment income or expense, interest on restricted cash and 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.

## Operating income

Net income (loss) attributable to common shareholders less (or plus) income tax expense (recovery) and non-operating gains (losses). This financial measure is used to calculate operating net income.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



## Operating net income

Net income (loss) attributable to common shareholders 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.

Net income (loss) attributable to common shareholders 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 (loss) attributable to common shareholders for the three months ended March 31, 2023 and 2022:

<i>(in millions of dollars)</i>	Three months ended March 31,	
	2023	2022 (Restated)
Net income (loss) attributable to common shareholders.....	\$ 100.9	\$ (32.6)
Remove: income tax expense (recovery).....	30.6	(14.9)
Income (loss) before income taxes .....	<b>\$ 131.5</b>	<b>\$ (47.5)</b>
Remove: non-operating gains (losses)		
Recognized gains (losses) on FVTPL investments .....	91.7	(197.8)
Discounting <sup>(1)</sup> .....	16.4	16.9
Risk adjustment <sup>(1)</sup> .....	2.3	4.1
Finance (expenses) income from insurance contracts issued.....	(64.5)	52.7
Finance income (expenses) from reinsurance contracts held .....	5.6	(3.2)
Interest on restricted cash, and demutualization and IPO-related expenses <sup>(2)</sup> .....	2.5	(1.9)
Amortization of intangible assets recognized in business combinations <sup>(3)</sup> .....	(3.2)	(0.6)
Other <sup>(2)(3)</sup> .....	0.1	(0.3)
Non-operating gains (losses) .....	<b>\$ 50.9</b>	<b>\$ (130.1)</b>
Operating income .....	<b>\$ 80.6</b>	<b>\$ 82.6</b>
Operating income tax expense .....	(17.2)	(19.3)
Operating net income .....	<b>\$ 63.4</b>	<b>\$ 63.3</b>

Notes:

- (1) Included in Insurance service expenses and Net expenses from reinsurance contracts held in our interim consolidated financial statements.
- (2) Included in Other (expenses) income in our interim consolidated financial statements.
- (3) Other represents foreign currency translation of fintech venture capital funds, 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.

## Prior year claims development

The difference between prior year-end estimates of ultimate claim costs excluding the effects of discounting and the risk adjustment for non-financial risk, 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. Management uses prior year claims development to describe the changes in the claims ratio period over period.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



Below is a quantitative reconciliation of prior year claims development for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022 (Restated)
<i>(in millions of dollars)</i>		
Changes in fulfilment cash flows relating to the liabilities for incurred claims <sup>(1)</sup> .....	\$ (10.8)	\$ (50.8)
Changes to amounts recoverable for incurred claims <sup>(2)</sup> .....	3.1	10.5
Remove: discounting included above.....	(16.0)	(0.7)
Remove: risk adjustment included above.....	16.0	19.1
Prior year claims development .....	<b>\$ (7.7)</b>	<b>\$ (21.9)</b>

Notes:

(1) Included in Insurance service expenses in our interim consolidated financial statements.

(2) Included in Net expenses from reinsurance contracts held in our interim consolidated financial statements.

## Underwriting expenses

Underwriting expenses consist of net commissions, operating expenses, and premium taxes. This financial measure is used to calculate underwriting income and the expense ratio.

Below is a quantitative reconciliation of underwriting expenses for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022 (Restated)
<i>(in millions of dollars)</i>		
Net commissions .....	\$ 124.8	\$ 122.9
Operating expenses .....	118.4	104.2
Premium taxes.....	31.3	28.4
Underwriting expenses .....	<b>\$ 274.5</b>	<b>\$ 255.5</b>

## Underwriting income

Net underwriting revenue for a defined period less the sum of net claims and adjustment expenses, net commissions, operating expenses, and premium taxes during the same period. Management uses underwriting income to measure and evaluate the underwriting performance of the business. Management believes underwriting income is useful information for investors for such purpose. Although they may calculate it in a different manner, underwriting income is commonly used by other insurers and analysts in the P&C insurance industry.

Below is a quantitative reconciliation of underwriting income for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022 (Restated)
<i>(in millions of dollars)</i>		
Net underwriting revenue .....	\$ 839.1	\$ 765.3
Net claims and adjustment expenses.....	525.1	452.0
Net commissions .....	124.8	122.9
Operating expenses .....	118.4	104.2
Premium taxes.....	31.3	28.4
Underwriting income.....	<b>\$ 39.5</b>	<b>\$ 57.8</b>

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



Net underwriting revenue, net claims and adjustment expenses, prior year claims development, underwriting expenses, and underwriting (loss) income by line of business is as shown in the following table for the three months ended March 31, 2023 and 2022:

<i>(in millions of dollars)</i>	Three months ended March 31, 2023			
	Personal auto	Personal property	Commercial lines	Total
Net underwriting revenue.....	\$ 365.7	\$ 241.0	\$ 232.4	\$ 839.1
Net claims and adjustment expenses ...	264.7	130.6	129.8	525.1
Prior year claims development.....	(2.0)	(0.7)	(5.0)	(7.7)
Underwriting expenses .....	104.2	88.9	81.4	274.5
Underwriting (loss) income .....	(3.2)	21.5	21.2	39.5

<i>(in millions of dollars)</i>	Three months ended March 31, 2022			
	<i>(Restated)</i>			
	Personal auto	Personal property	Commercial lines	Total
Net underwriting revenue.....	\$ 346.2	\$ 215.5	\$ 203.6	\$ 765.3
Net claims and adjustment expenses ...	230.9	119.6	101.5	452.0
Prior year claims development.....	(3.9)	(9.5)	(8.5)	(21.9)
Underwriting expenses .....	102.3	79.9	73.3	255.5
Underwriting income .....	13.0	16.0	28.8	57.8

## Non-GAAP Ratios:

### Claims ratio

Net claims and adjustment expenses during a defined period expressed as a percentage of net underwriting revenue for the same period. This is a relevant metric to evaluate our level of claims activity relative to our net underwriting revenue in a given period. Management believes claims ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, claims ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

### Combined ratio

The total of our net claims and adjustment expenses and underwriting expenses during a defined period expressed as a percentage of net underwriting revenue for the same period. Management uses combined ratio to evaluate the underlying insurance underwriting results relative to our net underwriting revenue 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, and premium taxes during a defined period, expressed as a percentage of net underwriting revenue for the same period. Management uses expense ratio to evaluate our underwriting expenses relative to our net underwriting revenue 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

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

## Return on equity ("ROE")

Net income (loss) attributable to common shareholders for the 12 months ended at a specified date divided by the average equity attributable to common shareholders, 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 March 31, 2023 and December 31, 2022:

	For the 12 months ended,	
	March 31, 2023	December 31, 2022 (Restated)
<i>(in millions of dollars, except as otherwise noted)</i>		
Net income attributable to common shareholders .....	\$ 244.4	\$ 110.9
Equity attributable to common shareholders <sup>(1)</sup> .....	\$ 2,637.2	\$ 2,549.8
Adjusted equity attributable to common shareholders .....	\$ 2,637.2	\$ 2,549.8
Average adjusted equity attributable to common shareholders <sup>(2)</sup> .....	\$ 2,572.0	\$ 2,552.1
Return on equity .....	9.5%	4.3%

Notes:

(1) Equity attributable to common shareholders is as at March 31, 2023 and December 31, 2022.

(2) Average adjusted equity attributable to common shareholders is the average of adjusted equity attributable to common shareholders (equity attributable to common shareholders as shown on our consolidated balance sheets, adjusted for significant capital transactions, if applicable) at the end of the period and the end of the preceding 12-month period. Equity attributable to common shareholders and adjusted equity attributable to common shareholders as at March 31, 2022 was \$2,506.9 million and as at December 31, 2021 was \$2,554.4 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 equity attributable to common shareholders, excluding accumulated other comprehensive income ("AOCI") and excluding unrealized gains or losses on FVTPL equity instruments, 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.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



The following table shows the components of our calculation of operating ROE for the periods ended March 31, 2023 and December 31, 2022:

	For the 12 months ended,	
	March 31, 2023	December 31, 2022 (Restated)
<i>(in millions of dollars, except as otherwise noted)</i>		
Operating net income <sup>(1)</sup> .....	\$ 236.9	\$ 236.8
Equity attributable to common shareholders, excluding AOCI <sup>(2)</sup> .....	\$ 2,668.1	\$ 2,582.2
Adjustment for unrealized gains on FVTPL equity instruments .....	\$ (30.3)	\$ (15.6)
Adjusted equity attributable to common shareholders, excluding AOCI .....	\$ 2,637.8	\$ 2,566.6
Average adjusted equity attributable to common shareholders, excluding AOCI <sup>(3)</sup> .....	\$ 2,536.1	\$ 2,515.3
Operating ROE .....	9.3%	9.4%

Notes:

- (1) Operating net income is a non-GAAP financial measure. See "— Non-GAAP Financial Measures", above.
- (2) Equity attributable to common shareholders, excluding AOCI is as at March 31, 2023 and December 31, 2022.
- (3) Average adjusted equity attributable to common shareholders, excluding AOCI is the average of adjusted equity attributable to common shareholders, excluding AOCI (equity attributable to common shareholders and AOCI each as shown on our consolidated balance sheets, adjusted for significant capital transactions, if applicable) and excluding unrealized gains or losses on FVTPL equity instruments, at the end of the period and the end of the preceding 12-month period. Equity attributable to common shareholders, excluding AOCI, and adjusted equity attributable to common shareholders, excluding AOCI as at March 31, 2022 was \$2,434.4 million and as at December 31, 2021 was \$2,464.0 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

## Certain other ratios

In our discussion of our financial results, we disclose certain ratios as a percentage of net underwriting revenue during a defined period for the following financial measures: core accident year claims and adjustment expenses, catastrophe losses, prior year claims development, net commissions, operating expenses, and premium taxes.

# Management's Discussion and Analysis

For the first quarter ended March 31, 2023



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## 13 — 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 May 10, 2023. No preferred shares were issued and outstanding.

## 14 — DEFINITIONS

Refer to Section 12 — "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.

<b>Discounting</b>	To reflect the time value of money, the expected future payments of claim liabilities are discounted back to present value using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The risk-free yield curves are adjusted by an illiquidity premium using a reference portfolio to reflect the liquidity characteristics of the insurance contracts.
<b>Frequency</b>	A measure of how often a claim is reported as a function of PIF.
<b>Large loss</b>	A single claim with a gross loss in excess of \$1 million but less than \$3 million.
<b>Minimum capital test (MCT)</b>	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.
<b>Policies in force (PIF)</b>	The number of insurance policies that are in effect at a specified date.
<b>Risk adjustment</b>	The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows, and reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows arising from non-financial risk as the Company fulfils insurance contracts.
<b>Severity</b>	A measure of the average dollar amount incurred per claim.