



Trisura Group Ltd.

Management's Discussion and Analysis

For the quarter ended June 30, 2023

TRISURA GROUP LTD.

Management's Discussion and Analysis for the second quarter of 2023

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess the results of operations and financial condition of Trisura Group Ltd. for the three and six months ended June 30, 2023. This MD&A should be read in conjunction with our unaudited Condensed Interim Consolidated Financial Statements for the quarter ended June 30, 2023 and the audited Consolidated Financial Statements for the year ended December 31, 2022, except for the adoption, effective January 1, 2023, of IFRS 9, Financial Instruments, and IFRS 17, Insurance Contracts that resulted in the restatement of certain comparative amounts (see Section 10, Changes in Accounting Policies).

Unless the context indicates otherwise, references in this MD&A to the "Company" refer to Trisura Group Ltd. and references to "us", "we" or "our" refer to the Company and its subsidiaries and consolidated entities.

The Company's Condensed Interim Consolidated Financial Statements are in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. In this MD&A, all references to "\$" are to Canadian dollars unless otherwise specified or the context otherwise requires.

This MD&A is dated August 10, 2023. Additional information is available on SEDAR at www.sedar.com.

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SECTION 1 - OVERVIEW

OUR BUSINESS

Our Company is a leading specialty insurance provider operating in the Surety, Risk Solutions, Corporate Insurance, and Fronting business lines of the market. Our operating subsidiaries include a Canadian specialty insurance company and a US specialty insurance company. Our Canadian specialty insurance subsidiary started writing business in 2006 and has a strong underwriting track record over its 17 years of operation, with a newly launched US Surety platform integrated with our Canadian team. Our US specialty insurance company has participated as a hybrid fronting entity in the non-admitted markets since early 2018 and is licensed as an excess and surplus lines insurer in Oklahoma with the ability to write business across 50 states. Our US specialty insurance company can also write business on an admitted basis in 49 states. We continue the process of applying for licenses in the remaining state.

Our Company has an experienced management team, strong partnerships with brokers, program administrators and reinsurers, and a specialized underwriting focus. We plan to grow by building our business in the US and Canada, both organically and through strategic acquisitions. We believe our Company can capitalize on favourable market conditions through our multi-line and multi-jurisdictional platform.

SECTION 2 – FINANCIAL HIGHLIGHTS IN Q2 2023

- ✓ Insurance revenue of \$664.4 million, increased by 43.0% compared to Q2 2022, demonstrating continued momentum with growth across all lines of business.
- ✓ Net income of \$26.8 million increased by 28.0% compared to Q2 2022. Operating net income⁽¹⁾ of \$26.0 million was comparable to net income, as non-recurring items roughly offset one another in the quarter, and grew by 36.5% over Q2 2022 as a result of growth, underwriting profitability and higher net investment income.
- ✓ EPS of \$0.57 in the quarter increased by 14.0% over Q2 2022. Operating EPS⁽²⁾ of \$0.56 in the quarter increased by 24.4% demonstrating the profitability of core operations⁽³⁾ through continued growth.
- ✓ ROE⁽⁴⁾ was 4.9% for the period ended Q2 2023. Operating ROE⁽²⁾ of 19.2% was comparable to Q2 2022. Operating ROE benefitted from growth and strong underwriting in Canada and the US, as well as higher Net investment income.
- ✓ BVPS⁽⁴⁾ of \$11.53 increased by 30.0% over Q2 2022, primarily the result of strong earnings in the Canadian operations, and the equity raise in Q3 2022.
- ✓ Canada:
 - Insurance revenue growth of 31.5% in the quarter reflects increased market share, expansion of distribution and fronting relationships, and growth of US Surety.
 - Insurance service result of \$20.3 million in the quarter grew 16.3% versus Q2 2022 as a result of growth in premiums across all lines and profitable underwriting performance.
 - Combined ratio⁽²⁾ of 82.9% was strong, with a slightly higher Loss ratio⁽²⁾ driven by Surety and an improved Expense ratio⁽²⁾.
 - Net income of \$13.5 million drove a 26.7% ROE. Operating net income of \$16.1 million increased 24.6% over Q2 2022.
- ✓ United States:
 - Insurance revenue of \$467.9 million in the quarter grew by 48.5% over Q2 2022, as a result of favourable market conditions, and maturation of existing programs.
 - Fee income⁽¹⁾ in the quarter of \$18.9 million reflects a larger premium base and a 22.3% increase over Q2 2022.
 - Deferred fee income⁽¹⁾, a precursor to earned fees, surpassed \$39.7 million.
 - Net income of \$16.0 million benefitted from a positive contribution from the run-off in the quarter. Operating net income of \$11.1 million grew 61.0% over Q2 2022 and demonstrates the potential of the business.
- ✓ Net investment income growth of 134.4% in the quarter was driven by increasing yields and a larger investment portfolio.

(1) These are non-IFRS financial measures. Non-IFRS financial measures are not standardized financial measures under the financial reporting framework used to prepare the financial statements of the Company to which the measure relates and might not be comparable to similar financial measures disclosed by other companies. See Section 10, Non-IFRS Financial Measures and Other Financial Measures for details and an explanation of how it provides useful information to an investor.

(2) These are non-IFRS ratios. Non-IFRS ratios are not standardized under the financial reporting framework used to prepare the financial statements of the Company to which the ratio relates and might not be comparable to similar ratios disclosed by other companies. See non-IFRS ratios in Section 10, Non-IFRS Financial Measures and Other Financial Measures for details on composition, as well as each non-IFRS financial measure used as a component of ratio, and an explanation of how it provides useful information to an investor.

(3) See Section 10, Operating Metrics, definition of Operating Net Income, for further explanation of "core operations".

(4) These are supplementary financial measures. Refer to Section 10, Operating Metrics for its composition.

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SECTION 3 – FINANCIAL REVIEW

INCOME STATEMENT ANALYSIS

Table 3.1

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	% variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance	% variance
Insurance revenue	664,420	464,643	199,777	43.0%	1,303,520	868,312	435,208	50.1%
Insurance service expenses	(567,217)	(407,172)	(160,045)	39.3%	(1,067,660)	(720,622)	(347,038)	48.2%
Net expense from reinsurance contracts assets	(57,491)	(30,019)	(27,472)	91.5%	(179,433)	(93,332)	(86,101)	92.3%
Insurance service result	39,712	27,452	12,260	44.7%	56,427	54,358	2,069	3.8%
Net investment income	11,899	5,077	6,822	134.4%	21,970	9,100	12,870	141.4%
Net (losses) gains	(6,867)	1,441	(8,308)	nm	(9,082)	967	(10,049)	nm
Net credit impairment losses	376	-	376	nm	227	-	227	nm
Total investment income	5,408	6,518	(1,110)	(17.0%)	13,115	10,067	3,048	30.3%
Finance (expenses) income from insurance contracts	(10)	3,782	(3,792)	nm	(36,638)	12,604	(49,242)	nm
Finance (expenses) income from reinsurance contracts	(277)	(2,603)	2,326	nm	31,625	(10,668)	42,293	nm
Net insurance finance (expenses) income	(287)	1,179	(1,466)	nm	(5,013)	1,936	(6,949)	nm
Net financial result	5,121	7,697	(2,576)	(33.5%)	8,102	12,003	(3,901)	(32.5%)
Net Insurance and financial result	44,833	35,149	9,684	27.6%	64,529	66,361	(1,832)	(2.8%)
Other income	902	855	47	5.5%	6,080	5,197	883	17.0%
Other operating expenses	(10,075)	(6,997)	(3,078)	44.0%	(15,507)	(11,332)	(4,175)	36.8%
Other finance costs	(601)	(642)	41	(6.4%)	(1,201)	(1,233)	32	(2.6%)
Income before income taxes	35,059	28,365	6,694	23.6%	53,901	58,993	(5,092)	(8.6%)
Income tax expense	(8,252)	(7,422)	(830)	11.2%	(13,118)	(14,712)	1,594	(10.8%)
Net income	26,807	20,943	5,864	28.0%	40,783	44,281	(3,498)	(7.9%)
Operating net income⁽²⁾	26,032	19,071	6,961	36.5%	52,602	38,614	13,988	36.2%
Other comprehensive loss	(9,871)	(22,403)	12,532	nm	(3,950)	(43,457)	39,507	nm
Comprehensive income (loss)	16,936	(1,460)	18,396	nm	36,833	824	36,009	nm
Earnings per common share - diluted - in dollars	0.57	0.50	0.07	14.0%	0.87	1.05	(0.18)	(17.1%)
Operating earnings per common share - diluted - in dollars	0.56	0.45	0.11	24.4%	1.13	0.92	0.21	22.8%
Book value per share - in dollars	11.53	8.87	2.66	30.0%	11.53	8.87	2.66	30.0%
ROE⁽³⁾	4.9%	19.2%	n/a	(14.3pts)	4.9%	19.2%	n/a	(14.3pts)
Operating ROE⁽³⁾⁽⁴⁾	19.2%	19.6%	n/a	(0.4pts)	19.2%	19.6%	n/a	(0.4pts)

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

(2) This is a non-IFRS financial measure. See Table 10.2.1 in Section 10, Non-IFRS Financial Measures and Other Financial Measures for details on composition and an explanation of how it provides useful information to an investor.

(3) Q2 2022 and Q2 2022 YTD balances for ROE and Operating ROE have not been restated to conform with adoption of new accounting standards as it is not feasible to do so.

(4) This is a non-IFRS ratio. See Table 10.4 in Section 10, Non-IFRS Financial Measures and Other Financial Measures for details on composition, as well as each non-IFRS financial measure used as a component of this ratio, and an explanation of how it provides useful information to an investor.

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Refer to Section 10, Accounting and Disclosure Matters for details regarding the composition of the line items presented below.

Insurance Revenue

Momentum continued in the quarter and YTD periods, driven by expansion of Fronting and by growth in Surety, supported by Corporate Insurance. Insurance revenue increased as a result of growth in premiums across those lines.

Insurance Service Expenses

Insurance service expenses increased in the quarter and YTD periods as a result of growth in the business, as claims and commissions grew in both Canada and the US. Gross claims expense increased, but much of this was offset by claims recoveries which are reflected as reductions to Net expense from reinsurance contracts assets.

Net Expense from Reinsurance Contracts Assets

Net expense from reinsurance contracts assets increased in the quarter and YTD periods as a result of growth in the business, and in particular from Canadian and US Fronting. The increase was not as significant as the increase in Insurance service expenses, as this balance includes claims recoveries which also increased, offsetting the increase in Insurance service expense.

Insurance Service Result

Insurance service result increased compared to Q2 2022 as a result of growth in the business and grew by a smaller amount for the YTD period as a result of certain losses associated with the run-off of a program in Trisura US in Q1 2023.

Net Investment Income, Net Losses and Net Credit Impairment Losses

See Section 5 – Investment Performance Review.

Finance (Expenses) Income from Insurance and Reinsurance Contracts

Finance (expenses) income from insurance contracts was not significant in Q2 2023 as a result of yield curve movement in the quarter which is used to discount claims reserves. This movement in the yield curve led to a reduction in discounted claims reserves which largely offset any expense associated with unwinding of the discount on unpaid claims. On a YTD basis, Finance (expenses) income from insurance contracts was an expense, as movement in the yield curve for the YTD period did not produce a significant impact on unpaid claims, and the remaining expense reflects unwinding of the discount on unpaid claims. In Q2 and YTD 2022, Finance (expenses) income from insurance contracts was in a recovery balance as the movement in yield curve in the periods resulted in a decrease in unpaid claims balances, which offset the impact to unpaid claims of the unwind of the discount.

Finance (expenses) income from reinsurance contracts was not significant in Q2 2023 as a result of movement in the quarter of the yield curve used to discount ceded claims reserves. This movement in the yield curve largely offset any recovery associated with unwinding of the discount on ceded unpaid claims. On a YTD basis, Finance (expenses) income from reinsurance contracts was a recovery, as the impact of movement in the yield curve on ceded unpaid claims for the YTD period was not significant, and the remaining recovery reflects unwinding of the discount on ceded unpaid claims. In Q2 and YTD 2022, Finance (expenses) income from reinsurance contracts was in an expense balance as the movement in yield curve in the periods resulted in a decrease in ceded unpaid claims balances, which offset the impact of the unwind of the discount.

Net Insurance and Financial Result

Net insurance and financial result increased in the quarter compared to 2022 as a result of growth in the business and an

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Net Insurance and Financial Result (continued)

increase in net investment income. Net insurance and financial result decreased YTD as a result of certain losses associated with the run-off of a program in Trisura US in Q1 2023.

Other Income

Other income consists of fees for surety services. Other income has grown in the quarter and YTD periods compared to 2022 due to growth in the number of surety accounts. Q1 is the most significant quarter for surety fee income.

Other Operating Expenses

Other operating expenses were greater in the quarter and YTD periods than 2022 driven by costs associated with growth in the business.

The growth in Other operating expenses was also impacted by share based compensation ("SBC"), as the change in value of our share price led to an increase in the value of certain outstanding options and other forms of SBC in Q2 2023 and a decrease for the YTD 2023 period. Other operating expenses excluding SBC⁽¹⁾ increased 21.4% in the quarter and 19.5% for the YTD period reflective primarily of growth in the Canadian and US operations. The movement in SBC was mitigated through a program using derivatives, the movement of which is presented in Net losses. The impact of Corporate and other costs, net of mitigation is shown in Section 4 – Performance Review, Corporate and Other.

Income Tax Expense

Income tax expense was greater in Q2 2023 than Q2 2022 as a result of greater income before tax. Income tax expense was lower for the YTD period of 2023 than 2022 largely as a result of lower Income before income taxes. For additional information, see Note 17 of the Condensed Interim Consolidated Financial Statements.

Net Income

Net income increased in the quarter, as a result of growth in the business and decreased YTD compared to 2022, as certain losses associated with a run-off program in Trisura US offset strong Canadian net income and higher Net investment income. There were also Net losses in the YTD period which contributed to lower Net income in 2023 compared to 2022. Operating net income increased in the quarter and YTD periods as a result of strong core operations including underwriting performance in Canada and the US, as well as growth in Net investment income.

Other Comprehensive Income (Loss)

See Section 5 – Investment Performance Review.

EPS, Operating EPS, BVPS, ROE, Operating ROE

EPS of \$0.57 in the quarter increased by 14.0% over Q2 2022, as a result of growth in the business, mitigated by a greater number of shares outstanding. For the YTD period, EPS of \$0.87 decreased compared to 2022 due to losses associated with the run-off of a program in Trisura US, as well as a greater number of shares outstanding.

Operating EPS is meant to reflect EPS, adjusted for certain items to normalize earnings of core operations in order to reflect our North American specialty core operations. A detailed reconciliation between EPS and Operating EPS is included in Section 10, under Non-IFRS ratios. Operating EPS grew by 24.4% in the quarter, despite an increase in the number of shares outstanding, primarily due to growth in Specialty P&C earnings in Canada and the US and supported by higher investment income. YTD Operating EPS of \$1.13 increased by 22.8% due to the same factors.

(1) Other Operating expenses excluding SBC is a non-IFRS financial measure.

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EPS, Operating EPS, BVPS, ROE, Operating ROE (continued)

BVPS increased by 30.0% over Q2 2022 primarily as a result of strong earnings in the Canadian operations, and the equity raise in Q3 2022.

ROE decreased from the prior year primarily due to the write down of reinsurance recoverables in Q4 2022. Operating ROE stayed flat due to strong profitability from core operations.

BALANCE SHEET ANALYSIS

Table 3.2

As at	June 30, 2023	December 31, 2022 ⁽¹⁾	\$ variance
Cash and cash equivalents	340,825	406,368	(65,543)
Investments	828,890	765,375	63,515
Other Assets	40,310	61,852	(21,542)
Reinsurance contract assets	1,873,282	1,527,799	345,483
Capital assets and intangible assets	17,649	19,529	(1,880)
Deferred tax assets	19,234	17,942	1,292
Total assets	3,120,190	2,798,865	321,325
Insurance contract liabilities	2,432,392	2,165,103	267,289
Other liabilities	83,118	65,111	18,007
Loan payable	75,000	75,000	-
Total liabilities	2,590,510	2,305,214	285,296
Shareholders' equity	529,680	493,651	36,029
Total liabilities and shareholders' equity	3,120,190	2,798,865	321,325

(1) Comparatives have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

Cash and cash equivalents has decreased as a result of additional purchases of investments in the period, as well as cash outflows associated with the run-off program at Trisura US. Investments have increased as a result of additional cash deployed to the investment portfolio. Other assets have decreased as a result of a reduction in tax recoveries as well as unsettled trades. Reinsurance contract assets have increased as a result of growth in the business in both Canada and the US. These recoverables are monitored in accordance with the Company's reinsurance risk management policies and generally, are owing from reinsurers with A.M. Best ratings of A- or higher or who otherwise have posted an agreed upon level of collateral.

Insurance contract liabilities have increased as a result of growth in Insurance revenue in both Canada and the US. This increase is partially offset by an increase in Reinsurance contract assets. Other liabilities have increased in the quarter as a result of holding more deposits in trust related to the Surety business line.

Shareholders' equity at June 30, 2023 has increased from December 31, 2022 due to movement in retained earnings as a result of positive net income in the period.

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SHARE CAPITAL

Our authorized share capital consists of: (i) an unlimited number of common shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series).

On July 14, 2022, the Company completed a public offering of 4,512,000 common shares. As at June 30, 2023, 45,807,632 common shares were issued and outstanding.

As at June 30, 2023, 1,569,641 options were outstanding which could be converted to common shares (including unvested options). As at June 30, 2023, 184,363 RSU's were outstanding which could be converted to common shares (including unvested RSUs).

LIQUIDITY

Both short-term and long-term liquidity sources are available to the Company. Short-term liquidity sources immediately available include: (i) cash and cash equivalents (See Balance Sheet); (ii) our portfolio of highly rated, highly liquid investments (see Note 4 of the Condensed Interim Consolidated Financial Statements); (iii) cash flow from operating activities which include receipt of insurance revenue and investment income (see Statements of Cash Flows) and; (iv) bank loan facilities including our revolving credit facility (see Note 13 to the Condensed Interim Consolidated Financial Statements). These funds are used primarily to pay claims and operating expenses, service the Company's debt outstanding and purchase investments to support claims reserves and capital requirements.

CAPITAL

The MCT ratio⁽¹⁾ of Trisura's regulated Canadian operating subsidiary was 224% as at June 30, 2023 (233% as at December 31, 2022), which comfortably exceeds the 150% regulatory requirements prescribed by OSFI, as well as the Company's internal target⁽²⁾.

As at December 31, 2022, the RBC⁽³⁾ of the regulated insurance companies of Trisura US were in excess of the various company action levels of the states in which they are licensed.

The Company is well-capitalized and we expect to have sufficient capital to meet our regulatory capital requirements, and fund our operations.

The Company's debt-to-capital ratio⁽⁴⁾ of 12.4% as at June 30, 2023 (13.2%⁽⁵⁾ as at December 31, 2022), was below the Company's long-term target of 20.0%.

The Company continues to maintain a \$50 million revolving credit facility, which was entirely undrawn as at June 30, 2023. In Q3 2023, the Company issued a Letter of Credit through its banking facility, which lowered the undrawn capacity by \$10 million USD. The letter of credit was drawn in relation to a partnership arrangement to support the growth of the Company's US Surety operations.

(1) This measure is calculated in accordance with the Office of the Superintendent of Financial Institutions Canada's (OSFI's) Guideline A, Minimum Capital Test.

(2) This target is in accordance with OSFI's Guideline A-4, Regulatory Capital and Internal Capital Targets.

(3) This measure is calculated in accordance with the National Association of Insurance Commissioners, ("NAIC") Risk Based Capital ("RBC") for Insurers Model Act.

(4) This is a supplementary financial measure. See Section 10, Operating Metrics for its composition.

(5) Q4 2022 balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

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SECTION 4 – PERFORMANCE REVIEW

SPECIALTY P&C

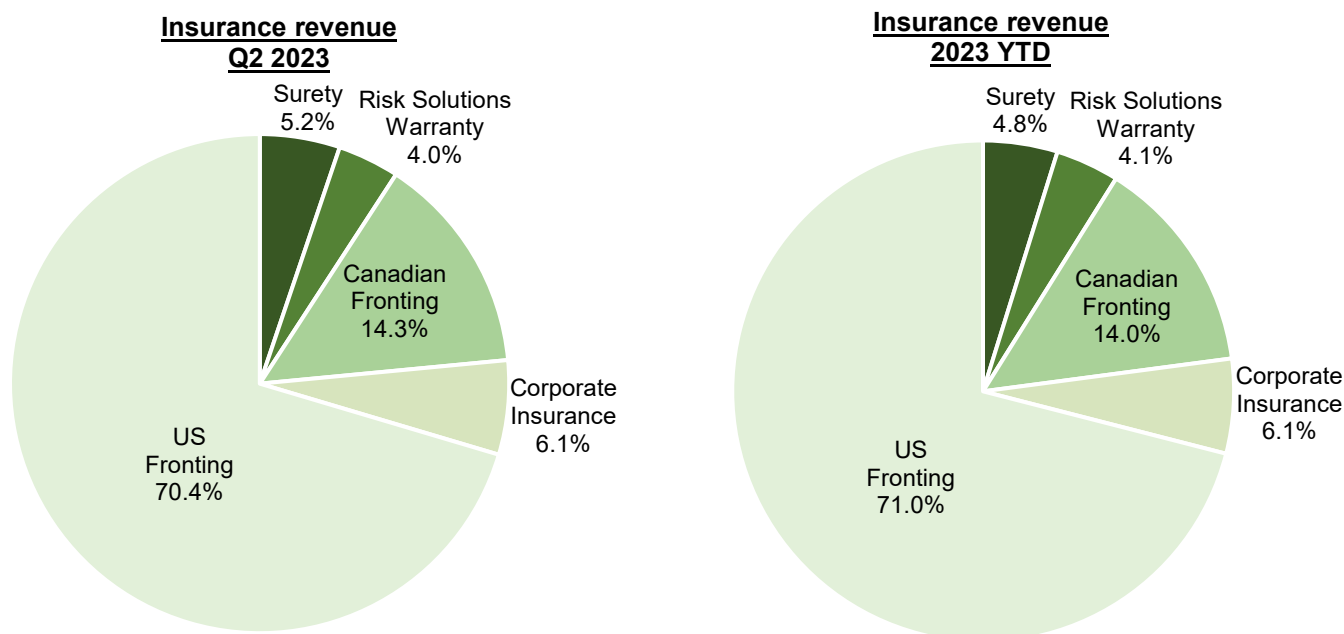
Our Specialty P&C business consists of Surety, Risk Solutions Warranty, Canadian Fronting and Corporate Insurance business lines which we primarily write in Canada, referred to as Trisura Canada, and a broad range of admitted and surplus lines in the US written through a fronting model, referred to as Trisura US or US Fronting.

The table below provides a split of our Specialty P&C Insurance revenue for the second quarter and YTD 2023 and 2022, respectively. Although US Fronting comprises the majority of our insurance revenue, growth was substantial in Canada.

Table 4.1

Insurance revenue	Q2 2023	Q2 2022 ⁽¹⁾	% growth over prior year	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	% growth over prior year
Surety	34,760	24,739	40.5%	62,283	44,737	39.2%
Risk Solutions Warranty	26,556	24,985	6.3%	53,075	48,222	10.1%
Canadian Fronting	95,020	64,831	46.6%	181,962	125,335	45.2%
Corporate Insurance	40,232	34,970	15.0%	79,041	66,187	19.4%
US Fronting	467,852	315,118	48.5%	927,159	583,831	58.8%
Total Insurance revenue	664,420	464,643	43.0%	1,303,520	868,312	50.1%

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.



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CANADA

The table below presents financial highlights for our Canadian operations.

Table 4.2

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	% variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance	% variance
Insurance revenue	196,568	149,525	47,043	31.5%	376,361	284,481	91,880	32.3%
Insurance service expense	(140,884)	(102,354)	(38,530)	37.6%	(255,766)	(173,963)	(81,803)	47.0%
Net expense from reinsurance contracts assets	(35,356)	(29,697)	(5,659)	19.1%	(82,110)	(77,598)	(4,512)	5.8%
Insurance service result	20,328	17,474	2,854	16.3%	38,485	32,920	5,565	16.9%
Net investment income	5,682	3,174	2,508	79.0%	10,847	5,879	4,968	84.5%
Net (losses) gains	(4,410)	771	(5,181)	nm	(3,907)	3,851	(7,758)	nm
Net credit impairment losses	91	-	91	nm	63	-	63	nm
Other income ⁽²⁾	902	855	47	5.5%	6,080	5,196	884	17.0%
Net income	13,517	14,291	(774)	(5.4%)	30,042	30,254	(212)	(0.7%)
Operating net income ⁽³⁾	16,143	12,951	3,192	24.6%	32,765	25,554	7,211	28.2%
Loss ratio	18.7%	14.1%		4.6pts	16.7%	14.4%		2.3pts
Expense ratio	64.2%	65.8%		(1.6pts)	65.1%	64.2%		0.9pts
Combined ratio ⁽⁴⁾	82.9%	79.9%		3.0pts	81.8%	78.6%		3.2pts
ROE ⁽⁵⁾	26.7%	31.6%		(4.9pts)	26.7%	31.6%		(4.9pts)
Operating ROE ^(5,6)	28.4%	31.6%		(3.2pts)	28.4%	31.6%		(3.2pts)

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

(2) Other income, refers to fees for surety services.

(3) This is a non-IFRS financial measure. See Table 10.2.2 in Section 10, Non-IFRS Financial Measures and Other Financial Measures for details on composition and an explanation of how it provides useful information to an investor.

(4) This is a non-IFRS ratio. See Section 10, Non-IFRS Ratios, Table 10.5, and Other Financial Measures for details on its composition, as well as each non-IFRS financial measure used as a component of this ratio, and an explanation of how it provides useful information to an investor.

(5) Q2 2022 and Q2 2022 YTD balance for ROE has not been restated to conform with adoption of new accounting standards.

(6) Operating ROE excludes the impact of certain items to normalize earnings in order to reflect our Canadian operations.

Q2 and YTD 2023 Insurance revenue growth continued across all lines, led by Canadian Fronting and Surety. In the quarter and YTD, Risk Solutions Warranty insurance revenue grew slowly reflecting growth in automobile sales. Corporate Insurance has continued to benefit from a stable insurance market with stable pricing, growth in programs, and expansion of distribution partnerships. Growth in Surety reflects continued expansion of our market share including strong premium growth from our nascent Surety business in the US.

Insurance service expense grew in Q2 and YTD 2023 as a result of growth in claims and commission expense, driven by growth in insurance revenue, and in particular due to growth in Fronting. Net expense from reinsurance contracts assets increased for the quarter and YTD periods as reinsurance ceded increased alongside an increase in claims recoveries.

Insurance service result for Q2 and YTD 2023 increased over Q2 and YTD 2022 as a result of growth in the business, and strong underwriting profitability. The Loss ratio increased in the quarter and YTD periods, as a result of a higher Surety and Corporate Insurance Loss ratios. The Q2 Expense ratio was slightly lower than the prior year, as a result of slightly lower commission rates in the period. The YTD Expense ratio was slightly higher than the prior year in part because of higher premium tax rates.

TRISURA GROUP LTD.

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Other income, which reflects fees for surety services, grew in Q2 and YTD 2023 compared to Q2 and YTD 2022, as the number of accounts increased which was positively impacted by the acquisition of the Sovereign Surety portfolio.

The Combined ratios for Q2 and YTD 2023 were higher than the prior year primarily as a result of higher Loss ratios but nonetheless strong.

See Section 5 – Investment Performance Review for a discussion on Net investment income, Net gains and Net credit impairment losses.

Net income fell in Q2 and YTD 2023 compared to Q2 and YTD 2022 as a result of Net losses on the investment portfolio, reflecting unrealized losses, which prior to the implementation of IFRS 9 were recognized in OCI. Operating net income, which removes this impact, grew for the quarter and YTD periods as a result of growth in the business and strong underwriting and net investment income. Revenue generation combined with disciplined underwriting demonstrated the benefit of our specialty focus and the ability of our platform to perform through volatile markets.

Surety

The main products offered by our Surety business line are:

- ✓ Contract surety bonds, such as performance and labour and material payment bonds, primarily for the construction industry;
- ✓ Commercial surety bonds, such as license and permit, tax and excise, and fiduciary bonds, which are issued on behalf of commercial enterprises and professionals to governments, regulatory bodies or courts to guarantee compliance with legal or fiduciary obligations;
- ✓ Developer surety bonds, comprising mainly bonds to secure real estate developers' legislated deposit and warranty obligations on residential projects; and
- ✓ New home warranty insurance for residential homes.

Table 4.3

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	% variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance	% variance
Insurance revenue	34,760	24,739	10,021	40.5%	62,283	44,737	17,546	39.2%
Insurance service expense	(30,054)	(15,797)	(14,257)	90.3%	(48,191)	(29,688)	(18,503)	62.3%
Net income (expense) from reinsurance contracts assets	868	(2,777)	3,645	nm	(3,001)	(6,492)	3,491	(53.8%)
Insurance service result	5,574	6,165	(591)	(9.6%)	11,091	8,557	2,534	29.6%
Other income	875	818	57	7.0%	6,027	5,129	898	17.5%
Loss ratio	23.8%	10.7%		13.1pts	15.7%	14.0%		1.7pts

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

Insurance revenue grew significantly for Q2 and YTD 2023 driven by growth in our nascent US Surety platform and contract surety in Canada which was positively impacted by the Company's acquisition of Sovereign Insurance's surety business in Canada in 2022.

TRISURA GROUP LTD.

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Surety (continued)

Insurance service expense increased in Q2 and YTD 2023 compared to 2022 as a result of growth in claims, commissions and operating expenses, which have increased alongside growth in Insurance revenue. In the quarter, a higher Loss ratio caused this balance to increase significantly. Net expense from reinsurance contracts assets decreased as a result of a claim in the period, which was partially reinsured, where the associated recovery is recognized in Net income (expense) from reinsurance contract assets. Insurance service result was lower for Q2 2023 than Q2 2022 as a result of the higher claim ratio. Insurance service result was greater for the YTD period than the prior year, as a result of growth, offset by the impact of the higher Loss ratio.

Other income, which reflects fees for surety services, also increased for the quarter and YTD periods which was also positively impacted by the Company's acquisition of Sovereign Insurance's surety business.

Risk Solutions Warranty

Risk Solutions includes specialty insurance contracts which are structured, to meet the specific requirements of program administrators, managing general agents, captive insurance companies, and affinity groups. Our Risk Solutions business line consists primarily of warranty programs in the automotive and consumer goods space. Risk Solutions also sells warranty products which serve as complementary products to our insurance policies.

Table 4.4

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	% variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance	% variance
Insurance revenue	26,556	24,985	1,571	6.3%	53,075	48,222	4,853	10.1%
Insurance service expense	(25,528)	(22,043)	(3,485)	15.8%	(47,136)	(40,756)	(6,380)	15.7%
Net income (expense) from reinsurance contracts assets	659	(1,107)	1,766	nm	(874)	(1,796)	922	(51.3%)
Insurance service result	1,687	1,835	(148)	(8.1%)	5,065	5,670	(605)	(10.7%)

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

Insurance revenue increased in Q2 and YTD 2023 compared to Q2 and YTD 2022 as a result of several programs which are continuing to mature. Several Risk Solutions Warranty programs have seen a slowdown in growth as a result of slower automobile sales in the period.

Insurance service expense increased for the quarter and YTD periods primarily as a result of an increase in commissions expense as a result of growth in the business, and also an increase in claims activity as supply chain disruptions ease, lessening the strain on inventories in the automobile sector.

Net expense from reinsurance contracts assets decreased in the quarter and YTD periods compared with the prior year as a result of certain one-time adjustments to the reinsurance on a particular program. Insurance service result was lower than the prior year for the quarter and YTD periods primarily as a result of an increase in claims, as claims expense has begun to return to more long-term levels.

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Canadian Fronting

Canadian Fronting includes fronting for reinsurers through licensed brokers and MGAs, which the company began writing in 2020. For fronted business in the Canadian operations, we generally target a fronting fee in the range of 4.0% to 8.0% of GPW⁽¹⁾ depending on the nature of the arrangement.

Table 4.5

	Q2 2023	Q2 2022 ⁽²⁾	\$ variance	% variance	Q2 2023 YTD	Q2 2022 YTD ⁽²⁾	\$ variance	% variance
Insurance revenue	95,020	64,831	30,189	46.6%	181,962	125,335	56,627	45.2%
Insurance service expense	(63,433)	(42,380)	(21,053)	49.7%	(115,561)	(63,521)	(52,040)	81.9%
Net expense from reinsurance contracts assets	(25,999)	(18,345)	(7,654)	41.7%	(56,608)	(54,588)	(2,020)	3.7%
Insurance service result	5,588	4,106	1,482	36.1%	9,793	7,226	2,567	35.5%

(1) This is a non-IFRS financial measure. See Section 10 for details on its composition and an explanation of how it provides useful information to an investor.

(2) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

Insurance revenue increased for Q2 and YTD 2023 compared to the prior year as a result of growth in the business due to platform maturation.

Insurance service expense increased for Q2 and YTD 2023, largely as a result of an increase in claims activity. This increase was offset by an increase in claims recoveries from reinsurers which form part of Net expense from reinsurance contracts assets.

Net expense from reinsurance contracts assets increased in Q2 2023 as a result of growth in the business, which increased the amount of reinsurance ceded and claims recoveries. Net expense from reinsurance contracts grew by a smaller amount in Q2 YTD than the prior year as a result of a larger increase in claims recoveries and reinsurance ceding commissions.

Insurance service result increased for the quarter and YTD periods primarily as a result of the maturing of programs and growth in the business.

Corporate Insurance

The main products offered by our Corporate Insurance business are Directors' & Officers' insurance for private, non-profit and public enterprises, professional liability insurance for both enterprises and professionals, technology and cyber liability insurance for enterprises, commercial package insurance for both enterprises and professionals and fidelity insurance for both commercial enterprises and financial institutions.

Table 4.6

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	% variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance	% variance
Insurance revenue	40,232	34,970	5,262	15.0%	79,041	66,187	12,854	19.4%
Insurance service expense	(21,869)	(22,134)	265	(1.2%)	(44,878)	(39,998)	(4,880)	12.2%
Net expense from reinsurance contracts assets	(10,884)	(7,468)	(3,416)	45.7%	(21,627)	(14,722)	(6,905)	46.9%
Insurance service result	7,479	5,368	2,111	39.3%	12,536	11,467	1,069	9.3%
Loss ratio	24.7%	22.6%		2.1pts	26.1%	20.9%		5.2pts

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

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Insurance revenue continued to demonstrate growth in Q2 and YTD 2023. This was due to new business growth, stable policy retentions, continued moderate premium rate increases and support from our distribution partners.

Insurance service expense decreased in Q2 2023 as a result of greater gross claims in Q2 2022. Insurance service expense grew for the YTD 2023 period as a result of growth in commissions, and operating expenses which grew alongside growth in the business.

Net expense from reinsurance contracts assets grew for the quarter and YTD periods as a result of an increase in reinsurance ceded, in combination with lower claims recoveries.

Insurance service result was greater in Q2 and YTD 2023 than Q2 and YTD 2022 as a result of growth in the business, offset by a higher Loss ratio, which was particularly low in 2022.

In Q2 and YTD 2023, the Loss ratio increased compared to the prior year period, as a result of higher claims activity in the period.

TRISURA GROUP LTD.

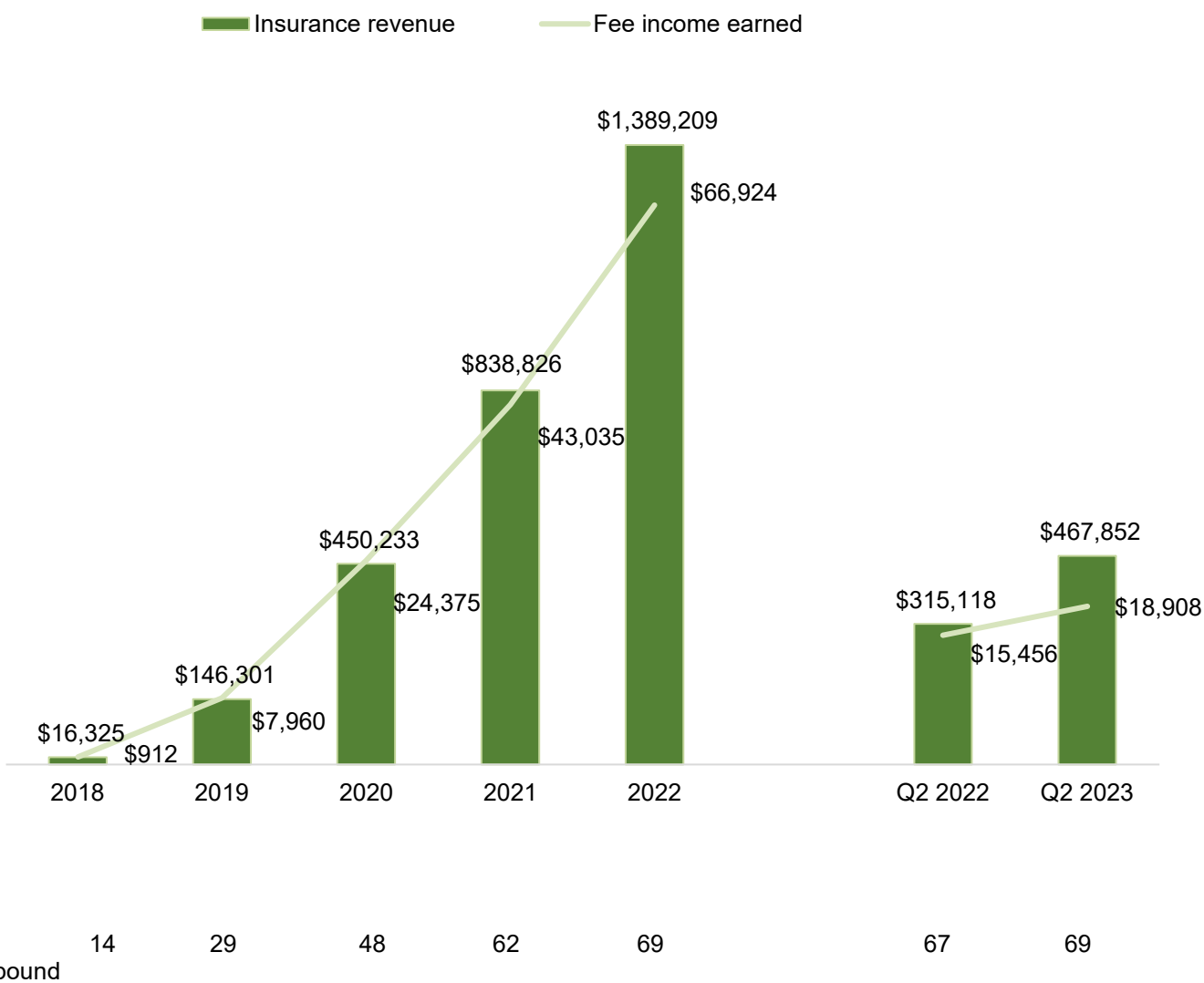
Management's Discussion and Analysis for the second quarter of 2023

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UNITED STATES

Our US platform functions as a non-admitted surplus line insurer in all states, participating as a hybrid fronting carrier with a fee-based business model.

Our US operations continued to grow Insurance revenue, producing \$467.9 million in the quarter across 69 programs. The graph below shows the evolution of Insurance revenue, fee income⁽¹⁾, and the number of programs bound in the US.



(1) Fee income is a non-IFRS financial measure. See Section 10, Non-IFRS Financial Measures and Other Financial Measures for details and an explanation of how it provides useful information to an investor.

TRISURA GROUP LTD.

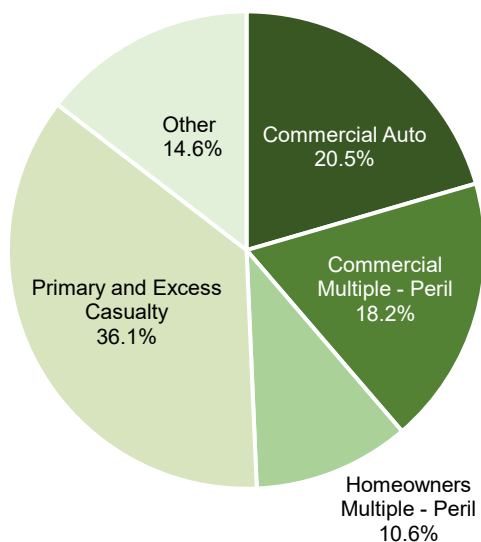
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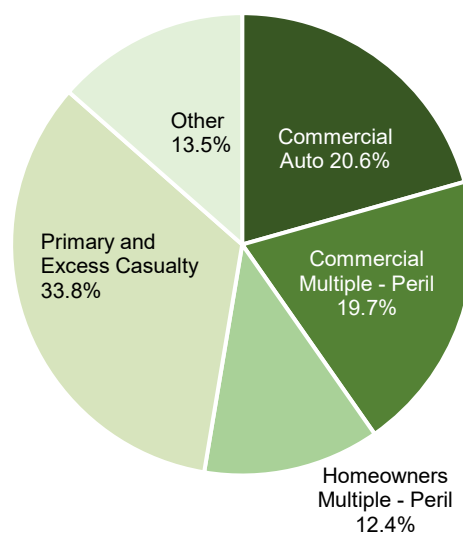
UNITED STATES (CONTINUED)

The charts below provide a segmentation by class of business of our US Insurance revenue for Q2 2023.

Insurance Revenue
Q2 2023⁽¹⁾



Insurance Revenue
Q2 2023 YTD⁽¹⁾



(1) "Other" includes Allied Lines – Flood, Auto Physical Damage, Burglary and Theft, Boiler and Machinery, Dwelling Fire, Farmowners Multiple - Peril, Inland Marine, MonoLine Property, Prepaid Legal, Private Auto, Product Liability, and Surety.

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UNITED STATES (CONTINUED)

The table below presents financial highlights for our US operations.

Table 4.7

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	% variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance	% variance
Insurance revenue	467,852	315,118	152,734	48.5%	927,159	583,831	343,328	58.8%
Insurance service expenses	(426,221)	(304,857)	(121,364)	39.8%	(811,769)	(546,711)	(265,058)	48.5%
Net expense from reinsurance contracts assets	(22,135)	(322)	(22,813)	nm	(97,323)	(15,734)	(81,589)	nm
Insurance service result	19,496	9,939	9,558	96.2%	18,067	21,386	(3,319)	(15.5%)
Net investment income	5,662	1,594	4,068	255.2%	10,039	2,707	7,332	270.9%
Net (losses) gains	(2,441)	1,537	(3,978)	nm	(1,203)	517	(1,720)	nm
Net credit impairment losses	280	-	280	nm	106	-	106	nm
Net income	15,984	8,356	7,628	91.3%	14,242	16,128	(1,886)	(11.7%)
Operating net income ⁽²⁾	11,126	6,912	4,214	61.0%	21,479	14,832	6,647	44.8%
Fee income ⁽³⁾	18,908	15,456	3,452	22.3%	36,904	29,341	7,563	25.8%
Loss ratio	52.5%	71.9%			68.4%	67.4%		
Loss ratio excluding run-off	65.7%	71.9%			70.8%	67.4%		
Retention rate ⁽⁴⁾	3.2%	9.9%			4.3%	9.8%		
Fees as a % of ceded premium ⁽⁴⁾	4.3%	5.2%			4.3%	5.3%		
Fees as a % of ceded premium excluding run-off	4.7%	5.2%			4.6%	5.3%		
FOR ⁽⁵⁾	78.6%	81.2%			94.0%	76.6%		
FOR excluding run-off	79.9%	81.2%			83.0%	76.6%		
ROE ⁽⁶⁾	(12.8%)	13.9%			(12.8%)	13.9%		
Operating ROE ^(6,7)	14.3%	13.9%			14.3%	13.9%		

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

(2) This is a non-IFRS financial measure. See Table 10.2.3 in Section 10, Non-IFRS Financial Measures and Other Financial Measures for details on composition and an explanation of how it provides useful information to an investor.

(3) Fee income is a component of Net expense from reinsurance contracts assets, see Table 10.5.5 for its composition.

(4) This is a non-IFRS ratio. See Table 10.7 in Section 10, Non-IFRS Financial Measures and Other Financial Measures for details on composition.

(5) This is a non-IFRS ratio. See Section 10, Operating Metrics and Table 10.6 for its composition.

(6) Q2 2022 and Q2 2022 YTD balances for ROE and Operating ROE have not been restated to conform with adoption of new accounting standards.

(7) Operating ROE excludes the impact of certain items to normalize earnings in order to reflect our US operations.

The table below shows Deferred fee income as at June 30, 2023, compared to December 31, 2022.

Table 4.8

As at	June 30, 2023	December 31, 2022	\$ variance	% variance
Deferred fee income	39,701	34,587	5,114	14.8%

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UNITED STATES (CONTINUED)

Insurance revenue grew in the quarter and YTD periods compared to Q2 and YTD 2022. The increase was primarily the result of maturing programs, supplemented by new program additions. In the quarter and YTD periods, \$60.7 million and \$113.6 million of Insurance revenue was generated by admitted programs compared to \$24.4 million and \$40.8 million in Q2 and YTD 2022.

Insurance service expenses increased in the quarter and YTD periods compared to the prior year primarily as a result of an increase in claims and commission expense, which have grown as a result of growth in insurance revenue.

Net expense from reinsurance contracts assets increased in Q2 and YTD 2023 as a result of more reinsurance ceded, which has increased as a result of growth in Insurance revenue.

Insurance service result is greater in Q2 2023 than Q2 2022 as a result of growth in the business, as well as the impact of the run-off of a significant program, which was positive for the quarter. Insurance service result was lower in YTD 2023 than YTD 2022 primarily as a result of certain losses incurred in relation to the run-off of a significant program.

Our US Fronting operations retained 3.2% of GPW in the quarter and 4.3% for the YTD period. The remainder of premiums were ceded to third party reinsurers. The decrease in retention primarily reflects additional reinsurance coverage purchased in both periods, leading to a lower reported retention rate. We continue to target a quota share retention between 5.0% and 10.0% on all programs.

Fee income in our US operations reflects fronting fees received from reinsurers which are recognized over the life of the insurance contracts with which they are associated. The earnings pattern of Fee income is similar to that of Insurance revenue, and is reflected as part of Net expense from reinsurance contracts assets. Fee income grew strongly in the quarter and YTD periods as a result of significant premium growth over the past year.

Fees as a percentage of ceded premium, as well as Fees as a percentage of ceded premium excluding run-off, were lower in the quarter and YTD periods, in part as a result of the purchase of catastrophe coverage which does not attract Fee income and the impact of larger programs with lower average fees.

The Q2 2023 Loss ratio was lower than Q2 2022 primarily as a result of the run-off program, which has a lower Loss ratio and of which we have a higher retention. When the run-off portfolio is excluded from results, the Loss ratio remains lower than the prior year, partly as a result of improved claims performance and partly as a result of the impact of movement in the yield curve during the quarter. For the YTD period, the Loss ratio and the Loss ratio excluding run-off were greater than the prior year as a result of higher claims activity on certain programs, as well as the impact of yield curve movement in 2022.

The FOR and FOR excluding run-off in Q2 2023 were lower than 2022 primarily as a result of improved Loss ratio performance in Q2 2023 than Q2 2022. For the YTD period, the FOR is greater than the prior year primarily as a result of the impact of the run-off program. The FOR excluding run-off is greater than the prior year as a result of certain additional reinsurance costs incurred in the period.

See Section 5 – Investment Performance Review for a discussion on Net investment income, Net gains (losses), and Net credit impairment losses.

Net income increased for the quarter as a result of the run-off program, as well as growth in the business. Net income decreased for the YTD period compared to the prior year as a result of the run-off program. Operating net income increased over the prior year as a result of growth in the business.

In Q2 2023 the ROE was (12.8%), the negative result being primarily driven by the write down in Q4 2022. Operating ROE was 14.3%, which is greater than the prior year, reflecting growth in operations.

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CORPORATE AND OTHER

Our corporate results represent expenses that do not relate specifically to any one segment of the Company as well as debt servicing costs and certain derivative gains and losses on derivatives instruments used to mitigate the movement of SBC.

Table 4.9

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance
Net claims and expenses – Reinsurance	(178)	4	(182)	(290)	(275)	(15)
Corporate expenses and other	(1,022)	(435)	(587)	(1,649)	(1,158)	(491)
SBC, net of derivatives used to mitigate the impact	(423)	(545)	122	(823)	(1,524)	701
Net expenses ⁽²⁾	(1,623)	(976)	(647)	(2,762)	(2,957)	195
Debt servicing	(545)	(545)	-	(1,089)	(1,037)	(52)
Corporate and other	(2,168)	(1,521)	(647)	(3,851)	(3,994)	143

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

(2) Refer to Table 10.8.1 for details to reconcile to Note 16 – Segmented Information in the Company's Condensed Interim Consolidated Financial Statements.

Corporate and other now includes some residual expenses associated with the run-off of in-force reinsurance contracts of our Reinsurance operations. These costs were approximately the same in Q2 and YTD 2023 as Q2 and YTD 2022 as the run-off remains small.

Corporate expenses and other increased in quarter and YTD period increased as a result of certain one-time professional fees, related to activity in the business.

SBC includes payment to directors and senior management and can be impacted by movement in the share price. As a result, we employ a strategy using derivatives to mitigate volatility. SBC is presented net of the impact of this mitigation strategy. SBC, net of derivatives decreased for the quarter and YTD periods over the prior year as a result of being over-hedged in Q1 2022, though hedge accounting is not applied.

Debt servicing costs are the same in Q2 2023 as Q2 2022 as the same amount of debt was outstanding. Debt servicing costs were slightly higher in YTD 2023 as a result of certain margin costs during the quarter.

SECTION 5 – INVESTMENT PERFORMANCE REVIEW

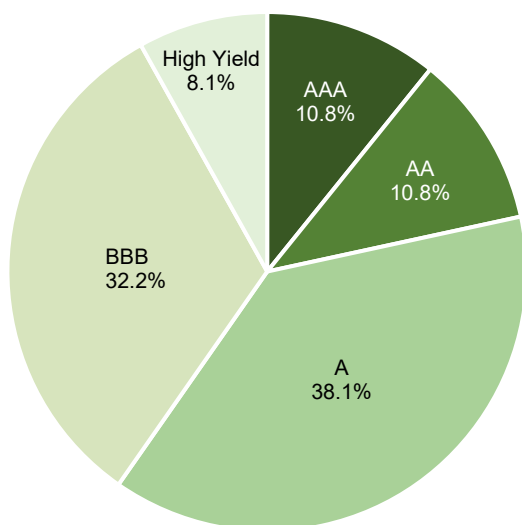
OVERVIEW

The Company’s investment policy seeks to achieve attractive total returns without incurring an undue level of investment risk while supporting our liabilities and maintaining strong regulatory and economic capital levels. We take a centralized investment approach across all subsidiary portfolios and invest with a global posture.

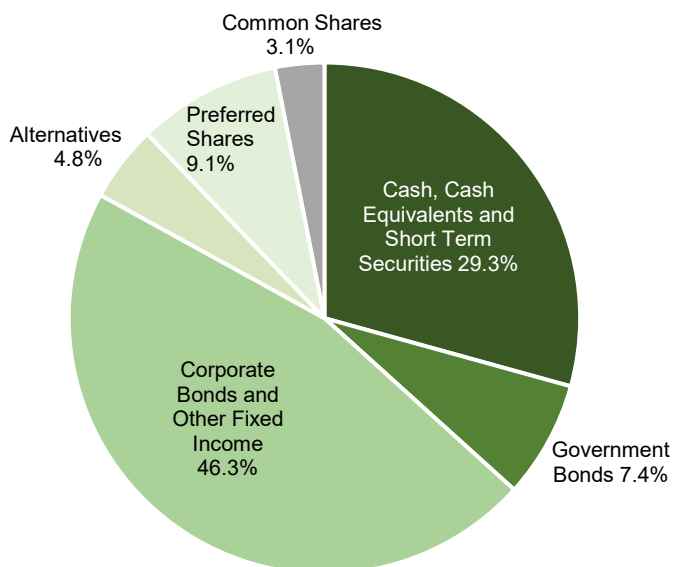
SUMMARY OF CASH AND INVESTMENTS

Our \$1.2 billion investment portfolio consists of cash and cash equivalents, short-term securities, government and corporate bonds, preferred shares, common shares, and alternative investments. Approximately 92% of our fixed income holdings are highly liquid (highly liquid refers to the Company’s ability to sell a fixed income investment within a short period of time), investment grade bonds (investment grade bonds refers to all bonds rated ‘BBB-’ and higher).

Fixed Income Securities by Rating⁽¹⁾



Investment Portfolio by Asset Class



(1) This is a supplementary financial measure. Composition: balance for each credit rating, divided by total balance for fixed income investments.

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INVESTMENT PERFORMANCE

Net Investment Income

Table 5.1

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance
Net Investment income	11,899	5,077	6,822	21,970	9,100	12,870
Net (losses) gains excluding derivative losses ⁽²⁾	(8,259)	1,792	(10,051)	(6,704)	5,439	(12,143)
Net credit impairment losses	376	-	376	227	-	227
Total investment income excluding derivative losses ⁽³⁾	4,016	6,869	(2,853)	15,493	14,539	954

(1) Q2 2022 and Q2 2022 YTD balances have been presented in accordance with IAS 39 and accordingly have not been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

(2) This is a non-IFRS financial measure. See Table 10.3 in Section 10 for details to reconcile to Note 16 - Segmented Information in the Condensed Interim Consolidated Financial Statements.

(3) Total investment income excluding derivative losses is a non-IFRS financial measure and is equal to the sum of Net investment income, Net (losses) gains excluding derivative losses, and Net credit impairment losses.

Net investment income is driven by interest and dividend income on invested assets and was greater in Q2 2023 and Q2 2023 YTD than the prior year as a result of a larger investment portfolio and higher portfolio yields.

Net (losses) gains excluding derivative losses represent realized gains and losses from sales of investments, unrealized gains and losses on securities held that are classified as FVTPL, the impact of foreign exchange related to the investment portfolio and the operations of the business, and gains and losses on derivative instruments, with the exception of those mitigating SBC. We experienced a net loss in Q2 2023 and Q2 2023 YTD primarily as a result of unrealized losses on securities classified as FVTPL and foreign exchange movements as the Canadian dollar strengthened versus the US dollar.

Effective January 1, 2023, net credit impairment losses represent the impairment allowances on the Company's debt instruments that are classified as FVOCI. The Expected Credit Loss ("ECL") impairment model is used to calculate Net credit impairment losses. The narrowing of credit spreads for the Company's fixed income portfolio resulted in a decrease in the ECL balance in Q2 2023 and Q2 2023 YTD. See Section 10 – Accounting Policy Changes, for additional information on ECL impairments.

TRISURA GROUP LTD.

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Other Comprehensive Loss

Table 5.2

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance
Unrealized (losses) gains in OCI	(3,649)	(29,238)	25,589	2,485	(47,060)	49,545
Cumulative translation (loss) gains	(6,222)	6,835	(13,057)	(6,435)	3,603	(10,038)
Other comprehensive loss	(9,871)	(22,403)	12,532	(3,950)	(43,457)	39,507

(1) Q2 2022 and Q2 2022 YTD balances have been presented in accordance with IAS 39 and accordingly have not been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

The mark to market impact of securities characterized as FVOCI was negative in Q2 2023 as higher interest rates drove unrealized losses on fixed income in Canada and the US. For the YTD period, unrealized gains were positive as gains were generated from US fixed income investments.

Foreign exchange differences arising from the translation of the financial statements of international operations to Canadian dollars are recognized as cumulative translation gains or losses, which are also a component of OCI. Cumulative translation losses in Q2 2023 and Q2 2023 YTD reflected the weakening of the US dollar against the Canadian currency, driving lower Canadian dollar valuations of capital held outside of Canada.

Refer to Notes 7 and 8 in Condensed Interim Consolidated Financial Statements for more detail on the components of investment returns.

SECTION 6 – OUTLOOK & STRATEGY

INDUSTRY

The specialty insurance market offers products and services that are not written by most insurance companies. The risks covered by specialty insurance policies generally require specialist underwriting knowledge and technical financial and actuarial expertise. Specialty lines are niche segments of the market that tend to involve more complex risks and a more concentrated set of competitors. Consequently, these risks are difficult to place in the standard insurance market where many carriers are unable or unwilling to underwrite them. As a result, specialty insurers have more pricing and policy form flexibility than traditional market insurers whose prices and policy forms are subject to authorization and approval by insurance regulators. Specialty lines are less commoditized areas of the market where relationships, product expertise and product structure are not easily replicated. For this reason, specialty insurers have historically, and are expected to continue to outperform the standard markets by having lower claims ratios and combined ratios than traditional insurance companies.

In contrast to the standard P&C insurance market, which is divided almost evenly between personal and commercial lines, specialty insurers are focused almost exclusively on commercial lines. Even within the commercial sector, the business mix of the specialty insurers can vary significantly from that of the overall P&C industry. Although no standard definition for the specialty insurance market exists, some common examples of business written by specialty insurers include non-standard insurance, niche market segments (such as Surety, D&O and E&O) and products that require tailored underwriting. Many insurance groups with a specialty focus have several different carriers and licenses and allocate business between these carriers depending on market conditions and regulatory requirements. The agency channel is the primary distribution channel for specialty insurance. Managing general agents often serve an important role in helping carriers distribute specialty insurance products.

The specialty market is more fragmented than the broader P&C industry. In the US, it is estimated that the top ten excess and surplus participants capture less than 35% market share, with the top 25 averaging 2% market share. An estimated \$63.2 billion USD of excess and surplus insurance direct premiums were written in 2021 (excluding Lloyd's), growth of 32% year-on-year, compared with the broader P&C industry which grew by 9% year-on-year to \$797.8 billion USD. In Canada, specialty market⁽¹⁾ growth was estimated to be 17% year-on-year for 2021 to \$7.4 billion in direct written premium⁽²⁾, as compared to the P&C industry at 8% growth and \$83.1 billion in direct written premium. Direct written premium is a measure of Gross written premium, which excludes assumed premium, and is a commonly used metric in the industry.

(1) Growth figures for the specialty market in Canada include Boiler and Machinery, Credit, Credit Protection, Fidelity, Hail, Legal Expense, Cyber Liability, Directors and Officers Liability, Excess Liability, Professional Liability, Umbrella Liability, Pollution Liability, Surety and Marine. Market data is based on the latest available data from MSA Research Inc. (FY 2021).

(2) This is a non-IFRS financial measure. Non-IFRS financial measures are not standardized financial measures under the financial reporting framework used to prepare the financial statements of the Company to which the measure relates and might not be comparable to similar financial measures disclosed by other companies. See Section 10, Operating Metrics for details and an explanation of how it provides useful information to an investor.

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OUTLOOK AND STRATEGY

Our Company has an experienced management team with strong industry relationships and excellent reputations with rating agencies, insurance regulators and business partners. We have operated in the Canadian Specialty P&C insurance market for more than 17 years, establishing a conservative underwriting and investing track record.

In Canada, we have built our brand through serving our clients, brokers and institutional partners as a leading provider of niche specialty insurance products. We will continue to build out our product offerings in existing and new niche segments of the market with suitably skilled underwriters and professionals. We remain committed to our broker distribution channel to promote and sell insurance products. We are selective in partnering with a limited brokerage force, focusing its efforts on leading brokerage firms in the industry with expertise in specialty lines. This distribution network currently comprises over 150 major international, national and regional brokerage firms operating across Canada in all provinces and territories as well as boutique niche brokers with a focus on specialty lines.

Our US business is now fully operational and demonstrating scale and profitability. It is licensed as a domestic excess and surplus lines insurer in Oklahoma operating as a non-admitted surplus lines insurer in all states, and as an admitted carrier in 49 states. We are in the process of obtaining admitted licenses in the remaining state. It is our belief that conditions are favourable for the continued growth of our US platform, which operates as a hybrid fronting carrier using a fee-based business model. Our focus is to source high quality business opportunities by partnering with a core base of established and well-managed program administrators. From our experience to date, these program administrators welcome our new capacity.

Furthermore, we continue to benefit from a strong supply of highly rated international reinsurance capacity keen to partner with us to gain exposure to this business, allowing us to cede the majority of the risk on policies to these reinsurers on commercially favourable terms. We are confident that this platform will generate attractive, stable fee income while maintaining a small risk position, right-sizing underwriting risk and aligning our interests with our program distribution partners and capacity providers. Our US business is the largest component of insurance revenue, and as we continue to grow, we expect that it will become an increasingly significant contributor to profitability.

We will continue to develop our distribution network, building on our existing partner network in Canada and our core base of program administrators in the US. Our Company will strive to increase the penetration of our products with our partners by providing the support they require to enhance the effectiveness of their sales and marketing efforts.

We also intend to consider acquisitions on an opportunistic basis and pursue those that fit with our strategic plan. Building on the knowledge and expertise of our existing operations, we intend to initially target businesses in the US that operate in similar niches of the specialty insurance market, or that can expand our licensing. The closing of 21st Century Preferred Insurance Company is a demonstration of the willingness and capabilities our team has to pursue these acquisitions.

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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE ("ESG")

We believe that acting responsibly toward all stakeholders is fundamental to operating a productive, profitable and sustainable business. This underlies our philosophy of conducting business with a long-term perspective in a sustainable and ethical manner.

In Q1 2022 the Company entered into an Amended and Restated Credit Agreement which includes a sustainability-linked loan ("SLL") structure. This structure allows for the borrowing rate to be adjusted based on the achievement of certain key performance indicators ("KPI"). As a first of its kind for insurers in Canada, the SLL is linked to our ambition to further incorporate ESG considerations into our investment activities. The structure introduces an incentive mechanism tied to KPIs around our responsible activities, including disclosure.

In connection with the SLL, we have implemented a Responsible Investing Policy applicable to our investment portfolio, which mandates the inclusion of ESG factors into our investment decisions, starting with the due diligence of a potential investment through to the ultimate exit process. As part of the policy, during the initial due diligence phase, we utilize both internal and third-party research to identify material ESG risks and opportunities relevant to the potential investment. By the end of 2023, we aim for this policy to apply to at least 50% of our investment portfolio and our goal is to align disclosure of our responsible investing activities in accordance with a recognized framework.

Environmental

Climate change is one of the greatest challenges of our times. Countries, including United Kingdom, United States, Germany, Italy, France and Japan, have committed to achieving net-zero emissions by 2050. Canada has made intensive efforts to target 40-50 percent emission reduction by 2030. Climate-related risks are strategically relevant to our business over time.

Although the Company's property exposure is primarily related to fronted programs, physical and weather-related risks have an impact on the property-exposed business that the Company retains, and we continue to adapt our business to the impacts of climate change through enhanced catastrophe modelling, adjustments to pricing practices related to severe weather, continuing to refine how we select property-exposed business and structure appropriate reinsurance coverage. During Q1 2022, we partnered with Nature Force, to support the funding of natural infrastructure projects in British Columbia, Ontario and Quebec with a prioritization on flood attenuation in the most populous regions.

Social

We recognize the importance of taking responsibility for charitable efforts, both globally and within the communities in which we operate. In Q1 2022, we responded to humanitarian relief efforts related to Russia's invasion of Ukraine by donating fifty thousand dollars to the Canada-Ukraine Foundation.

We value our employees, actively seek opportunities to develop them and to ensure they are engaged. We are committed to fostering, cultivating, and preserving a culture of diversity and inclusion. Equity and inclusion are imperative to our business. To that effect, the Company has also engaged a service provider to assist with the development of an equity framework, which Trisura intends to implement.

In order to provide our clients with the products and services they require and to ensure that we make informed underwriting and claims decisions, it is necessary that we obtain private information about our clients and/or their businesses. We take all necessary and reasonable precautions to protect the privacy of the information provided to us by our clients. We use manual and electronic controls to protect personal information that has been entrusted to us. These controls include restricted access to our premises, user authentication, encryption, firewall technology and the use of detection software. We have a Cyber Security Incident Response Policy that communicates the overall process and guidelines for the identification, reporting and response to cyber security events, incidents and data breach at the Company. It is intended to help us respond to a security event or incident in a way that is consistent with our obligations, including legal obligations, to our customers, colleagues, and shareholders.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (“ESG”) (CONTINUED)

Governance

The Board has ultimate oversight of ESG strategy, which includes oversight of climate related risks and opportunities. The Board receives regular updates on the Company's ESG initiatives throughout the year.

The Governance Committee is responsible for implementing the board diversity policy, monitoring progress towards the achievement of its objectives and recommending to the Board any necessary changes that should be made to the policy. The Board has committed to meeting the gender diversity target of at least 30% of Directors identifying as women by our 2024 annual meeting of shareholders. Since adopting this policy the Company has welcomed two additional women to the board including Anik Lanthier who joined the board in Q1 2023.

Refer to our Management Information Circular dated April 14, 2023 for detailed information on Governance.

SECTION 7 – RISK MANAGEMENT

RISKS AND UNCERTAINTIES

Please refer to the “Risk Management” section in our year end 2022 MD&A. Risks have not changed materially from those disclosed in the year end 2022 MD&A.

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SECTION 8 – OTHER INFORMATION

RATINGS

Trisura's regulated Canadian operating subsidiary has been rated A- (Excellent) by A.M. Best since 2012. Trisura's regulated US operating subsidiary obtained an A- (Excellent) rating from A.M. Best in September 2017. As at June 30, 2023 all regulated operating subsidiaries of Trisura have an A- (Excellent) rating. A.M. Best increased the financial size category of the Trisura entities from VIII to IX (US \$250 million to US \$500 million capital) in December 2021, based on the Company's consolidated balance sheet.

In March 2023, DBRS Morningstar reaffirmed the rating of A (low) to the principal operating subsidiaries of Trisura and reaffirmed the Issuer Rating of BBB to Trisura Group Ltd, and the Senior Unsecured Notes rating of BBB to the Company's outstanding notes.

CASH FLOW SUMMARY

Table 8.1

	Q2 2023	Q2 2022 ⁽¹⁾	\$ variance	Q2 2023 YTD	Q2 2022 YTD ⁽¹⁾	\$ variance
Net income	26,807	20,943	5,864	40,783	44,281	(3,498)
Non-cash items	3,001	171	2,830	8,233	6,267	1,966
Change in working capital	(35,293)	50,565	(85,858)	(36,339)	51,574	(87,913)
Realized losses (gains)	196	(2,301)	2,497	441	(5,354)	5,795
Income taxes paid	(3,836)	(9,890)	6,054	(7,673)	(21,524)	13,851
Interest paid	(1,112)	(997)	(115)	(1,239)	(1,496)	257
Net cash (used in) from operating activities	(10,237)	58,491	(68,728)	4,206	73,748	(69,542)
Proceeds on disposal of investments	21,378	44,267	(22,889)	52,979	97,856	(44,877)
Purchases of investments	(45,781)	(75,684)	29,903	(125,768)	(176,667)	50,899
Net purchases of capital and intangible assets	(230)	(117)	(113)	(407)	(407)	-
Net cash used in investing activities	(24,633)	(31,534)	6,901	(73,196)	(79,218)	6,022
Shares issued	-	1,115	(1,115)	711	1,666	(955)
Shares purchased under RSU plan	(801)	-	(801)	(1,670)	(2,106)	436
Issuance of note payable	-	30,000	(30,000)	-	30,000	(30,000)
Lease payments	(510)	(445)	(65)	(1,022)	(947)	(75)
Net cash (used in) from financing activities	(1,311)	30,670	(31,981)	(1,981)	28,613	(30,594)
Net (decrease) increase in cash and cash equivalents, and short-term securities	(36,181)	57,627	(93,808)	(70,971)	23,143	(94,114)
Cash and cash equivalents, beginning of period	368,210	304,464	63,746	406,367	341,319	65,048
Currency translation	8,796	5,875	2,921	5,429	3,504	1,925
Cash and cash equivalents, and short-term securities, end of period	340,825	367,966	(27,141)	340,825	367,966	(27,141)

(1) Q2 2022 and Q2 2022 YTD balances have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes

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CASH FLOW SUMMARY (CONTINUED)

In Q2 2023, Net cash used in operating activities was negative as a result of a negative change in working capital at Trisura US related in part to cash outflows associated with the run-off program. For the YTD period Net cash from operating activities was positive as a result of a larger amount of positive cash flow from the operating activities of Trisura Canada. Net cash from operating activities was greater in Q2 and YTD 2022 as a result of a positive change in working capital during those periods in both Trisura Canada and Trisura US.

Net cash used in investing activities in Q2 and YTD 2023 reflected primarily the purchase and disposal of portfolio investments in operating subsidiaries, and was lower than Q2 and YTD 2022. In Q2 and YTD 2023, Proceeds on disposal of investments were lower than Q2 and YTD 2022, as there were fewer disposals of investments made in those periods. Purchases of investments were lower in Q2 and YTD 2023 than in Q2 and YTD 2022 as a result of fewer purchases in those periods.

Net cash used in financing activities was lower in Q2 and YTD 2023 than Q2 and YTD 2022, as in Q2 2022 the company accessed its revolving credit facility for \$30 million. The small increase in Shares issued in 2023 and 2022 was the result of certain options being exercised.

SEGMENTED REPORTING

Table 8.2

As at	June 30, 2023			
	Trisura Canada	Trisura US	Corporate and other	Total ⁽¹⁾
Assets ⁽²⁾	848,717	2,208,708	62,765	3,120,190
Liabilities ⁽²⁾	607,871	1,929,432	53,207	2,590,510
Shareholders' Equity ⁽²⁾	240,846	279,276	9,558	529,680
Book Value Per Share, \$	5.24	6.08	0.21	11.53

Table 8.3

As at	December 31, 2022 ⁽³⁾			
	Trisura Canada	Trisura US	Corporate and other	Total ⁽¹⁾
Assets ⁽²⁾	750,056	1,952,537	96,272	2,798,865
Liabilities ⁽²⁾	539,192	1,710,980	55,042	2,305,214
Shareholders' Equity ⁽²⁾	210,864	241,557	41,230	493,651
Book Value Per Share, \$	4.61	5.28	0.89	10.78

(1) Total reflects the Group's Assets, Liabilities, and Book Value Per Share.

(2) Individual segmented amounts are supplementary financial measures. The total amount is presented in the Condensed Interim Consolidated Financial Statements.

(3) Comparatives have been restated to conform with adoption of new accounting standards, see Section 10 – Accounting Policy Changes.

FINANCIAL INSTRUMENTS

See Notes 4, 5, 6, 7, and 8 in the Company's Condensed Interim Consolidated Financial Statements for financial statement classification of the change in fair value of financial instruments, significant assumptions made in determining the fair values, amounts of income, expenses, gains and losses associated with the instruments.

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SUBSEQUENT EVENTS

Recent allegations have emerged regarding the legitimacy of certain letters of credit associated with a particular bank. Trisura holds certain letters of credit from this bank which were provided by one of our US reinsurance partners. Trisura has evaluated the recoverability of reinsurance assets associated with this reinsurance partner and determined that given the information available, no provision of recoverability of those assets is required as at and for the period ended June 30, 2023.

On August 9, 2023, Trisura entered into an agreement to acquire a US surety company. The company is a Treasury-listed platform. The transaction is subject to regulatory approval.

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SECTION 9 – SUMMARY OF RESULTS

SELECTED QUARTERLY RESULTS

Table 9.1

	2023		2022 ⁽¹⁾				2021 ⁽²⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Insurance revenue	664,420	639,100	595,742	550,861	464,643	403,669	N/A	N/A
Gross premiums written	N/A	N/A	N/A	N/A	N/A	N/A	484,740	404,678
Insurance service result ⁽³⁾	39,712	16,715	(54,842)	29,670	27,452	26,906	N/A	N/A
Net premiums written ⁽⁴⁾ and fee income	N/A	N/A	N/A	N/A	N/A	N/A	128,566	115,989
Net income (loss) ⁽³⁾	26,807	13,976	(40,710)	24,224	20,943	23,338	10,295	16,057
EPS, basic (in dollars)	0.58	0.30	(0.89)	0.54	0.51	0.57	0.25	0.39
EPS, diluted (in dollars)	0.57	0.30	(0.87)	0.53	0.50	0.55	0.24	0.38
Total assets ⁽³⁾	3,120,190	2,977,074	2,798,865	2,693,260	2,148,588	1,939,615	3,000,354	2,575,613
Total non-current financial liabilities ⁽⁵⁾	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000

(1) Amounts have been restated to reflect the adoption of IFRS 17, but not IFRS 9 which is applied prospectively with effect from Jan 1, 2023. See Section 10 Accounting and Disclosure Matters.

(2) Amounts have not been restated to reflect the adoption of IFRS 9 and IFRS 17. See Section 10 Accounting and Disclosure Matters.

(3) Certain balances from 2022 Insurance service result, 2022 Net income (loss), as well as 2022 Total assets have been reclassified from the presentation in Table 9.1 in the Q1 2023 MD&A to reflect the adoption of IFRS 17 on these balances. The amendments are limited to Table 9.1 only.

(4) This is a non-IFRS financial measure. See Section 10 Operating Metrics for details and an explanation of how it provides useful information to an investor.

(5) See Note 13 in the Company's Condensed Interim Consolidated Financial Statements for details on Loan payable.

Insurance revenue has generally grown over time, and quarter over quarter reflecting growth in the business. Insurance service result has generally grown over time and quarter over quarter reflecting growth in the business, with the exception of Q4 2022, where the company experienced a write-down of reinsurance recoverables which caused Insurance service result and Net income to be negative in that quarter. In Q1 2023, a loss from a run-off program caused a decline in Insurance service result compared to Q1 2022. In Q2 2023, a positive impact of the run-off program caused Insurance service result to be greater than they otherwise would have been. Net income (loss) has also experienced volatility quarter over quarter as a result of the write down in Q4 2022, and the impact of the run-off program in Q1 2023. In Q2 2023, Net income was positively impacted by the run-off program, though beginning in 2023 net income can now be impacted by unrealized gains and losses on investments classified as FVTPL under IFRS 9. Total assets have generally grown over time and quarter over quarter as the business has grown. Total non-current financial liabilities reflect outstanding debt which has not changed during 2023 or 2022.

SECTION 10 – ACCOUNTING AND DISCLOSURE MATTERS

CHANGES IN ACCOUNTING POLICIES

a) **IFRS 17 - Insurance Contracts (“IFRS 17”)**

IFRS 17 replaces IFRS 4, *Insurance Contracts*, and became effective on January 1, 2023, with a transition date of January 1, 2022. IFRS 17 requires that the Company apply the standard retrospectively unless impracticable, in which case the Company may elect to use a modified retrospective or fair value method. The Company is applying the standard using a full retrospective approach, and has recognized any difference in equity. Presentation and disclosure on the financial statements has changed significantly, as described below, however the impact to total equity is not significant. The Company does not expect that the standard will have a material impact to the business.

Presentation and disclosures

IFRS 17 has introduced significant changes to the presentation and disclosure of insurance and reinsurance related items in the consolidated financial statements including:

Changes in presentation in the Company’s Consolidated Statements of Financial Position include:

- the reclassification of premiums receivable, deferred acquisition costs, unpaid claims and loss adjustment expenses, unearned premiums, and premium taxes payable to be presented together as a single line item named insurance contract liabilities; and
- the reclassification of recoverable from reinsurers, reinsurance premiums payable, and unearned reinsurance commissions to be presented together as a single line item named reinsurance contract assets.

Changes in presentation in the Company’s Consolidated Statements of Comprehensive Income include:

- gross premiums written is replaced by insurance revenue, where premiums are recognized on an earned basis;
- income and expenses from insurance contracts issued will be presented separately from net income (expense) from reinsurance contracts assets; and
- all directly attributable insurance acquisition expenses will be included in the insurance service expenses line item, while the remainder of expenses will be recorded under other operating expenses.

Retained earnings

Closing balance under IFRS 4 (31 December 2021)	66,692
Impact of initial application of IFRS 17 related to the deferral of acquisition cash flows ⁽¹⁾ , tax effected	8,374
Impact of initial application of IFRS 17 related to the measurement of the LIC and reinsurance assets ⁽²⁾ , tax effected	(1,049)
Total change to retained earnings	<u>7,325</u>
Opening balance under and IFRS 17 (1 January 2022)	74,017

(1) Under IFRS 17 Insurance acquisition cash flows attributable to insurance contracts issued are required to be deferred and amortized through insurance service expense. As a result, certain operating expenses which were previously expensed are now deferred and amortized.

(2) Under IFRS 17, the Reinsurance assets are lower than the equivalent measures under IFRS 4 as a result of a provision for non-performance.

Measurement model

Under IFRS 17, there are two main measurement models to account for insurance contracts, the general measurement model ("GMM") and the premium allocation approach ("PAA"). Under the GMM, insurance contracts must be valued using current estimates of discounted future cash flows, an explicit risk adjustment for non-financial risk, and a contractual service margin that reflects the present value of the expected profit from fulfilling the contracts which is to be recognized into income over the coverage period. The PAA is a more simplified measurement model that is to be applied to insurance contracts with coverage periods of one year or less or where the liability for remaining coverage ("LRC") under the PAA is not materially different to the LRC under the GMM.

The Company uses a model for evaluating whether the LRC under the GMM differs materially from the LRC under the PAA for any insurance contracts with a coverage period greater than one year, and based on management's analysis, no material differences in LRC were noted. Accordingly, the Company is applying PAA to all of its insurance contracts.

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues, however, adapted to reflect the features of reinsurance contracts assets that differ from insurance contracts issued, for example the recognition of expenses or reduction in expenses rather than revenue. For reinsurance contracts assets, on initial recognition, the Company measures the remaining coverage at the amount of ceding premiums paid.

The Company measures the carrying amount of the LRC at the end of each reporting period as the LRC at the beginning of the period, plus premiums received in the period, minus insurance acquisition cash flows paid or derecognized from insurance acquisition asset, plus any amounts relating to the amortization of the insurance acquisition cash flows recognized as an expense in the reporting period for the Company, plus any adjustment to the financing component, where applicable, minus the amount recognized as insurance revenue for the coverage period, minus any investment component paid or transferred to the liability for incurred claims

The Liability for incurred claims ("LIC") represents an estimate of the ultimate cost of all claims incurred but not paid by the statement of financial position date. The estimation process employed in determining future claims and loss adjustment expense ("LAE") payments includes consideration of individual case estimates of claims and LAE payments on reported claims, provision for future development of case estimates on reported claims, and provision for claims and LAE related to incurred but not reported ("IBNR") claims. Further provisions are made for the time value of money. The Company uses qualified actuaries in its reserving processes.

Discounting of insurance contract liabilities

Under IFRS 17, estimates of future cash flows are to be discounted to reflect the time value of money and financial risks related to those cash flows. The Company discounts estimates of future cash flows using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts.

Risk adjustment

The measurement of insurance contract liabilities includes a risk adjustment for non-financial risk to be applied to the present value of the estimated future cash flows. The risk adjustment is the Company's compensation for bearing the uncertainty relating to non-financial risk. The non-financial risk pertains to the amount and timing of cash flows as the Company fulfils insurance contracts. The risk adjustment replaces the provision for adverse deviation. The Company is applying a quantile approach for its non-financial risks.

For reinsurance contracts assets, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

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Onerous contracts

To determine if a group of contracts are onerous, the Company considers facts and circumstances based on the expected fulfilment cash flows, pricing data, the outcomes of similar contracts, and the operating and regulatory environment. At initial recognition, the Company assumes that no contracts are onerous, unless facts and circumstances indicate otherwise, as all the Company's contracts meet the PAA criteria. If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the difference between fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group.

Insurance acquisition cash flows

Insurance acquisition cash flows consist of costs of selling, underwriting, and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The Company defers insurance acquisition cash flows and these expenses are recognized as Insurance service expense as the related premiums are recognized as Insurance revenue.

Insurance revenue and Insurance service expenses

The Company recognizes insurance revenue for each period over the coverage period of a group of contracts. The Company recognizes groups of insurance contracts from the earliest of the following: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group is due, or for a group of onerous contracts, when the group becomes onerous. Premiums are earned over the terms of the related policies, generally on a pro rata basis. There are some instances where premiums are earned over the term of the policy in accordance with the risk profile of those policies with more premiums being earned when the risk exposure from the policy is greatest.

Insurance service expenses consist of amortization of insurance acquisition cash flows, incurred claims and other insurance expenses, and losses on onerous groups of contracts and reversals of such losses.

Reinsurance contracts

A group of reinsurance contracts assets that covers the losses of separate insurance contracts on a proportionate basis is recognized at the later of the beginning of the coverage period of the group, or the initial recognition of any underlying contract, and in all other cases, from the beginning of the coverage period of the group of contracts.

Level of aggregation

IFRS 17 requires a company to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant possibility of becoming onerous, and the remainder.

Net income or expense from reinsurance contracts assets

The Company presents on the face of the statements of profit or loss and other comprehensive income, the income and expenses from a group of reinsurance contracts assets, other than insurance finance income or expenses, as a single amount, including the amounts expected to be recovered from reinsurers. Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance expenses. The Company recognizes reinsurance expenses based on the passage of time over the coverage period of a group of contracts.

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Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money, and the effect of financial risk and changes in financial risk.

The Company records insurance finance income or expenses on insurance contracts issued in net income, including the impact of changes in market interest rates on the value of the insurance assets and liabilities.

b) IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and requires financial assets to be classified and measured at fair value, with changes in fair value through profit and loss ("FVTPL") as they arise, unless certain criteria are met for classifying and measuring the asset at either amortized cost or fair value through other comprehensive income ("FVOCI"). IFRS 9 also establishes new criteria for an expected credit loss ("ECL") model for the impairment assessment of financial assets held at amortized cost and at FVOCI. IFRS 9 was effective January 1, 2018, however, the IASB provided entities whose predominant activities are insurance an option to defer implementation of IFRS 9 to January 1, 2023 to coincide with the implementation of IFRS 17. The impact of new classification categories impacts unrealized gains or losses on certain items which were previously measured through OCI and will now be measured through net income, however, there is no impact to total equity or to the carrying value of any financial instruments as a result of the adoption of the new classification standard. The adoption of the standard does not have a material impact on the business.

Implementation update

The Company has adopted IFRS 9 effective January 1, 2023. The IFRS 17 amendment published by the IASB in December 2021 permitted an entity to apply a classification overlay in the comparative periods presented on initial application of IFRS 17 and IFRS 9, to avoid temporary accounting mismatches between financial assets and insurance contract liabilities. Management has determined that as the Company's financial assets, that are related to insurance contract liabilities, were previously classified and measured on a fair value basis under IAS 39, the classification overlay's impact on mitigating an accounting mismatch for the Company is limited. Accordingly, the Company has elected not to restate comparative periods, as permitted by IFRS 9. The significant impacts of the adoption of IFRS 9 on the Company's consolidated financial statements are summarized below:

Classification and measurement

Under IFRS 9, financial assets are classified as amortized cost, FVOCI, or FVTPL based on the Company's business model for managing the assets and the asset's contractual cash flow characteristics.

The Company's classification of its significant financial instruments under IFRS 9 is as follows:

Financial instruments	IAS 39 Classification	IFRS 9 Classification
Investments		
Common shares and Alternatives	AFS	FVTPL
Preferred shares	AFS	FVTPL or FVOCI – equity instruments
Fixed income	AFS	FVTPL or FVOCI – debt instruments
Derivatives	FVTPL	FVTPL
Other financial assets	Loans and receivables	Amortized cost
Financial liabilities	Amortized cost	Amortized cost

For FVOCI investments which are debt instruments, gains and losses arising from changes in fair value are recognized directly in OCI, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net income for the period. An impairment loss is recognized immediately in the profit and loss for the period.

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Classifications of financial instruments

i) Fair Value Through Profit or Loss ("FVTPL")

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are mandatorily required to be measured at fair value under IFRS 9. This category includes debt instruments whose cash flow characteristics fail the Solely Payments of Principal and Interest ("SPPI") test or are not held within a business model whose objective is either to collect contractual cash flows, or both to collect contractual cash flows and sell.

FVTPL financial instruments are carried at fair value and recognized on the trade date, with the changes in fair value recognized in net income. Transaction costs related to FVTPL financial instruments are expensed in net investment income.

ii) Fair Value Through Other Comprehensive Income ("FVOCI")

The Company applies this category under IFRS 9 for debt instruments measured at FVOCI when both of the following conditions are met: the instrument is held within a business model, the objective of which is both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise debt instruments that had previously been classified as available-for-sale under IAS 39. Debt instruments in this category are those that are intended to be held to collect contractual cash flows and which may be sold in response to needs for liquidity or in response to changes in market conditions.

The Company also applies the new category under IFRS 9 for equity instruments when both of the following conditions are met: the instrument is not held for trading, and the Company has elected the OCI option for the instrument.

These instruments largely comprise certain Preferred shares that had previously been classified as available-for-sale under IAS 39. Equity instruments in this category are those that are intended to be held to collect contractual cash flows and which may be sold in response to needs for liquidity or in response to changes in market conditions.

FVOCI financial instruments are carried at fair value and recognized on the trade date, with changes in fair value recorded as unrealized gains or losses in other comprehensive income. Transaction costs related to financial instruments classified as FVOCI are capitalized on initial recognition and, where applicable, amortized to interest income using the effective interest method.

iii) Amortized Cost

Debt instruments are held at amortized cost if both of the following conditions are met: the instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows, and the contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial instruments are held at amortized cost when they have fixed or determinable payments and are not quoted in an active market. Transaction costs are capitalized on initial recognition and are recognized in investment income using the effective interest rate method. The Company has classified Other assets (excluding derivative assets) as amortized cost. Derivative assets which are grouped with Other assets are carried at fair value.

Financial liabilities, such as Other liabilities are measured at amortized cost.

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in realized gains or losses on investments.

*Subsequent Measurement**i) Financial assets at FVTPL*

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net income. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using the contractual interest rate on an effective interest rate basis. Dividend income from equity instruments measured at FVTPL is recorded in net income as other operating income when the right to the payment has been established.

ii) Debt instruments at FVOCI

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in net income in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to net income.

iii) Equity instruments at FVOCI

FVOCI equity instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Foreign exchange gains and losses are included as unrealized gains (losses) within OCI. Dividend income is recognized in net income in the same manner as for financial assets measured at amortized cost. No impairment or ECL calculation is performed for FVOCI equity instruments. On derecognition, cumulative gains or losses previously recognized in OCI are not reclassified from OCI to net income.

Expected credit loss ("ECL")

The impairment model for measuring impairment of financial assets changed from an incurred loss model under IAS 39 to an ECL model under IFRS 9. ECL is based on probability of default, loss given default and exposure at default inputs and takes into account the expected timing of the loss. The ECL model also incorporates forward-looking economic information. IFRS 9 requires the Company to record an allowance for ECLs for all debt instruments measured at amortized cost or FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the appropriate effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months ("12-month ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default ("a lifetime ECL").

The majority of the Company's debt instruments at FVOCI comprise quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the Company's policy to measure such instruments on a 12-month ECL basis.

As of January 1, 2023, the adoption of the ECL requirements of IFRS 9 has resulted in increases in impairment allowances in respect of the Company's debt instruments recognized through net income, with an offsetting movement through OCI.

Transition disclosures - IFRS 9

The following pages set out the impact of adopting IFRS 9 on the statement of financial position.

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A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as of 1 January 2023 is, as follows:

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39	Impact of IFRS 9	IFRS 9
Cash and equivalents	Amortized cost	Amortized cost	406,368	-	406,368
Debt securities	AFS	FVOCI FVTPL	582,729 -	(140,820) 140,820	441,909 140,820
Preferred shares	AFS	FVOCI FVTPL	101,106 -	(51,779) 51,779	49,327 51,779
Common shares	AFS	n/a FVTPL	34,401 -	(34,401) 34,401	- 34,401
Alternatives	AFS	n/a FVTPL	47,139 -	(47,139) 47,139	- 47,139
			1,171,743	-	1,171,743

Impact of transition to IFRS 9 and IFRS 17 on AOCI and retained earnings

	Reserves and retained earnings
AOCI	
Closing balance under IAS 39 of unrealized gains in AOCI (31 December 2022)	(44,054)
Impact of initial application of IFRS 9 ⁽¹⁾	33,431
Deferred tax in relation to IFRS 9 application	(8,252)
Impact of initial application of IFRS 17	(112)
<i>Opening balance under IFRS 9 (1 January 2023)</i>	<u>(18,987)</u>
Retained earnings	
Closing balance under IAS 39 (31 December 2022)	91,343
Impact of initial application of IFRS 17 ⁽²⁾	14,494
Deferred tax in relation to IFRS 17 application	(4,025)
Impact of initial application of IFRS 9 ⁽¹⁾	(33,431)
Deferred tax in relation to IFRS 9 application	8,252
<i>Opening balance under IFRS 9 and IFRS 17 (1 January 2023)</i>	<u>76,633</u>
<i>Total change in equity due to application of IFRS 9</i>	-
<i>Total change in equity due to application of IFRS 17</i>	10,357

(1) Reflects movement of unrealized gains and losses between AOCI and retained earnings, as well as the impact of new ECL reserves.

(2) Reflects addition to equity primarily as a result of increases in deferred acquisition costs, now referred to insurance acquisition cash flows, as a result of an increasing amount of costs required to be deferred under IFRS 17 than under IFRS 4.

Changes in EPS are primarily as a result of an increase in deferred acquisition costs, now referred to insurance acquisition cash flows.

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OPERATING METRICS

We use operating metrics to assess our operating performance.

Operating Metrics	Definition and <i>Usefulness</i>
BVPS	Shareholders' equity, divided by total number of shares outstanding. <i>Used to calculate the per-share value of a company based on equity available to common shareholders.</i>
Ceded Premiums Written	Premiums ceded to reinsurers in the period. <i>Used by Management for internal measurement, budgeting and forecasting purposes. Management views the figure to be useful forward-looking information to measure growth and profitability.</i>
Combined Ratio	The sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of NPE, or underwriting margin. <i>A combined ratio under 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result. A measure to evaluate pre-tax underwriting profitability.</i>
Debt-to-Capital Ratio	Total Debt outstanding at the end of the reporting period, divided by the sum of: Debt outstanding balance and Shareholders' equity.
Deferred Fee Income	Reflects unrecognized revenue associated with Fee income and is expected to be earned over the lifetime of the associated policies. <i>A precursor to Net income (expense) from reinsurance contracts assets, which can be used to assist with estimates of future pre-tax underwriting profitability.</i>
Expense Ratio	Insurance service expense plus Other operating expenses (net of Other income, which reflects surety fee income, in our Canadian operations) as a percentage of NPE. <i>A measure to evaluate pre-tax underwriting profitability.</i>
Fee Income	A portion of Net income or expense from reinsurance contracts assets, which reflects fees received from reinsurers paid in exchange for fronting services. <i>A measure used to evaluate profitability.</i>
Fees as a Percentage of Ceded Premium	Fee income, adjusted to reflect the portion of fee income bound in a period, rather than recognized as revenue in a period, divided by Ceded Premiums Written. <i>Illustrates the rate of fee income generated from ceded premium, and can supplement measurements of pre-tax underwriting profitability.</i>
FOR	The sum of Net claims expenses, Net commission expense, Other directly attributable expenses and Other operating expenses divided by the sum of NPE and Fee income. <i>A measure of pre-tax underwriting profitability.</i>
Gross Premiums Written	Insurance revenue, adjusted to reflect insurance revenue bound in the period inclusive of any portion of that premium not yet recognized as revenue. <i>Used by Management for internal measurement, budgeting and forecasting purposes. Management views the figure to be useful forward-looking information to measure growth.</i>
Loss Ratio	Net claims as a percentage of NPE. <i>A measure of claims used to evaluate pre-tax underwriting profitability.</i>
LTM Average Equity	Shareholders' equity over the last twelve month period, adjusted for significant capital transactions and equity raises, if appropriate. <i>A measure used in calculating ROE and Operating ROE.</i>
MCT	Our regulated Canadian operations report the results of its MCT as prescribed by OSFI's Guideline A — Minimum Capital Test, as amended, restated or supplemented from time to time. <i>MCT determines the supervisory regulatory capital levels required by our regulated Canadian operations.</i>

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Net Claims Expense	The portion of Insurance service expenses related to movement in the Liability for Incurred claims, less the portion of Net expense from reinsurance contracts assets related to the Asset for incurred claims, plus the finance (expense) income from insurance and reinsurance contracts. <i>A measure of pre-tax underwriting profitability.</i>
Net Commission Expense	The portion of Insurance service expenses related to gross commissions, less the portion of Net expense from reinsurance contracts assets related to ceded commissions. <i>A measure of pre-tax underwriting profitability.</i>
Net Premiums Earned	The sum of Net Premiums Written and an adjustment to reflect the portion of Net Premiums Written that has been recognized as revenue in a given period. <i>Used by Management for internal measurement, budgeting and forecasting purposes. Management views the figure to be useful to measure growth and profitability.</i>
Net Premiums Written	The difference of Gross Written Premium less Ceded Premiums Written. <i>Used by Management for internal measurement, budgeting and forecasting purposes. Management views the figure to be useful forward-looking information to measure growth and profitability.</i>
Net Underwriting Income	Net Premiums Earned, less Insurance service expense, expense from reinsurance contracts assets, and Other operating expenses, plus Other income and Finance income (expense) from insurance or reinsurance contracts. <i>A measure of pre-tax underwriting profitability.</i>
Operating Net Income	Net income, adjusted to remove impact of certain items to normalize earnings in order to reflect our North American specialty operations, which are considered core operations. Items which are not core to operations include Net gains (loss), ECL, the impact of movement in the yield curve included in Finance income (expense) from insurance/reinsurance contracts, and Net loss (gain) from life annuity. Adjustments also include items which may not be recurring, such as the write-down of reinsurance recoverables, loss from run-off programs, loss on sale of structured insurance assets, and certain tax adjustments. Adjustments also include SBC. <i>A measure of after-tax profitability, used in calculating Operating EPS and Operating ROE.</i>
Operating ROE	ROE calculated using Operating net income for the twelve month period preceding the reporting date. <i>An alternate measure of after-tax profitability, adjusted for certain items to normalize earnings to core operations in order to reflect our North American operations.</i>
RBC	Our regulated US operations report the results of its RBC as prescribed by the NAIC's Risk-Based Capital for Insurers Model Act, as amended, restated or supplemented from time to time. <i>RBC determines the statutory minimum amount of capital required by our regulated US operations.</i>
Retention Rate	NPW as a percentage of GPW. <i>A measure of gross written premium that is not ceded to reinsurers, which can be used to evaluate insurance risk.</i>
ROE	Net income for the twelve month period preceding the reporting date, divided by LTM Average Equity. <i>A historical measure of after-tax profitability.</i>

These operating metrics are operating performance measures that highlight trends in our core business or are required ratios used to measure compliance with OSFI and other regulatory standards. Our Company also believes that securities analysts, investors and other interested parties use these operating metrics to compare our Company's performance against others in the specialty insurance industry. Our Company's management also uses these operating metrics in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Such operating metrics should not be considered as the sole indicators of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS.

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NON-IFRS FINANCIAL MEASURES AND OTHER FINANCIAL MEASURES

We report certain financial information using non-IFRS financial measures. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures used by other companies in our industry. They are used by management and financial analysts to assess our performance.

Further, they provide users with an enhanced understanding of our results and related trends and increase transparency and clarity into the core results of the business.

Non-IFRS Financial Measures

Table 10.1 – Other operating expenses excluding SBC: useful to show growth in expenses excluding volatility from SBC due to movement in our share price, as we attempt to mitigate this item through the use of derivatives, whose offsetting movement is reflected in Net gains.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Operating expenses per financial statements	(10,075)	(6,997)	(15,507)	(11,332)
Less: SBC	1,815	194	(1,555)	(2,948)
Other operating expenses excluding SBC	(8,260)	(6,803)	(17,062)	(14,280)
Year-over-year % increase, Other operating expenses	44.0%		36.8%	
Year-over-year % increase, Other operating expenses excluding SBC	21.4%		19.5%	

Table 10.2.1 – Reconciliation of reported Net income to Operating net income⁽¹⁾: reflects Net income, adjusted for certain items to normalize earnings to core operations in order to reflect our North American specialty operations.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Net income (see Table 3.1)	26,807	20,943	40,783	44,281
Adjustments				
Run-off program	(6,629)	-	8,062	-
Impact of SBC, see Table 10.1	1,815	194	(1,555)	(2,948)
Impact of movement in yield curve within Finance income from insurance and reinsurance contracts	(2,314)	(1,316)	(144)	(3,565)
Net losses (gains), see Table 3.1	6,867	(1,441)	9,082	(967)
Net credit impairment losses, see Table 3.1	(376)	-	(227)	-
Net losses from life annuity	-	-	-	77
Tax impact of above items	(138)	691	(3,399)	1,736
Operating net income	26,032	19,071	52,602	38,614

(1) Operating net income, a component of Operating EPS, is a non-IFRS financial measure (details on Operating EPS presented in Table 10.2).

Table 10.2.2 – Reconciliation of reported Canada Net income to Operating net income: reflects Net income, adjusted for certain items to normalize earnings to core operations in order to reflect our Canadian operations.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Net income (see Table 4.2)	13,517	14,291	30,042	30,254
Adjustments				
Change in yield curve for Finance income from insurance and reinsurance contracts	(753)	(1,049)	(146)	(2,529)
Net losses (gains), see Table 4.2	4,410	(770)	3,907	(3,851)
Net credit impairment losses, see Table 4.2	(91)	-	(63)	-
Tax impact of above items	(940)	479	(975)	1,680
Operating net income	16,143	12,951	32,765	25,554

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Table 10.2.3 – Reconciliation of reported US Net income to Operating net income: reflects Net income, adjusted for certain items to normalize earnings to core operations in order to reflect our US operations.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Net income (see Table 4.7)	15,984	8,356	14,242	16,128
Adjustments				
Run-off	(6,629)	-	8,062	-
Change in yield curve for Finance (income) expense from insurance and reinsurance contracts	(1,560)	(268)	2	(1,036)
Net losses (gains), see Table 4.7	2,441	(1,537)	1,203	(517)
Net credit impairment losses, see Table 4.7	(280)	-	(106)	-
Tax impact of above items	1,170	361	(1,924)	257
Operating net income	11,126	6,912	21,479	14,832

Table 10.2.4 – Reconciliation of reported US Net income to Operating net income: reflects Net income, adjusted for write down on reinsurance recoverables to normalize earnings to core operations in order to reflect our US operations.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Net income (see Table 4.7)	15,984	8,356	14,242	16,128
Adjustments				
Run-off	(6,629)	-	8,062	-
Tax impact of above items	1,392	-	(1,693)	-
Net income excluding run-off	10,747	8,356	20,611	16,128

Table 10.3 – Reconciliation of Net gains to Net gains excluding derivative (gains) losses from SBC mitigation: represents realized gains and losses, impact of foreign exchange related to investment portfolio.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Net (losses) gains, as presented in the financial statements	(6,867)	1,441	(9,082)	967
Derivative (gains) losses from SBC mitigation, from Table 10.8.2	(1,392)	351	2,378	4,472
Net (losses) gains excluding derivative losses, as presented in Table 5.1	(8,259)	1,792	(6,704)	5,439

Table 10.4.1 – Reconciliation of Average equity⁽¹⁾ to LTM average equity⁽²⁾: LTM average equity is used in calculating Operating ROE.

	Q2 2023	Q2 2022 ⁽³⁾
Average equity	448,341	343,653
Adjustments: days in quarter proration	49,436	8,589
LTM average equity, as presented in Table 10.4	497,777	352,242

(1) Average equity is calculated as the sum of opening equity and closing equity over the last twelve months, divided by two.

(2) LTM average equity, a component of ROE and Operating ROE, is a non-IFRS financial measure (details on ROE and Operating ROE presented in Table 10.4).

(3) Q2 2022 balances have not been restated to conform with adoption of new accounting standards.

Table 10.5.1 – Reconciliation of Insurance revenue to GPW, NPW, and NPE - Canada:

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance revenue, as presented in the financial statements, note 16	196,568	149,525	376,361	284,481
Adjustment: Change in unearned gross premiums	44,249	45,056	41,857	49,735
Gross premiums written	240,817	194,581	418,218	334,216
Adjustment: Reinsurance premiums ceded	(120,771)	(93,013)	(212,316)	(157,780)
Net premiums written	120,046	101,568	205,902	176,436
Adjustment: Change in unearned net premiums	(22,114)	(24,295)	(21,230)	(30,208)
Net premiums earned	97,932	77,273	184,672	146,228

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Table 10.5.2 – Reconciliation of Insurance revenue to GPW – United States:

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance revenue, as presented in the financial statements, note 16	467,852	315,118	927,159	583,831
Adjustment: Change in unearned gross premiums	93,087	132,516	116,834	205,548
Gross premiums written	560,939	447,634	1,043,993	789,379
Adjustment: Reinsurance premiums ceded	(543,167)	(403,269)	(999,013)	(711,712)
Net premiums written	17,772	44,365	44,980	77,667
Adjustment: Change in unearned net premiums	40,207	(18,967)	64,356	(32,875)
Net premiums earned	57,979	25,398	109,336	44,792

Table 10.5.3 – Net underwriting income – Canada

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Line items, as presented in the financial statements, note 16:				
Insurance service result	20,328	17,474	38,485	32,920
Other operating expenses	(4,003)	(3,862)	(8,768)	(8,057)
Other income	902	855	6,080	5,197
Net insurance finance (expenses) income	(429)	1,049	(2,204)	1,180
Net underwriting income	16,798	15,516	33,593	31,240

Table 10.5.4 – Net underwriting income - United States

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Line items, as presented in the financial statements, note 16:				
Insurance service result	19,496	9,939	18,067	21,386
Other operating expenses	(3,166)	(2,385)	(6,476)	(4,756)
Net insurance finance income (expenses)	142	130	(2,809)	756
Net underwriting income	16,472	7,684	8,782	17,386

Table 10.5.5 – Reconciliation of Net expense from reinsurance contracts assets to Fee income – United States:

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Net expense from reinsurance contracts assets, as presented in the financial statements, note 16	(22,135)	(322)	(97,323)	(15,734)
Finance (expenses) income from reinsurance contracts, as presented in the financial statements, note 16	(1,246)	(1,631)	27,266	(10,234)
Subtotal	(23,381)	(1,953)	(70,057)	(25,968)
Adjustment: Ceded commissions, Ceded claims, Ceded premiums earned, and Other directly attributable expenses - reinsurance	42,289	17,409	106,961	55,309
Fee income, as presented in Table 4.7	18,908	15,456	36,904	29,341

Table 10.5.6 – Reconciliation of GPW and NPW to Ceded reinsurance written premium – United States: used in the calculation of Fees as a percentage of ceded premiums

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Gross premiums written, as presented in Table 10.5.2	560,939	447,634	1,043,993	789,379
Less: Net premiums written, as presented in Table 10.5.2	(17,772)	(44,365)	(44,980)	(77,667)
Ceded reinsurance premiums written	543,167	403,269	999,013	711,712

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Table 10.6.1 – Reconciliation of Insurance service expenses and Net income (expense) from reinsurance contracts assets to Net claims and loss adjustment expenses - Canada: used in the calculation of Net underwriting income and Loss ratio.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance service expenses, as presented in the financial statements, note 16	(140,884)	(102,354)	(255,766)	(173,963)
Finance (expenses) income from insurance contracts, as presented in the financial statements, note 16	(1,398)	2,021	(6,563)	1,614
Subtotal	(142,282)	(100,333)	(262,329)	(172,349)
Adjustment: Gross commissions, Premium taxes, and Other directly attributable expenses	77,961	60,957	152,213	115,100
Gross claims and loss adjustment expenses	(64,321)	(39,376)	(110,116)	(57,249)
Net expense from reinsurance contracts assets, as presented in the financial statements, note 16	(35,356)	(29,697)	(82,110)	(77,598)
Finance income (expenses) from reinsurance contracts, as presented in the financial statements, note 16	969	(972)	4,359	(434)
Subtotal	(34,387)	(30,669)	(77,751)	(78,032)
Adjustment: Ceded commissions and Ceded premiums earned	80,410	59,128	156,946	114,165
Ceded claims and loss adjustment expenses	46,023	28,459	79,195	36,133
Net claims and loss adjustment expenses	(18,298)	(10,917)	(30,921)	(21,116)

Table 10.6.2 – Reconciliation of Insurance service expenses and Net income (expense) from reinsurance contracts assets to Net claims and loss adjustment expenses – United States: used in the calculation of Net underwriting income and Loss ratio.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance service expenses, as presented in the financial statements, note 16	(426,221)	(304,857)	(811,769)	(546,711)
Finance income (expenses) from insurance contracts, as presented in the financial statements, note 16	1,388	1,761	(30,075)	10,990
Subtotal	(424,833)	(303,096)	(841,844)	(535,721)
Adjustment: Gross commissions, Premium taxes, and Other directly attributable expenses - insurance	110,135	81,709	216,752	150,559
Gross claims and loss adjustment expenses	(314,698)	(221,387)	(625,092)	(385,162)
Net expense from reinsurance contracts assets, as presented in the financial statements, note 16	(22,135)	(322)	(97,323)	(15,734)
Finance (expenses) income from reinsurance contracts, as presented in the financial statements, note 16	(1,246)	(1,631)	27,266	(10,234)
Subtotal	(23,381)	(1,953)	(70,057)	(25,968)
Adjustment: Ceded commissions, Ceded premiums earned, Fee income, and Other directly attributable expenses - reinsurance	307,622	205,069	620,383	380,951
Ceded claims and loss adjustment expenses	284,241	203,116	550,326	354,983
Net claims and loss adjustment expenses	(30,457)	(18,271)	(74,766)	(30,179)

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Table 10.6.3 – Reconciliation of Insurance service expenses and Net income (expense) from reinsurance contracts assets to Net commissions – Canada: used in the calculation of Net underwriting income and Expense ratio.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance service expenses, as presented in the financial statements, note 16	(140,884)	(102,354)	(255,766)	(173,963)
Finance (expenses) income from insurance contracts, as presented in the financial statements, note 16	(1,398)	2,021	(6,563)	1,614
Subtotal	(142,282)	(100,333)	(262,329)	(172,349)
Adjustment: Gross claims and loss adjustment expenses, Premium taxes, and Other directly attributable expenses	82,030	51,816	144,203	81,627
Gross commissions	(60,252)	(48,517)	(118,126)	(90,722)
Net expense from reinsurance contracts assets, as presented in the financial statements, note 16	(35,356)	(29,697)	(82,110)	(77,598)
Finance income (expenses) from reinsurance contracts, as presented in the financial statements, note 16	969	(972)	4,359	(434)
Subtotal	(34,387)	(30,669)	(77,751)	(78,032)
Adjustment: Ceded claims and loss adjustment expenses and Ceded premiums earned	52,613	43,794	112,494	102,120
Ceded commissions	18,226	13,125	34,743	24,088
Net commissions	(42,026)	(35,392)	(83,383)	(66,634)

Table 10.6.4 – Reconciliation of Insurance service expenses and Net income (expense) from reinsurance contracts assets to Net commissions – United States: used in the calculation of Net underwriting income and Expense ratio.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance service expenses, as presented in the financial statements, note 16	(426,221)	(304,857)	(811,769)	(546,711)
Finance income (expenses) from insurance contracts, as presented in the financial statements, note 16	1,388	1,761	(30,075)	10,990
Subtotal	(424,833)	(303,096)	(841,844)	(535,721)
Adjustment: Gross claims and loss adjustment expenses, Premium taxes, and Other directly attributable expenses - insurance	321,803	225,680	634,678	392,102
Gross commissions	(103,030)	(77,416)	(207,166)	(143,619)
Net expense from reinsurance contracts assets, as presented in the financial statements, note 16	(22,135)	(322)	(97,323)	(15,734)
Finance (expenses) income from reinsurance contracts, as presented in the financial statements, note 16	(1,246)	(1,631)	27,266	(10,234)
Subtotal	(23,381)	(1,953)	(70,057)	(25,968)
Adjustment: Ceded claims and loss adjustment expenses, Ceded premiums earned, Fee income, and Other directly attributable expenses - reinsurance	107,673	71,144	233,691	154,713
Ceded commissions	84,292	69,191	163,634	128,745
Net commissions	(18,738)	(8,225)	(43,532)	(14,874)

Table 10.6.5 – Reconciliation of Insurance service expenses to Premium taxes and Other directly attributable expenses – Canada: used in the calculation of Net underwriting income and Expense ratio.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance service expenses, as presented in the financial statements, note 16	(140,884)	(102,354)	(255,766)	(173,963)
Finance (expenses) income from insurance contracts, as presented in the financial statements, note 16	(1,398)	2,021	(6,563)	1,614
Subtotal	(142,282)	(100,333)	(262,329)	(172,349)
Adjustment: Gross commissions and Gross claims and loss adjustment expenses	124,573	87,893	228,242	147,971
Premium taxes and Other directly attributable expenses	(17,709)	(12,440)	(34,087)	(24,378)

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Table 10.6.6 – Reconciliation of Insurance service expenses to Premium taxes and Other directly attributable expenses – United States: used in the calculation of Net underwriting income and FOR.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Insurance service expenses, as presented in the financial statements, note 16	(426,221)	(304,857)	(811,769)	(546,711)
Finance income (expenses) from insurance contracts, as presented in the financial statements, note 16	1,388	1,761	(30,075)	10,990
Subtotal	(424,833)	(303,096)	(841,844)	(535,721)
Adjustment: Gross commissions and Gross claims and loss adjustment expenses	417,728	298,804	832,258	528,781
Premium taxes and Other directly attributable expenses - insurance	(7,105)	(4,292)	(9,586)	(6,940)

Non-IFRS Ratios

Table 10.2 – Operating earnings per common share: reflect EPS, adjusted for certain items to normalize earnings to core operations in order to reflect our North American specialty operations; a measure of after-tax profitability.

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Operating net income	26,032	19,071	52,602	38,614
Weighted-average number of common shares outstanding – basic (in thousands of shares)	45,959	41,278	45,923	41,256
Operating earnings per common share – basic (in dollars)	0.57	0.46	1.15	0.94
Operating net income	26,032	19,071	52,602	38,614
Weighted-average number of common shares outstanding – diluted (in thousands of shares)	46,781	42,139	46,740	42,125
Operating earnings per common share – diluted (in dollars)	0.56	0.45	1.13	0.92

Table 10.4 – ROE and Operating ROE: a measure of the Company's use of equity.

	Q2 2023	Q2 2022 ⁽¹⁾
LTM net income	24,297	67,597
LTM average equity, from Table 10.4.1	497,777	352,242
ROE⁽¹⁾	4.9%	19.2%
LTM net income	24,297	67,597
Adjustments:		
Write down on reinsurance recoverables	81,473	-
Impact of SBC	2,877	111
Loss on sale of structured insurance assets	-	1,336
ECL	(227)	-
Net gains (losses)	1,247	(6,816)
Net losses from life annuity	-	2,035
Change in yield curve for Finance income from insurance/reinsurance contracts	(310)	-
Loss from run-off program	8,062	-
Impact of Catastrophe programs reinsurance	-	2,158
Tax impact of above items	(21,789)	2,160
Adjustments relating to income tax benefits	-	285
Operating LTM net income ⁽²⁾	95,629	68,866
LTM average equity, from Table 10.4.1	497,777	352,242
Operating LTM ROE⁽²⁾	19.2%	19.6%

(1) Q2 2022 balances have not been restated to conform with adoption of new accounting standards.

(2) Operating LTM net income, a component of Operating LTM ROE, is a non-IFRS financial measure.

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Table 10.5 – Loss ratio and Expense ratio – Canada

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Loss ratio				
Net claims, as presented in Table 10.6.1	18,298	10,917	30,921	21,116
Net premiums earned, as presented in Table 10.5.1	97,932	77,273	184,672	146,228
Loss ratio	18.7%	14.1%	16.7%	14.4%
Expense ratio				
Net commissions, as presented in Table 10.6.3	42,026	35,392	83,383	66,634
Premium taxes and Other directly attributable expenses, as presented in Table 10.6.5	17,709	12,440	34,087	24,378
Other operating expenses, as presented in the financial statements, note 16	4,003	3,862	8,768	8,057
Less: Fee income, as presented in the financial statements, note 16	(902)	(855)	(6,080)	(5,197)
Subtotal	62,836	50,839	120,158	93,872
Net premiums earned, as presented in Table 10.5.1	97,932	77,273	184,672	146,228
Expense ratio	64.2%	65.8%	65.1%	64.2%
Combined ratio	82.9%	79.9%	81.8%	78.6%

Table 10.6 – Loss ratio and FOR - United States

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Loss ratio				
Net claims, as presented in Table 10.6.2	30,457	18,271	74,766	30,179
Net premiums earned, as presented in Table 10.5.2	57,979	25,398	109,336	44,792
Loss ratio	52.5%	71.9%	68.4%	67.4%
FOR				
Net claims, as presented in Table 10.6.2	30,457	18,271	74,766	30,179
Net commissions, as presented in Table 10.6.4	18,738	8,225	43,532	14,874
Premium taxes and Other directly attributable expenses - insurance, as presented in Table 10.6.6	7,105	4,292	9,586	6,940
Other directly attributable expenses - reinsurance ⁽¹⁾	937	-	3,087	-
Other operating expenses, as presented in the financial statements, note 16	3,166	2,385	6,476	4,756
Subtotal	60,403	33,173	137,447	56,749
Net premiums earned, as presented in Table 10.5.2	57,979	25,398	109,336	44,792
Fee income, as presented in Table 10.5.5	18,908	15,456	36,904	29,341
Subtotal	76,887	40,854	146,240	74,133
FOR	78.6%	81.2%	94.0%	76.6%

(1) Other directly attributable expenses - reinsurance represent a write-down of reinsurance recoverables.

Table 10.7 – Retention rate and Fees as a percentage of ceded premium - United States

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Retention rate				
Net premiums written, as presented in Table 10.5.2	17,772	44,365	44,980	77,667
Gross premiums written, as presented in Table 10.5.2	560,939	447,634	1,043,993	789,379
Retention rate	3.2%	9.9%	4.3%	9.8%
Fees as a percentage of ceded premium				
Gross fee income	23,539	20,873	42,900	37,760
Ceded written premium, as presented in Table 10.5.6	543,167	403,269	999,013	711,712
Fees as a percentage of ceded premium	4.3%	5.2%	4.3%	5.3%

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Additional Information

Table 10.7.1 – Reconciliation of Note 16 – Segmented information in the Company's Condensed Interim Consolidated Financial Statements to results including tax impacts (as per MD&A Table 4.2 and 4.7)

	For the three months ended June 30, 2023			For the period ended June 30, 2023		
	FS Note 16 – Net income before tax	Tax impact	MD&A Table 4.2 and 4.7 – Net income	FS Note 16 – Net income before tax	Tax impact	MD&A Table 4.2 and 4.7 – Net income
Trisura Canada	18,105	(4,588)	13,517	40,484	(10,442)	30,042
Trisura US	19,973	(3,989)	15,984	17,724	(3,482)	14,242

Table 10.7.2 – Reconciliation of Note 16 – Segmented information in the Company's Condensed Interim Consolidated Financial Statements to results including tax impacts (as per MD&A Table 4.2 and 4.7)

	For the three months ended June 30, 2022			For the period ended June 30, 2022		
	FS Note 16 – Net income before tax	Tax impact	MD&A Table 4.2 and 4.7 – Net income	FS Note 16 – Net income before tax	Tax impact	MD&A Table 4.2 and 4.7 – Net income
Trisura Canada	19,392	(5,101)	14,291	40,836	(10,582)	30,254
Trisura US	10,785	(2,429)	8,356	20,548	(4,420)	16,128

Corporate and Other

Table 10.8.1 – Reconciliation of Note 16 – Segmented information to Section 4 – Corporate and Other Table 4.9

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
Other operating expenses Corporate and other, as presented in Note 16 - Segmented Information	(2,906)	(750)	(263)	1,481
Insurance service expense – Reinsurance	(109)	125	(121)	34
Derivative gains (losses) from mitigation strategies ⁽¹⁾	1,392	(351)	(2,378)	(4,472)
Net expenses, as presented in Table 4.9	(1,623)	(976)	(2,762)	(2,957)

(1) Derivative losses from SBC mitigation are presented in Net gains in the Condensed Interim Consolidated Financial Statements.

Table 10.8.2 – Reconciliation from SBC, gross of mitigation strategies to SBC, net of mitigation strategies

	Q2 2023	Q2 2022	Q2 2023 YTD	Q2 2022 YTD
SBC, gross of mitigation strategies ⁽¹⁾	(1,815)	(194)	1,555	2,948
Add: Derivative gains (losses) from mitigation strategies ⁽²⁾	1,392	(351)	(2,378)	(4,472)
SBC, net of mitigation strategies as presented in Table 4.9	(423)	(545)	(823)	(1,524)

(1) Included in Other operating expenses in Corporate and Other segment of FS Note 16.

(2) Derivative losses from mitigation strategies are presented in Net gains in the Condensed Interim Consolidated Financial Statements.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains “forward-looking information” within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “likely,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could”.

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of our Company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behaviour of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; insurance risks including pricing risk, concentration risk and exposure to large losses, and risks associated with estimates of loss reserves; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; changes in capital requirements; changes in reinsurance arrangements and availability and cost of reinsurance; ability to collect amounts owed; catastrophic events, such as earthquakes, hurricanes or pandemics; developments related to COVID-19, including the impact of COVID-19 on the economy and global financial markets; the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; risks associated with reliance on distribution partners, capacity providers and program administrators; third party risks; risk that models used to manage the business do not function as expected; climate change risk; risk of economic downturn; risk of inflation and other risks and factors detailed from time to time in our documents filed with securities regulators in Canada.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

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GLOSSARY OF ABBREVIATIONS

Abbreviation	Description
AFS	Available for Sale Financial Asset
BVPS	Book Value Per Share
D&O	Directors' and Officers' insurance
E&O	Errors and Omissions Insurance
EPS	Diluted Earnings Per Share
FOR	Fronting Operational Ratio
Fronted lines	Fronted lines are referring to US Fronting and Canadian Fronting
FVTPL	Fair Value Through Profit & Loss
FVTOCI	Fair Value Through Other Comprehensive Income
GPW	Gross Premium Written
LAE	Loss Adjustment Expenses
LTM	Last Twelve Months
MCT	Minimum Capital Test
MGA	Managing General Agent
n/a	not applicable
nm	not meaningful
NPE	Net Premiums Earned
NPW	Net Premium Written
NUI	Net Underwriting Income
OCI	Other Comprehensive Income
Primary lines	Primary lines are lines of insurance business not classified as fronting, such as Surety, Corporate Insurance, and Risk Solutions – Warranty.
pts	Percentage points
Q1, Q2, Q3, Q4	The three months ended March 31, June 30, September 30 and December 31 respectively
Q2 YTD	The six months ended June 30
Q3 YTD	The nine months ended September 30
Q4 YTD	The twelve months ended December 31
ROE	Return on Shareholders' Equity over the last twelve months
RSUs	Equity-settled restricted share units
USD	United States Dollar
YTD	Year to Date