Building a world-class P&C insurer

Annual Report 2011

intact

Who we are

Intact Financial Corporation is the largest provider of property and casualty (P&C) insurance in Canada with $6.5 billion in direct premiums written and an estimated market share of 16.5%*. We insure more than five million individuals and businesses through our insurance subsidiaries and are the largest private sector provider of P&C insurance in British Columbia, Alberta, Ontario, Quebec and Nova Scotia. We distribute insurance under the Intact Insurance brand through a wide network of brokers and our wholly owned subsidiary, BrokerLink. We also distribute insurance direct to consumers through our belairdirect and Grey Power brands. We internally manage our investments totalling approximately $12 billion.

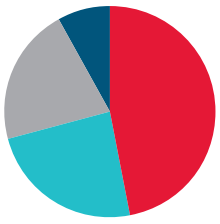
* Pro forma AXA Canada for a full year

Financial highlights

(in millions of Canadian dollars, except as noted)

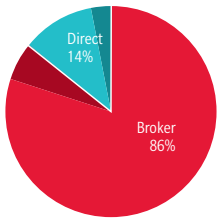
	IFRS		Canadian GAAP		
	2011	2010	2009	2008	2007
Consolidated performance					
Written insured risks (thousands)	5,084	4,614	4,604	4,601	4,680
Direct premiums written	5,099	4,498	4,275	4,146	4,108
Net premiums earned	4,880	4,231	4,055	4,040	3,932
Net claims and general expenses	4,688	4,074	4,043	3,972	3,723
Combined ratio	94.4%	95.4%	98.7%	97.1%	95.2%
Net investment income	326	294	293	329	345
Net investment gains (losses)	204	182	(173)	(288)	74
Other operating income (expenses), net	(3)	13	8	15	44
Other non-operating expenses	125	9	0	0	0
Income before income taxes	594	637	140	124	672
Effective tax rate	23.1%	22.0%	9.4%	(3.8)%	24.3%
Net operating income	460	402	282	361	457
Net income	465	498	127	128	508
Net operating income per share ($)	3.91	3.49	2.35	2.96	3.61
Earnings per share ($)	3.96	4.32	1.06	1.05	4.01
Average number of shares outstanding (millions)	115	115	120	122	127
Book value per share ($)	29.73	26.47	24.88	21.96	25.48
Operating return on equity	15.3%	15.1%	9.2%	11.3%	13.6%
Return on equity	14.3%	16.9%	4.5%	4.4%	15.4%

2011 Direct premiums written by business line[1]
(excluding pools, %)



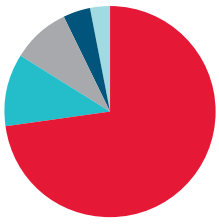
- Personal auto 47%
- Personal property 24%
- Commercial P&C 21%
- Commercial auto 8%

2011 Direct premiums written by distribution channel[1]
(excluding pools, %)



- Intact Insurance 80%
- BrokerLink 6%
- belairdirect 11%
- Grey Power 3%

2011 Investment mix
(net of hedging positions, % of fair value)



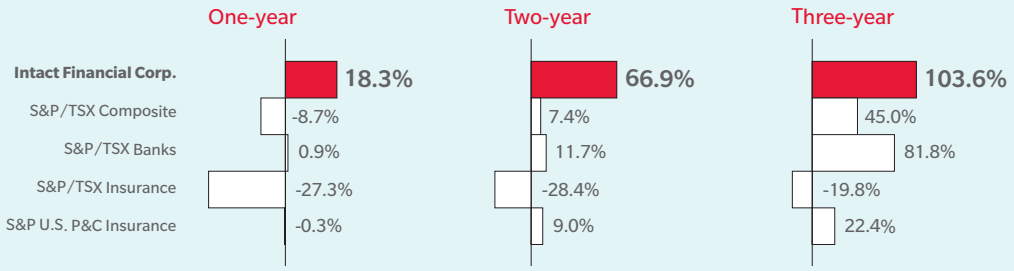
- Fixed income securities 73%
- Preferred shares 11%
- Common shares 9%
- Cash and short-term notes 4%
- Loans 3%

[1] Reflects AXA Canada premiums for the fourth quarter of 2011.

Creating shareholder value through superior performance and financial strength

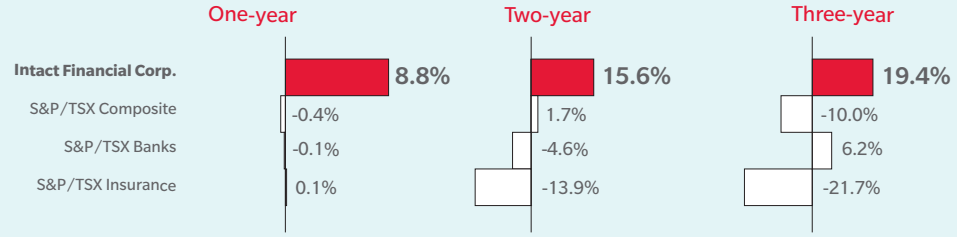
Total returns to shareholder (%)

Our 2011 total shareholder return (including dividends) of 18.3% was higher than the comparable indicies, bolstered by our operating results.



Dividends per share growth (%)

Since becoming a publicly traded company in 2004, we have grown our dividends per share every year, on average by 13.7% annually.



Source: Toronto Stock Exchange, Standard & Poor's

Our solid capital base and ratings provide flexibility to pursue growth opportunities while returning capital to shareholders.

Credit ratings[1]

DBRS issuer credit rating: **A (low)**

Moody's issuer credit rating: **Baa1**

A. M. Best financial strength rating: **A+**[2]

[1] For details, see inside back cover

[2] Under review with negative implication

Solid balance sheet

- Excess capital of $435 million
- Continued book value per share growth (12% in 2011)
- Debt-to-total-capital ratio below our target level (pro forma the proceeds from sale of life business)

Recent capital deployment activity

- $1.3 billion deployed on AXA Canada acquisition
- $471 million returned via share buybacks since 2010
- 8.1% dividend increase announced in February 2012

CEO's letter to shareholders

Charles Brindamour
Chief Executive Officer

Dear fellow shareholders,

We are in the business of making promises. We promise customers that we will be there when they need us most. We promise brokers that we will strive to offer the best products with top-notch levels of service. We promise employees that we will strive to be an employer of choice. And we promise shareholders that by delivering on these promises, we will strive to produce exceptional shareholder value. I believe that 2011 was a year when we delivered on our promises.

AXA Canada acquisition

The acquisition of AXA Canada marked a unique opportunity to combine two of the top performing P&C insurance franchises in the country into what we believe can become one of the best P&C businesses in the world. We believe we hit a home run from a strategic perspective. We gained scale, which helps us bolster our risk selection and claims management capabilities, while accelerating our growth profile with industry-leading underwriting performance. AXA Canada had a strong commercial lines presence – something that was high on our list of key areas for growth. Finally, and most importantly, the acquisition of AXA Canada provided an opportunity to enhance the depth and quality of our management team.

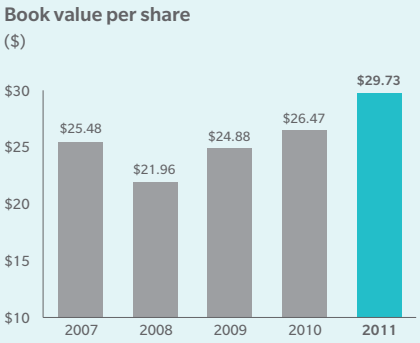
From a financial perspective, the combination with AXA Canada is also very compelling. We estimate the internal rate of return ("IRR") from the acquisition (our primary metric when measuring potential targets) to be more than 21%. We continue to expect the deal to be accretive to net operating income per share in 2012, and to provide 15% accretion annually in the mid-term. Lastly, we expect to achieve a run-rate of synergies amounting to $100 million after-tax by the second half of 2013.

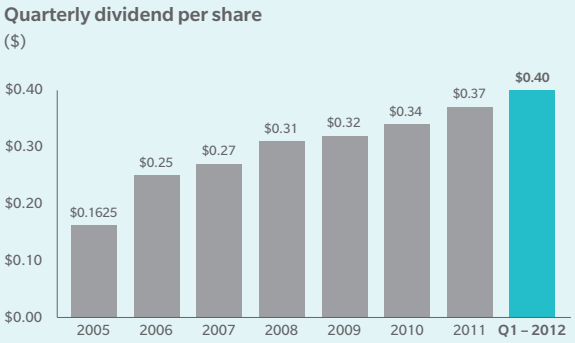
Overall, the integration of the business is on track. We are pleased with the response we continue to see from employees, brokers and customers. This is important because ensuring that brokers and customers embrace our offer and continue to receive top-notch service is essential, particularly during the integration phase. We believe that the retention of the business has been strong thus far, but we remain in the early stages of the integration and we do not have enough information yet to determine an ongoing success rate. We believe we will be in a better position to make this determination this summer, following a period where customers receive and respond to our product offering and the associated price changes that come with moving from AXA Canada to the new offer from Intact Insurance.

The year in review

2011 marked a successful year for the company, as our strategies and action plans continued to pay off. Thanks to our organic growth and the inclusion of AXA Canada in the fourth quarter, we grew our top-line by 13% to reach $5.1 billion. During the year, we also improved our combined ratio to 94.4% and increased our net operating income per share by 12%, despite incurring more than $200 million in catastrophe losses in 2011. Our $11.8 billion investment portfolio also generated healthy returns with $326 million of net investment income.

From a capital perspective, we ended the year with a solid balance sheet despite having completed the AXA Canada acquisition. The proceeds from our January 1, 2012 sale of AXA Canada's life insurance business are expected to bring our debt-to-total-capital ratio below our target level of 20% early in 2012. We continued to redeploy capital in early 2012, announcing an 8.1% dividend increase, marking the seventh consecutive year that the dividend has been raised, in total by an average of 13.7% per year.





We also distribute insurance through our wholly owned subsidiary, BrokerLink. BrokerLink's mandate is to build a broker model that can successfully compete with alternative channels by leveraging its scale to invest in its brand and technology and offer customers choice. BrokerLink's premium base now totals more than $500 million.

Grey Power and belairdirect give consumers the option of buying our products directly by phone and on the Internet. Our direct platforms should benefit from two key trends in the Canadian marketplace – the speed at which consumers embrace technology, and the changing demographics of the Canadian population. As such, we are enthusiastic about the growth opportunities for these platforms in the coming years.

Supporting our broker partners

Our most recent acquisition, AXA Canada, is another strong endorsement of brokers and their ability to thrive in the future. As entrepreneurs who are committed to growing their business, our broker partners (including the more than 200 brokers that we welcomed as part of the AXA Canada transaction) now have an even stronger ally to champion their cause and help their business prosper. Our scale and financial stability enable us to support brokers by investing in technology to help them improve productivity. Brokers are also able to capitalize on our marketing initiatives that include a broker call to action. With nearly 90% of our business in the broker channel, now more than ever, our success depends on the success of our brokers. I want to thank our brokers for their continuous support throughout the integration and assure you that we will work to maintain that support in the years ahead.

One team with common values

Our success this past year is due to the combined effort of our 10,000 employees, a group that I believe represents the best team in the country. It goes without saying that 2011 was a demanding year, as our team continued to demonstrate our strong customer-driven mindset and to provide industry-leading service to our brokers despite an incredibly fast-paced integration. Our employees truly exemplify our quest for excellence and I want to thank each and every one of them.

Looking forward

We are excited about our prospects for 2012 and beyond and believe the importance we place on underwriting results will continue to serve us well in the current low interest rate environment. Given the quality of our operational platforms, the flexibility provided by our financial position, and the combination with AXA Canada, we believe that we will continue to outperform the industry and strengthen our leadership position.

In closing, I believe 2011 was an extraordinary year for our Company, but I realize it was made possible by the efforts of many parties. I would like to thank our Board of Directors, whose insight and guidance have, once again, helped us to make decisions critical to the success of our organization.

Charles Brindamour
Chief Executive Officer

Chairman's message

2011 was a momentous year as we accelerated our efforts towards building a world-class property and casualty insurer with the acquisition of AXA Canada. By bringing together two of the best providers of home, auto and business insurance in the country in a financially compelling transaction, we are strengthening our organization and successfully pursuing our growth strategy.

Throughout the year, your Directors oversaw, counselled and supported management to ensure that the acquisition of AXA Canada would enhance the value of your investment and contribute to the long-term viability of your company.

As stewards of your company, your Directors are proud that their efforts were rewarding for all of our shareholders. The investment community's positive response to our equity and debt offerings, our strong financial performance and our solid balance sheet led to an 18% increase in the value of your investment during the year, at a time when most Canadian financial market indexes were contracting.

The acquisition of AXA Canada was the outcome of a well-honed strategy that your Board of Directors dutifully helped shape over time. Throughout the years my fellow Directors have put forth a significant amount of effort and energy in guiding management along a journey which began three years ago when your company became an independent and widely held Canadian company. In 2011, your Board held two special meetings to discuss the strategic orientation of your company, its growth initiatives and its long-term objectives. Furthermore, we regularly reviewed the company's position in various markets as well as the opportunities offered to a strong, disciplined and stable organization like ours at a time when industry conditions are challenging and financial markets remain uncertain.

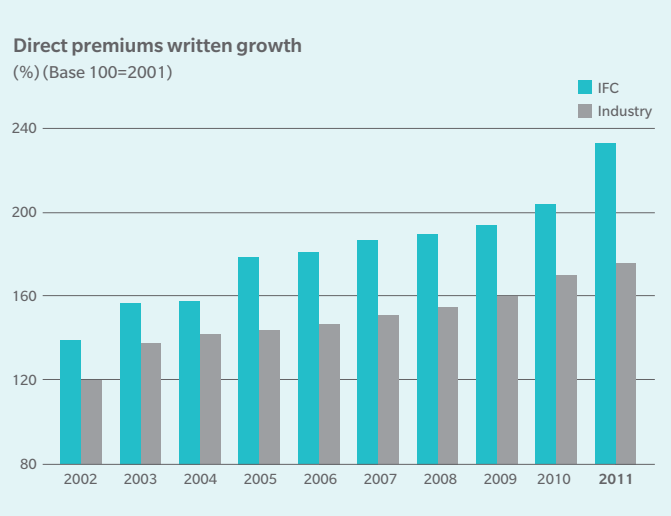
Throughout the year, your Board ensured that your company continued its prudent management of the risks inherent in its business. Special attention and oversight was given to maintaining the financial strength and resilience of your company's balance sheet in the wake of financial market volatility. We reviewed management's initiatives to minimize the risk exposure of the company's $11.8 billion investment portfolio as well as those to mitigate other risks including those associated with earthquakes. We remain confident that the prudent risk management culture that permeates our company and the strong risk structure that we have established over the years support your long-term interests.

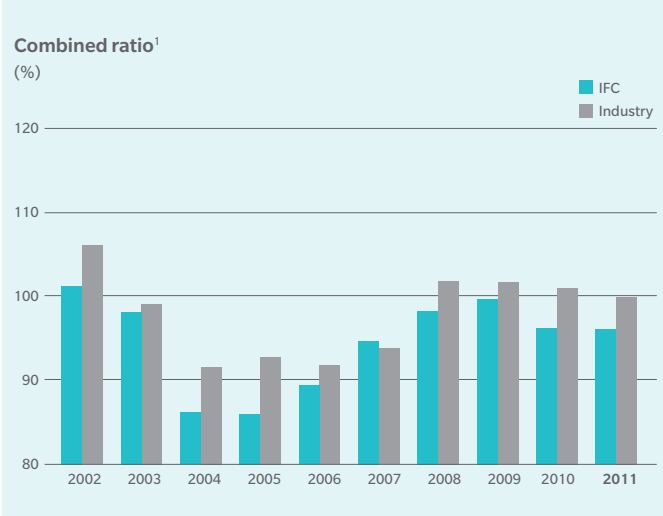
In 2011, your company successfully created tremendous value for our shareholders as it made significant progress towards building a rewarding future for all our stakeholders. However, we should remind ourselves that it was also a demanding year for our employees as they worked relentlessly to create one team with common values. Our many accomplishments would not have been possible without their patience, dedication and hard work. I want to extend my sincere thanks and appreciation for a job very well done to all our employees. I would also like to thank my fellow Board members for their valuable advice, counsel and enthusiasm in helping the management team build a world-class P&C insurer.

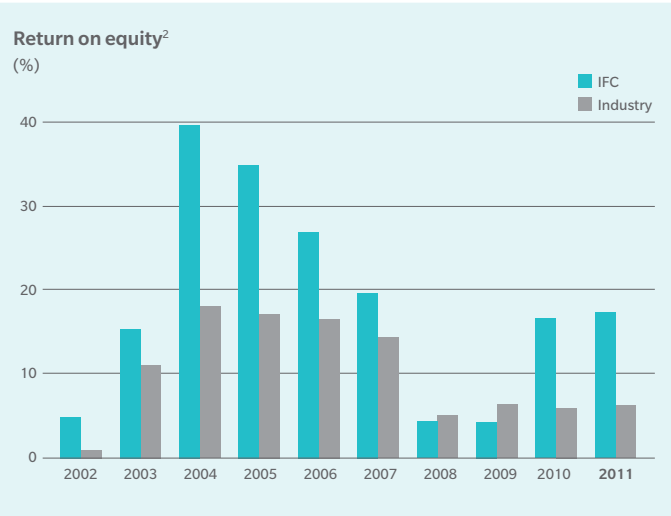
Claude Dussault
Chairman of the Board

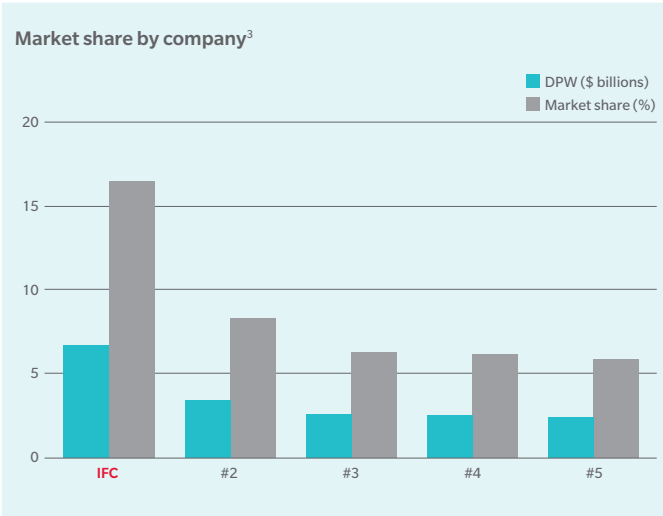
Driven to excel

consistent, industry-leading performance









Industry data source: MSA Research excluding Lloyd's, ICBC, SGI, SAF, MPI, Genworth, IFC and AXA Canada (in 2011).
Note: [1] Combined ratio includes the market yield adjustment (MYA). [2] ROEs reflect IFRS beginning in 2010. IFC's 2011 ROE is adjusted return on common shareholders' equity (AROE) as defined on page 24. [3] IFC pro forma AXA Canada for the full year.

Our industry outperformance expanded in 2011

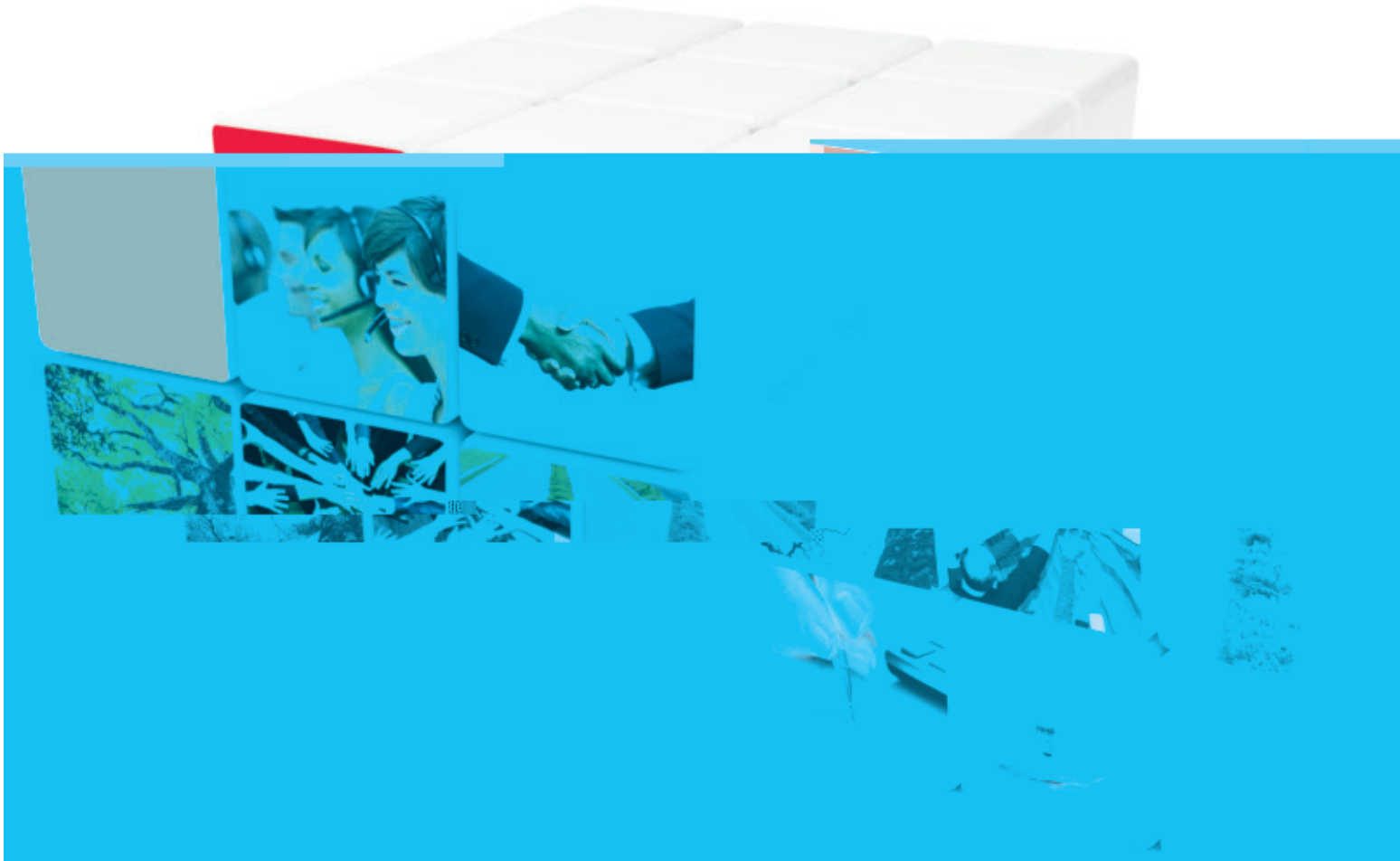
			Outperformance	
	IFC	Top 20 benchmark[1]	2011	5-year average[2]
DPW growth	14.0%	3.6%	1,032 bps	190 bps
Combined ratio[3]	96.1%	101.0%	497 bps	464 bps
Return on equity[4]	17.4%	5.6%	1,178 bps	502 bps

[1] Industry data source: MSA Research excluding Lloyd's, IFC and AXA Canada (in 2011).
[2] Five-year period ending Dec. 31, 2011.
[3] Combined ratio includes the market yield adjustment (MYA).
[4] IFC's ROE is adjusted return on common shareholders' equity (AROE) as defined on page 24.

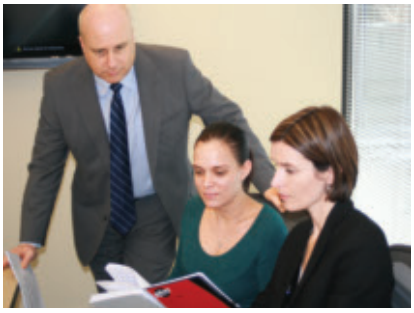
The combination of superior underwriting results and our capital management activities led to an ROE outperformance of more than 10 percentage points in 2011.

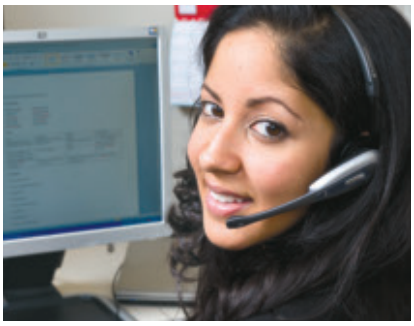
Sustainable competitive advantages

solidify our industry outperformance



- Scale
- Sophisticated pricing and underwriting discipline
- In-house claims expertise
- Broker relationships
- Solid investment returns
- Proven acquisition strategy
- Strong organic growth potential





One of our objectives is to be recognized as one of Canada's best employers, a place where employees feel proud to work. To achieve this goal, we're continuously striving to build a workplace where we're all engaged and where we can contribute our very best, every day.

We want to offer our employees more than just a job. We aim to provide them with growth opportunities and recognition for their continuous contribution to our achievements. This is the key to helping them reach their full potential as well as deliver an outstanding experience to our customers.

Behind every one of our products and services is a team of motivated, intelligent, diverse and hard-working employees. We believe we've built one of the best insurance teams by hiring and developing the best insurance experts in the country. And we're proud to call each and every one of them a member of the Intact family.

"I really enjoy being a part of this large and ever-growing company. I feel very motivated to work towards our common goals."

– Mallika Ranjan, Senior Business Analyst, EIS Production Support/Design

"It's very comforting to drive in here and see a presence. They're real people and they care and that's huge to me. Insurance isn't an easy thing because a lot of times people are angry by the time they get to you, and…I'm just so grateful that there are people like you folks that will come and help us when we're in a time of need and be so cheerful."

– Sharon Woolston, Intact Insurance customer, Slave Lake resident

Our response to the Slave Lake wildfires

- **Within 24 hours:** established three mobile claims centres
- **Within two weeks:** helped over 1,000 families get back on track

high-quality craftsmanship. Providing an end-to-end claims experience allows us to provide an efficient and top-notch response to our customers when they need us most. With our increased size, we can leverage our competitive advantage to better serve customers and achieve cost savings.

This past year, we continued to guarantee our claims service and make ourselves available 24/7. We responded to more than two million calls to help customers, whether it was to arrange repairs, transportation or accommodation. When we asked our customers to gauge how satisfied they were and whether they would recommend us to their friends and family after a claim, we were pleased to hear that we are rated amongst the best in North America.

Because we're constantly looking at ways to better serve our customers, we remain focused on modernizing our claims technology to increase efficiencies and cater to customers with a higher level of technical aptitude. We are also proactive in detecting, managing and preventing fraud and abuse. It's a prevalent and serious issue…one in which consumers bear the cost.

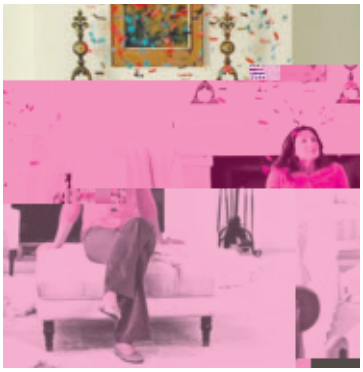
In-depth:
We were there when customers needed us most

Our customers were affected by natural catastrophes and weather-related events in 2011, including the Slave Lake wildfires, hailstorms in Ontario and Tropical Storm Irene in Quebec. These events were unpredictable and required all hands on deck – that's why we have dedicated Catastrophe Response Teams that we immediately mobilize after a storm to ensure that our customers experience the least amount of disruption.

In May 2011, more than 7,000 people were evacuated from the Northern Alberta region due to the Slave Lake wildfires. We were one of the first insurance companies on the scene to help get our customers in the area back on track. In less than 24 hours, we established three mobile claims centres and, in less than two weeks, we helped over 1,000 families and, when required, provided emergency funding.

Our business platforms

To us, insurance is about people

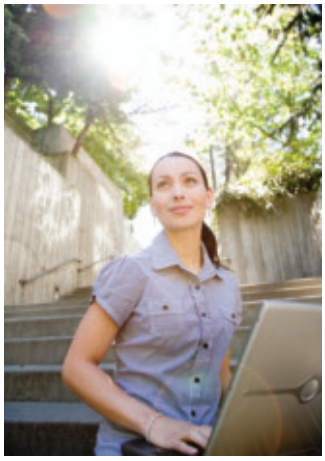


Intact Insurance is Canada's largest provider of home, auto and business insurance, protecting over four million individuals and businesses. Our coast-to-coast presence, fortified by a strong network of over 2,000 insurance brokers, means we can provide the outstanding service, comfort and continuity Canadians deserve.

At Intact Insurance, we believe that insurance is not about things, it's about people. It's about getting customers back on track as quickly as possible after an accident or unexpected event has occurred. Our promise is to do so in a fair, respectful and easy manner.

intact INSURANCE

Committed to local communities



BrokerLink is one of the largest P&C insurance brokerages in Canada with over 50 offices and more than 700 employees across Ontario and Alberta – writing more than $500 million in premiums for its 200,000 customers. Whether in-person, on the phone, or online, BrokerLink is committed to delivering an exceptional customer experience by finding the best value and the most appropriate coverage possible for each customer. BrokerLink employees generously support a variety of local charitable causes to build healthy and safe communities including United Way and Raising the Roof.

BrokerLink

We recognize Sarah, age 52.

For that time she checked her blind spot twice and avoided a collision.

Recognizing the unsung heroes of the road

Good drivers. They are all around us and they do all the little things to help keep Canadian roads safe. They may go unnoticed to some, but at Grey Power, we call these drivers, with years of experience and good driving records, the unsung heroes of the road.

Unique among Intact's insurance brands, Grey Power has been a leader in providing insurance to experienced drivers, 50 or older, since 1993. Research indicates that the 50+ market in Canada is the largest segment of the population and is forecasted to grow at a faster pace than any other segment over the next 10 years. We believe our customers should enjoy best-in-class service and discounts for their good driving records.

GREY POWER™

Four distinct avenues for growth

Attractive opportunities to build market share, scale, and earnings now and in the future

Firming market conditions (0–2 years)

1

Personal lines

- Industry premiums remain inadequate in Ontario auto
- Home insurance premiums also on the rise

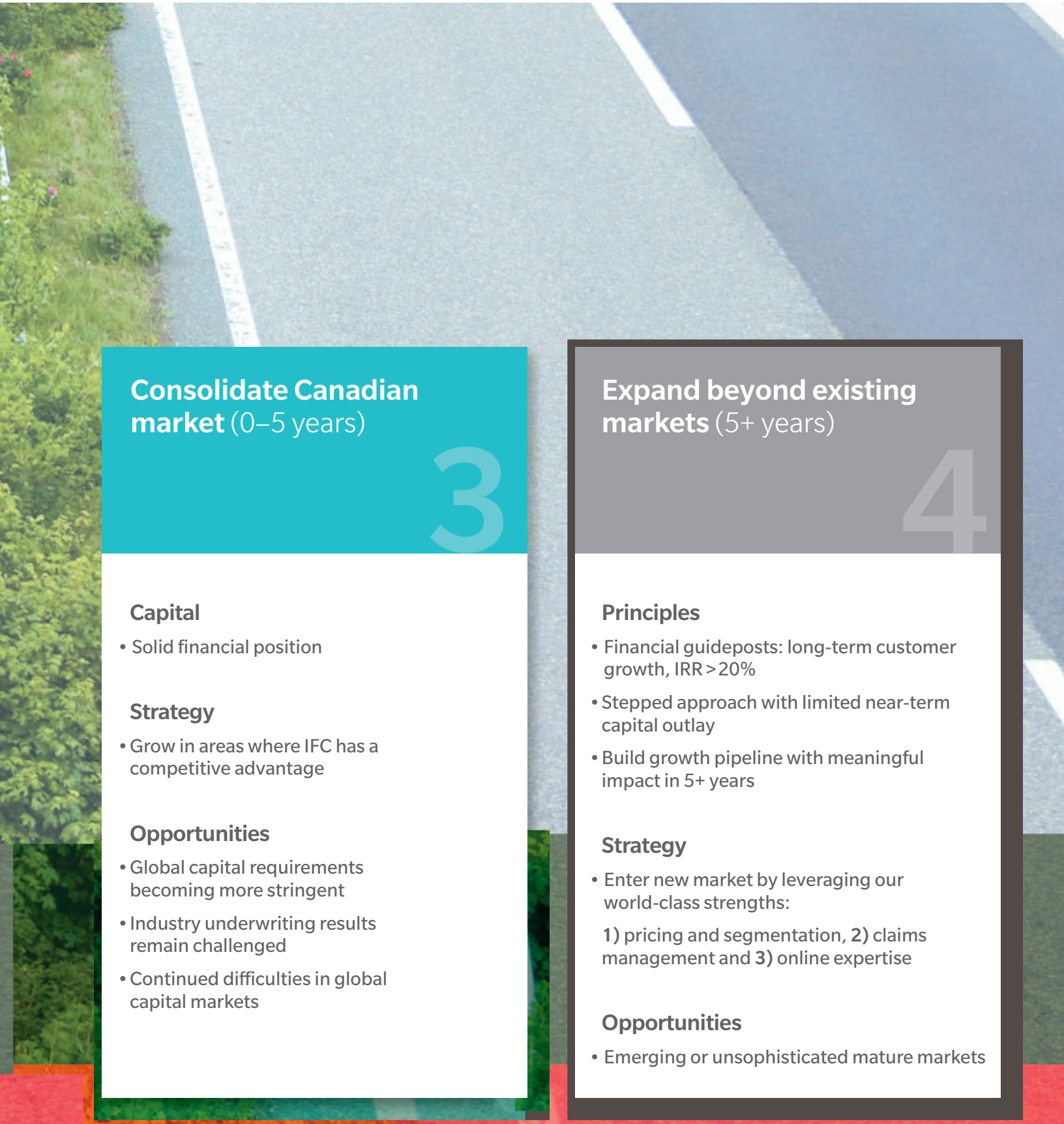
Commercial lines

- Evidence of price firming in the past 12–18 months
- Leverage acquired expertise to expand product offer and gain share in the mid-market

Develop existing platforms (0–3 years)

2

- Continue to expand support to our broker partners
- Expand and grow belairdirect and Grey Power
- Build a broker offering better able to compete with direct writers



Consolidate Canadian market (0–5 years)

3

Capital

- Solid financial position

Strategy

- Grow in areas where IFC has a competitive advantage

Opportunities

- Global capital requirements becoming more stringent
- Industry underwriting results remain challenged
- Continued difficulties in global capital markets

Expand beyond existing markets (5+ years)

4

Principles

- Financial guideposts: long-term customer growth, IRR > 20%
- Stepped approach with limited near-term capital outlay
- Build growth pipeline with meaningful impact in 5+ years

Strategy

- Enter new market by leveraging our world-class strengths:

  1) pricing and segmentation, **2)** claims management and **3)** online expertise

Opportunities

- Emerging or unsophisticated mature markets

Social responsibility

The trust and support that communities place in us is linked to our long-term success and enables us to give back. As such, we are committed to making a positive, meaningful and lasting contribution to the communities where our employees and customers live and work.

Customers

We're here to protect the things that our customers care about most – their home, car and business and, when an unforeseen event occurs, we're committed to offering our customers an outstanding experience – one that goes beyond their expectations.

In 2011, we contributed nearly $2.8 million to charitable organizations and donated our time, passion and energy to causes that matter to the well-being and viability of communities across Canada. Our efforts are focused on two pillars: fostering safe and vibrant communities by addressing the needs of youth at risk and helping communities prepare for long-lasting changes in weather patterns. We'll continue to act sustainably and responsibly to respect and better preserve our environment and do our part to help make our communities safer, healthier and happier.

Fostering safe and vibrant communities

We believe that every youth deserves the opportunity to have a bright, secure future. There are 65,000 Canadian youth who do not have a place to call home and are in jeopardy of having their dreams shattered and being lost to the streets. We're dedicated to providing the guidance, support and confidence that our struggling youth ought to have and making a concerted effort to combat youth homelessness.

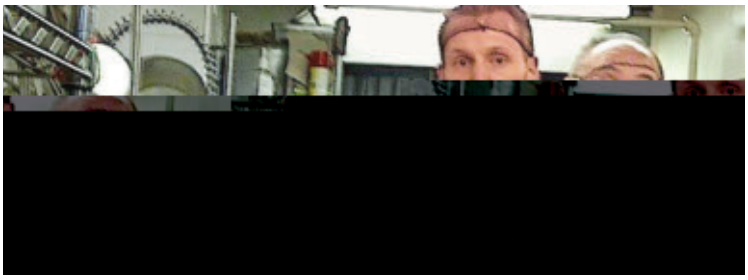
In 2011, we continued to partner with Raising the Roof, Canada's national charity focused on long-term solutions to homelessness. Our involvement with their Toque Campaign helps raise awareness and funds for local community agencies across Canada, while their Youthworks initiative focuses on breaking the cycle of youth homelessness by promoting innovative employment, mentorship and skills training opportunities for homeless and at-risk youth across Canada.

In 2011, the enthusiasm of employees and interest of brokers and suppliers helped raise enough money for hundreds of homeless youth to find housing, employment opportunities and go back to school. It's a gift of promise, potential and the opportunity to help a homeless youth realize their greatness. In addition, last year we provided funding to shelters or organizations that provide day services. At Intact, we're involved in alleviating youth homelessness and helping formerly homeless youth become active and contributing members of society.

CLIMATE CHANG

Social Responsibility Statement

At Intact, we respect the environment and its finite resources and we believe in making the communities where we live and work safer, healthier and happier. We demonstrate this by being environmentally responsible in our operations, supporting our employees in their citizenship endeavours, encouraging climate change adaptation and fostering vibrant and resilient communities for all our stakeholders.



Communities

We believe in making communities where we live and work safer, healthier and happier by supporting causes that we are passionate about. Our employees undertake important citizenship endeavours in communities across Canada.

Adapting to changing weather patterns and respecting the environment

As the largest provider of home, car and business insurance in the country, we see the impact of climate change – one of the most significant issues facing Canadians today. The rising temperatures, heavier precipitation and more frequent and severe storms are posing new challenges. Climate change is a reality today and will leave a significant and lasting impression on the environment that we leave behind to our children, grandchildren and future generations. This is why we have collaborated with the University of Waterloo on the Climate Change Adaptation Project. The initiative brings together an esteemed network of more than 80 respected thought leaders. Later this year, after months of research and discussion, these influencers will deliver concrete climate change solutions in the areas of agriculture, biodiversity, city infrastructure, First Nations, freshwater resources and insurance to key decision makers.

In 2011, we undertook a number of environmental initiatives to minimize the impact of our operations. We developed a tool kit for employees to form green teams and collectively promote environmental responsibility in the workplace. Our employees also took a green pledge to reduce their carbon footprint at work. We are also cognizant of our collective footprint in our day-to-day operations and hold ourselves accountable to making environmentally-conscious decisions. During the year, we converted to using FSC-certified paper across our offices, expanded our electronic documents project and modernized our printers to reduce electricity and paper consumption. Last year, we also participated in the Carbon Disclosure Project for the second consecutive year, and our submission indicated that we reduced our greenhouse gas emissions by nearly 10%.

Intact Financial Corporation
Management's Discussion and Analysis
For the year ended December 31, 2011

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February 7, 2012

The following MD&A is the responsibility of management and has been reviewed and approved by the Board of directors for the year ended December 31, 2011. This MD&A is intended to enable the reader to assess our results of operations and financial condition for the three- and twelve-month periods ended December 31, 2011, compared to the same periods in 2010, and as at December 31, 2011 compared to 2010. It should be read in conjunction with our audited Consolidated financial statements and accompanying notes for our fiscal year ended December 31, 2011. All amounts herein are expressed in Canadian dollars.

We use both IFRS and certain non-IFRS measures to assess performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. See Section 16 – *Non-IFRS financial measures* for the definition and reconciliation to the most comparable IFRS measures. Management analyzes performance based on underwriting ratios such as combined, expenses and claims ratios, as well as other performance measures such as NOIPS, ROE, AROE, OROE, AEPS, MCT and debt-to-capital ratio. These measures and other insurance-related terms are defined in our glossary available on our web site at www.intactfc.com in the "Investor Relations" section. Additional information about Intact Financial Corporation, including the Annual Information Form, may be found online on SEDAR at www.sedar.com.

First reporting year under IFRS

The year-ended December 31, 2011 MD&A reflects our adoption of IFRS as issued by the IASB. The comparative figures as at December 31, 2010 and January 1, 2010 and for the three- and twelve-month periods ended December 31, 2010 have been restated to comply with IFRS.

Note 29 – *First-time adoption of IFRS* to the accompanying audited Consolidated financial statements contains a detailed description of our conversion to IFRS, including accounting policies adopted and a line-by-line reconciliation of financial statements previously prepared under Canadian GAAP to those under IFRS for the year ended December 31, 2010 and as at December 31, 2010.

The full-year impact on NOIPS following the adoption of IFRS in 2010 was minimal, at $0.03. EPS and ROE were impacted by a greater amount, increasing by $0.67 and 3.0 percentage points, respectively, when compared to Canadian GAAP. The variance for EPS is attributable to a higher level of realized gains resulting from the retrospective application of impairment rules on AFS equity instruments, including perpetual preferred shares. ROE increased due to these realized gains as well as due to the reduction in shareholders' equity from the transition adjustment related to employee future benefits.

Forward-looking statements

This document contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereafter or in our 2011 Annual Information Form. Please read the cautionary note in Section 17 – *Cautionary note regarding forward-looking statements*.

Certain totals, subtotals and percentages may not agree due to rounding. A change column has been provided for convenience showing the variation between the current period and the prior period. Not applicable (n/a) is used to indicate that the current and prior-year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%. "Intact", the "Company", "IFC", "we" and "our" are terms used throughout the document to refer to Intact Financial Corporation and its subsidiaries.

Important notes:

- All references to DPW in this MD&A exclude industry pools, unless otherwise noted.
- All references to "excess capital" in this MD&A include excess capital in the P&C subsidiaries at 170% minimum capital test plus liquid assets in the holding company, unless otherwise noted.
- Catastrophe claims are any one claim, or group of claims, equal to or greater than $5 million, related to a single event (see Section 6.7 – *Weather conditions* for the new threshold starting January 1, 2012).
- Except if noted otherwise, all underwriting results and related ratios exclude the MYA but include our share of the results of our jointly held insurance operation.

Glossary of abbreviations

This MD&A contains abbreviations which are defined as follows:

AEPS	Adjusted EPS
AFS	Available-for-sale
AMF	Autorité des marchés financiers
AOCI	Accumulated OCI
AROE	Adjusted ROE
DPW	Direct premiums written
EPS	Earnings per share to common shareholders
FVTPL	Fair value through profit and loss
GAAP	Generally accepted accounting principles
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICA	Insurance Companies Act
IFRS	International financial reporting standards
IRR	Internal rate of return
KPI	Key performance indicators
MCT	Minimum capital test
MD&A	Management's discussion and analysis
MYA	Market yield adjustment
NCIB	Normal course issuer bid
NOI	Net operating income
NOIPS	NOI per share
OCI	Other comprehensive income
OROE	Operating ROE
OSFI	Office of the Superintendent of Financial Institutions
P&C	Property and casualty
PfAD	Provision for adverse deviation
ROE	Return on equity
U.S.	United States

SECTION 1 – Profile

1.1 Overview

On September 23, 2011, we acquired AXA Canada Inc. ("AXA Canada"), the 6th largest provider of home, auto and business insurance in the country. The acquisition confirms our leadership position in the Canadian market and will accelerate our efforts toward building a world-class P&C insurer. Since September 23, 2011, our financial results include those of AXA Canada.

We are the largest provider of P&C insurance in Canada with $6.7 billion in DPW (pro forma AXA Canada for a full year in 2011), with an estimated market share of 16.5%. We insure more than five million individuals and businesses through our insurance subsidiaries, and are the largest private sector provider of P&C insurance in British Columbia, Alberta, Ontario, Québec and Nova Scotia. We distribute insurance under the Intact Insurance brand through a wide network of brokers and our wholly-owned subsidiary, BrokerLink. We also distribute insurance direct to consumers through our belairdirect and GP Car and Home brands. We manage our own investment portfolio totalling approximately $11.8 billion.

Performance and execution indicators

Claims ratio	Claims incurred, net of reinsurance, during a specific period and expressed as a percentage of net premiums earned for the same period.
Expense ratio	Underwriting expenses including commissions, premium taxes and all general and administrative expenses incurred in underwriting income during a specific period and expressed as a percentage of net premiums earned for the same period.
Combined ratio	The sum of the claims ratio and the expense ratio. A combined ratio below 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result.

Capital management

Book value per share	Shareholders' equity (excluding preferred shares) divided by the number of outstanding common shares at the same date. Shareholders' equity is determined in accordance with IFRS.
MCT	Minimum capital test, as defined by OSFI.
Debt-to-capital ratio	Total debt outstanding divided by the sum of total shareholders' equity and total debt outstanding, at the same date.

Incentive compensation is based on the comparison of results for DPW growth, combined ratio, NOIPS and ROE defined above against those of the Canadian P&C insurance industry's 20 largest companies. See Section 6 – *Business developments and operating environment* for more details on our performance versus the industry.

SECTION 3 – Overview of our consolidated performance

3.1 Quarterly highlights

– Premium growth of nearly 50%, bolstered by the addition of AXA Canada and a rebound in organic growth
– Net operating income per share of $1.14 in Q4, up 61%, leading to an operating ROE of 15.3%
– Combined ratio of 92.7% on excellent underwriting results across the Company
– Book value per share increased 12% in 2011; quarterly dividend raised 8% to $0.40 per share
– AXA Canada integration on-track

3.2 Consolidated financial results

TABLE 1 – FINANCIAL HIGHLIGHTS

(in millions of dollars, except as otherwise noted)	Q4-2011	Q4-2010	Change	2011	2010	Change
Selected highlights						
DPW	**1,576**	1,060	49%	**5,099**	4,498	13%
Net underwriting income (table 4)	**118**	21	462%	**273**	193	41%
Combined ratio	**92.7%**	98.0%	(5.3) pts	**94.4%**	95.4%	(1.0) pts
Net investment income (table 9)	**103**	71	45%	**326**	294	11%
Integration and restructuring costs	**42**	–	n/a	**71**	–	n/a
Change in fair value of contingent consideration	**41**	–	n/a	**41**	–	n/a
Finance costs	**15**	7	114%	**41**	28	46%
Net income before income tax expense (table 10)	**116**	136	(15)%	**594**	637	(7)%
Income tax expense	**40**	29	38%	**137**	139	(1)%
Effective income tax rate	**34.3%**	21.7%	12.6 pts	**23.1%**	22.0%	1.1 pts
Net income from continuing operations	**76**	107	(29)%	**457**	498	(8)%
Net income from discontinued operations	**8**	–	n/a	**8**	–	n/a
Net income	**84**	107	(21)%	**465**	498	(7)%
Preferred shares dividends	**(5)**	–	n/a	**(8)**	–	n/a
Net income attributable to common shareholders	**79**	107	(26)%	**457**	498	(8)%
EPS – basic and diluted (in dollars)	**0.62**	0.95	(35)%	**3.96**	4.32	(8)%
AEPS – basic and diluted (in dollars)[1]	**1.14**	0.96	19%	**4.82**	4.38	10%
NOI (table 2)[1]	**152**	80	90%	**460**	402	14%
NOIPS (in dollars)[1]	**1.14**	0.71	61%	**3.91**	3.49	12%
ROE for the last 12 months[2]	**14.3%**	16.9%	(2.6) pts			
AROE for the last 12 months[1,2]	**17.4%**	17.2%	0.2 pts			
OROE for the last 12 months[1,2]	**15.3%**	15.1%	0.2 pts			
Book value per share (in dollars)	**29.73**	26.47	12%			

1 Refer to Section 16 – *Non-IFRS financial measures*.
2 In 2011, the average shareholders' equity calculation has been adjusted on a pro rata basis to account for the $921 million of common shares issued as at September 23, 2011.

Fourth quarter 2011

DPW growth of 49% reflects the addition of AXA Canada (approximately 45 points) and a rebound in our organic growth from 2% in Q3-2011 to an estimated 4% in the fourth quarter. Our organic growth benefited from a recovery in the performance of our direct auto business, from growth of -4% in Q3 to 4% in Q4.

We reported an excellent underwriting performance in Q4-2011 with a combined ratio of 92.7%, 5.3 points improved versus Q4-2010, due to a 9.7 point improvement in personal auto. Catastrophe losses of $32 million are considered a "normal" level, given the Company's larger size following the acquisition of AXA Canada, while favourable prior-year claims development of 2.8% of opening reserves was below our historical range of 3%-4%. The underlying current year loss ratio (excluding catastrophes and prior-year claims development) improved 8.3 points year-over-year.

Net investment income of $103 million in the fourth quarter was up 45% from a year ago as a result of the additional investments related to the AXA Canada acquisition. Aside from these additional assets, declining yields continue to offset the underlying growth in our portfolio of investments; the market-based yield of 3.9% was down from 4.1% in Q4-2010. Investments amounted to $11.8 billion, up $3.2 billion from one year ago.

The agreement for the acquisition of AXA Canada includes a contingent consideration which requires us to pay up to an additional $100 million to AXA SA based on the development of the consolidated reserves of AXA Canada as at December 31, 2010. During the fourth quarter of 2011 we determined that, based on development of AXA Canada's reserves prior to September 23, 2011, the fair value of the contingent consideration as at September 23, 2011 was $48 million. That contingent consideration was recorded as an increase in goodwill and a payable to AXA SA.

As at December 31, 2011, the fair value of the contingent consideration was reassessed to be $89 million. The increase in value of $41 million was recorded as a non-operating expense. Any future amounts payable, up to an additional $11 million, will also be recorded in a similar manner. This expense is not deductible for tax purposes and results in a higher effective tax rate for the quarter.

We ended 2011 in a solid financial position, with an estimated MCT of 197%, $435 million in excess capital, and a book value per share of $29.73, 12% higher than a year ago. The five point reduction in MCT from the third quarter mainly reflects the impact of the change in fair value of the contingent consideration and the impact of integration and restructuring costs. At an estimated 197%, our MCT remains well above our minimum target, and is appropriate given potential headwinds from volatility in equity markets and interest rates.

Full year 2011

DPW increased 13% versus 2010, reflecting the inclusion of the acquired AXA Canada business in the fourth quarter. Organic growth of 3% was somewhat muted in 2011, particularly in personal auto (up 1%), from the slower growth in our direct businesses during the first nine months of the year.

Net underwriting income increased $80 million in 2011, with a combined ratio of 94.4%, versus 95.4% in 2010. The change was driven by improved current year results in our personal auto business. This offset a significant increase in catastrophe losses, which grew from $95 million in 2010 to $208 million in 2011, attributable to the Slave Lake wildfires, Tropical Storm Irene and a number of other severe storms. The underlying current year loss ratio (excluding catastrophes and prior-year claims development) improved 3.5 points versus 2010.

Net investment income was $326 million, 11% higher than 2010 primarily from the acquisition of AXA Canada. The market-based yield declined 20 basis points versus 2010 to 4.0%; down as a result of declining interest rates and a higher proportion of fixed-income securities following the inclusion of AXA Canada's portfolio.

Discontinued operations

Net income from discontinued operations relates to AXA Life Insurance Inc. ("AXA Life"), which was acquired as part of the acquisition of AXA Canada. The subsequent sale of AXA Life to SSQ, Life Insurance Company Inc. was completed on January 1, 2012 for proceeds of $300 million. During the fourth quarter, net income of $8 million was reported for AXA Life. This net income from discontinued operations does not impact NOIPS nor AEPS, but does positively impact EPS and book value per share measures.

SECTION 4 – Operating results

4.1 Net operating income

The details of NOI and related indicators are as follows:

TABLE 2 – COMPONENTS OF NOI

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Net underwriting income (table 4)	**118**	21	462%	**273**	193	41%
Net investment income (table 9)	**103**	71	45%	**326**	294	11%
Other income (expense), net[1]	**(11)**	4	(375)%	**(3)**	13	(123)%
Pre-tax operating income (table 3)	**210**	96	119%	**596**	500	19%
Tax impact	**(58)**	(16)	263%	**(136)**	(98)	39%
NOI[2]	**152**	80	90%	**460**	402	14%
Preferred share dividends	**(5)**	–	n/a	**(8)**	–	n/a
NOI to common shareholders	**147**	80	84%	**452**	402	12%
Weighted-average number of common shares (millions)	**130**	113	17	**115**	115	–
NOIPS (in dollars)[2]	**1.14**	0.71	61%	**3.91**	3.49	12%

1 Includes corporate and distribution income.
2 Refer to Section 16 – *Non-IFRS financial measures*.

Changes in pre-tax operating income can be further analyzed as follows:

TABLE 3 – CHANGES IN PRE-TAX OPERATING INCOME (YEAR-OVER-YEAR)

(in millions of dollars)	Q4-2011	2011
Pre-tax operating income, as reported in 2010 (IFRS adjusted)[1]	**96**	**500**
Changes in net underwriting income:		
Change in favourable prior-year claims development	**(15)**	**30**
Other changes in net underwriting income	**118**	**163**
Change in catastrophe losses	**(6)**	**(113)**
Total change in net underwriting income	**97**	**80**
Change in net investment income	**32**	**32**
Change in other income, net	**(15)**	**(16)**
Total change in pre-tax operating income	**114**	**96**
Pre-tax operating income, as reported in 2011[1]	**210**	**596**

1 Refer to Section 16 – *Non-IFRS financial measures*.

4.2 Underwriting results

TABLE 4 – COMPONENTS OF UNDERWRITING RESULTS

(in millions of dollars, except as otherwise noted)	Q4-2011	Q4-2010	Change	2011	2010	Change
Net premiums earned	**1,616**	1,091	48%	**4,880**	4,231	15%
Net claims:						
Current year claims (excluding catastrophes)	**1,009**	773	31%	**3,133**	2,864	9%
Current year loss ratio	***62.5%***	*70.8%*	*(8.3) pts*	***64.2%***	*67.7%*	*(3.5) pts*
Current year catastrophes	**32**	26	23%	**208**	95	119%
(Favourable) prior-year claims development	**(38)**	(53)	(28)%	**(223)**	(193)	16%
Total net claims	**1,003**	746	34%	**3,118**	2,766	13%
Claims ratio	***62.0%***	*68.3%*	*(6.3) pts*	***63.9%***	*65.4%*	*(1.5) pts*
Commissions, premium taxes, general expenses	**495**	324	53%	**1,489**	1,272	17%
Expense ratio	***30.7%***	*29.7%*	*1.0 pts*	***30.5%***	*30.0%*	*0.5 pts*
Net underwriting income	**118**	21	462%	**273**	193	41%
Combined ratio	***92.7%***	*98.0%*	*(5.3) pts*	***94.4%***	*95.4%*	*(1.0) pts*

Fourth quarter 2011

Net underwriting income of $118 million in Q4-2011 was up $97 million from the same period of 2010. The increase was due to the substantial growth in underwriting income from the addition of AXA Canada, which helped generate an impressive 8.3 point improvement in the current year loss ratio, driven by improved results from our personal lines businesses. Losses from catastrophes, primarily relating to a severe wind storm in Calgary during the quarter, amounted to $32 million.

Favourable prior-year claims development, at 2.8% of opening reserves on an annualized basis, was less than the 5.3% recorded in Q4-2010 and slightly below our historical level of 3%-4%. Reserves related to Ontario auto reflect the impact of a recent court decision related to the stacking of physical and psychological impairments when determining catastrophic injuries. We also continue to maintain reserves at a level consistent with the uncertainty of the potential outcomes in the mediation process.

The expense ratio increased by one point in the fourth quarter versus Q4-2010, as increased commission expenses from a combination of higher profitability and the shift in our business mix following the acquisition of AXA Canada more than offset a decline in general expenses.

Full year 2011

The strong underwriting performance in the fourth quarter drove an $80 million improvement in net underwriting income versus 2010. Net premiums earned were up 15% in 2011, largely due to the acquisition of AXA Canada. The current year loss ratio was 3.5 points improved from the same period of 2010, largely driven by improved results from our auto businesses. Favourable prior-year claims development, at 4.9% of opening reserves on an annualized basis, was in line with 2010 and above our historical level.

The improved net underwriting income was generated despite significant losses from catastrophes, including Slave Lake, Tropical Storm Irene and numerous wind and water events during the year, amounting to $208 million, and a 50 basis point increase in the expense ratio, from higher commissions, marketing initiatives and staff-related expenses.

4.3 Underwriting results by lines of business – personal lines

We are the largest personal auto and property insurer in Canada. We hold the number one position in both segments of personal insurance, with an estimated market share of 18% in both automobile and property. The market as a whole is fragmented – the top five P&C insurers represent slightly more than 40% of annual premiums written in Canada.

TABLE 5 – UNDERWRITING RESULTS FOR PERSONAL LINES

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
DPW						
Automobile	**664**	494	34%	**2,419**	2,236	8%
Property	**363**	257	41%	**1,208**	1,072	13%
Total	**1,027**	751	37%	**3,627**	3,308	10%
Written insured risks (thousands)						
Automobile	**778**	542	44%	**2,723**	2,475	10%
Property	**522**	380	38%	**1,742**	1,614	8%
Total	**1,300**	922	41%	**4,465**	4,089	9%
Net premiums earned						
Automobile	**754**	556	36%	**2,406**	2,157	12%
Property	**364**	255	43%	**1,129**	982	15%
Total	**1,118**	811	38%	**3,535**	3,139	13%
Net underwriting income (loss)						
Automobile	**52**	(18)	389%	**219**	41	434%
Property	**41**	21	95%	**(40)**	35	(214)%
Total	**93**	3	n/a	**179**	76	136%

TABLE 6 – UNDERWRITING RATIOS FOR PERSONAL LINES

	Q4-2011	Q4-2010	Change	2011	2010	Change
Personal auto						
Claims ratio	**68.2%**	78.4%	(10.2) pts	**65.8%**	73.0%	(7.2) pts
Expense ratio	**25.1%**	24.6%	0.5 pts	**25.1%**	25.1%	–
Combined ratio	**93.3%**	103.0%	(9.7) pts	**90.9%**	98.1%	(7.2) pts
Personal property						
Claims ratio	**53.6%**	57.4%	(3.8) pts	**68.4%**	61.7%	6.7 pts
Expense ratio	**35.0%**	34.3%	0.7 pts	**35.1%**	34.8%	0.3 pts
Combined ratio	**88.6%**	91.7%	(3.1) pts	**103.5%**	96.5%	7.0 pts
Personal lines – total						
Claims ratio	**63.4%**	71.8%	(8.4) pts	**66.6%**	69.4%	(2.8) pts
Expense ratio	**28.3%**	27.6%	0.7 pts	**28.4%**	28.1%	0.3 pts
Combined ratio	**91.7%**	99.4%	(7.7) pts	**95.0%**	97.5%	(2.5) pts

TABLE 8 – UNDERWRITING RATIOS FOR COMMERCIAL LINES

	Q4-2011	Q4-2010	Change	2011	2010	Change
Commercial auto						
Claims ratio	**63.2%**	64.5%	(1.3) pts	**56.7%**	56.1%	0.6 pts
Expense ratio	**29.8%**	29.4%	0.4 pts	**29.8%**	29.9%	(0.1) pts
Combined ratio	**93.0%**	93.9%	(0.9) pts	**86.5%**	86.0%	0.5 pts
Commercial P&C						
Claims ratio	**57.5%**	55.4%	2.1 pts	**56.7%**	52.6%	4.1 pts
Expense ratio	**38.2%**	38.4%	(0.2) pts	**38.9%**	38.1%	0.8 pts
Combined ratio	**95.7%**	93.8%	1.9 pts	**95.6%**	90.7%	4.9 pts
Commercial lines – total						
Claims ratio	**59.0%**	58.1%	0.9 pts	**56.7%**	53.6%	3.1 pts
Expense ratio	**36.0%**	35.7%	0.3 pts	**36.3%**	35.7%	0.6 pts
Combined ratio	**95.0%**	93.8%	1.2 pts	**93.0%**	89.3%	3.7 pts

Fourth quarter 2011

DPW growth in commercial auto reached 53% versus Q4-2010, reflecting the addition of AXA Canada. The combined ratio at 93.0% was slightly improved from last year's 93.9% on lower current accident year results. The underlying current year loss ratio (excluding catastrophes and prior-year claims development) was better by 2.2 points year-over-year.

The inclusion of AXA Canada's business drove an 87% jump in commercial P&C DPW in the fourth quarter. The combined ratio increased from 93.8% to 95.7% as a result of lower favourable prior-year claims development, coupled with higher catastrophe losses (including a non-weather related fire loss). The underlying current year loss ratio (excluding catastrophes and prior-year claims development) was better by 2.6 points year-over-year.

Full year 2011

Overall, the inclusion of the acquired AXA Canada business in the fourth quarter led to a 24% increase in commercial lines' DPW in 2011 with an 18% increase in written insured risks.

The very robust 2011 underwriting performance in commercial auto, with a combined ratio of 86.5%, is largely in line with last year as the drop in current year results was partially offset by higher favourable prior-year claims development. In commercial P&C, underwriting results were less strong than in 2010, with a combined ratio of 95.6% as higher favourable prior-year claims development was more than offset by the combination of higher catastrophe losses and weaker current accident year results. The underlying 2011 current year loss ratio (excluding catastrophes and prior-year claims development) deteriorated by 1.7 points year-over-year.

4.5 Investment income

As at December 31, 2011, all investments of the Company, including the additional investments from the AXA Canada acquisition, are managed internally by IFC's subsidiary, Intact Investment Management Inc. ("IIM"). The asset mix is designed to maximize interest and dividend income while ensuring an optimal mix of risk and return. Assets are managed according to an investment policy and a significant portion of our portfolio is invested in fixed-income securities. In order to maximize dividend income, we also actively invest in common shares of large-cap companies that pay dividends and preferred shares.

TABLE 9 – INVESTMENT INCOME

(in millions of dollars, except as otherwise noted)	Q4-2011	Q4-2010	Change	2011	2010	Change
Interest income	**75**	46	63%	**221**	190	16%
Dividend income	**36**	32	13%	**131**	126	4%
Investment income, before expenses	**111**	78	42%	**352**	316	11%
Expenses	**(8)**	(7)	14%	**(26)**	(22)	18%
Net investment income	**103**	71	45%	**326**	294	11%
Average investments[1]	**10,881**	7,868	38%	**8,887**	7,648	16%
Market-based yield[2]	**3.9%**	4.1%	(0.2) pts	**4.0%**	4.2%	(0.2) pts

1 Defined as the mid-month average fair value of equity and fixed-income securities held during the reporting period.
2 Refer to Section 16 – *Non-IFRS financial measures*.

Fourth quarter 2011

Net investment income of $103 million in the fourth quarter was up 45% from a year ago as a result of the additional investments related to the AXA Canada acquisition, as reflected in the level of average investments. Aside from these additional assets, declining yields continue to offset the underlying growth in our portfolio of investments; the market-based yield of 3.9% was down from 4.1% in Q4-2010.

Full year 2011

Net investment income was $326 million, 11% higher than 2010 primarily from the acquisition of AXA Canada. The market-based yield declined 20 basis points versus 2010 to 4.0%; down as a result of declining interest rates, fewer preferred shares and a higher proportion of fixed-income securities after including AXA Canada's portfolio.

Our increased level of assets under management will contribute to improve our net investment income. We also expect that the increased asset base will lead to investment expenses efficiencies in 2012. However, assuming rates remain at current levels, we expect our market-based yield to continue to decrease as securities are reinvested in lower yielding assets.

SECTION 5 – Non operating results

Non operating results include net investment gains and losses excluding FVTPL fixed-income securities, market yield effect, amortization of intangible assets recognized in business combinations and non-recurring charges (i.e. integration and restructuring costs and change in fair value of contingent consideration), all on a pre-tax basis. These costs are not representative of our operating performance because they relate to special items, bear significant volatility from one period to the other, or because they are not part of our normal activities. As a result, these costs are excluded from the measurement of NOI and related measures.

5.1 Net income before income tax expense

A summary of changes in net income before income tax expense is as follows:

TABLE 10 – CHANGES IN NET INCOME BEFORE INCOME TAX EXPENSE (YEAR-OVER-YEAR)

(in millions of dollars)	Q4-2011	2011
Net income before income tax expense, as reported in 2010 (IFRS adjusted)	**136**	**637**
Operating results		
Change in pre-tax operating income (table 3)	**114**	**96**
Non-operating results		
Change in net investment gains (losses) excluding FVTPL fixed-income securities (table 11)	**(56)**	**(21)**
Change in market yield effect (table 12)	**7**	**(2)**
Change in amortization of intangible assets recognized in business combinations	**(2)**	**(4)**
Change in integration and restructuring costs	**(42)**	**(71)**
Change in fair value of contingent consideration	**(41)**	**(41)**
Net income before income tax expense, as reported in 2011	**116**	**594**
Income tax expense	**(40)**	**(137)**
Net income from continuing operations	**76**	**457**
Net income from discontinued operations	**8**	**8**
Net income	**84**	**465**
Preferred share dividends	**(5)**	**(8)**
Net income attributable to common shareholders	**79**	**457**
Weighted-average number of common shares (millions)	**130**	**115**
Net income attributable to common shareholders per share (in dollars)	**0.62**	**3.96**

Fourth quarter 2011

The substantial increase in underwriting and net investment income led to a $114-million improvement in pre-tax operating income in Q4-2011. This was offset by $42-million of integration and restructuring costs, a $41-million change in fair value of contingent consideration and a $56-million drop in net investment gains.

Full year 2011

Net income before income tax expense declined by $43 million in 2011 versus 2010, as higher pre-tax operating income was offset by $71 million in integration and restructuring costs, a $41-million change in fair value of contingent consideration and a $21-million decline in net investment gains (as discussed in Section 5.2 – *Net investment gains (losses)*).

5.2 Net investment gains (losses)

TABLE 11 – NET INVESTMENT GAINS (LOSSES)

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Debt securities						
Gains on AFS securities	**12**	6	6	**26**	27	(1)
Gains (losses) on derivatives	**(19)**	5	(24)	**(34)**	4	(38)
Impairment reversal	**–**	1	(1)	**–**	1	(1)
Gains (losses) on fixed-income securities and related derivatives	**(7)**	12	(19)	**(8)**	32	(40)
Equity securities						
Gains, net of stand-alone derivatives	**37**	55	(18)	**215**	151	64
Impairment losses	**(30)**	(6)	(24)	**(65)**	(14)	(51)
Losses on embedded derivatives	**(6)**	(11)	5	**(2)**	(8)	6
Gains on equity securities and related derivatives	**1**	38	(37)	**148**	129	19
Total gains (losses) excluding FVTPL fixed-income securities	**(6)**	50	(56)	**140**	161	(21)
Gains (losses) on FVTPL fixed-income securities[1]	**(1)**	(37)	36	**64**	21	43
Net investment gains (losses)	**(7)**	13	(20)	**204**	182	22

1 These gains (losses) on FVTPL fixed-income securities are offset by a MYA, with an objective of a minimal impact to net income. The difference between the MYA and the gains (losses) on fixed-income securities is referred to as the 'market yield effects' in this MD&A. See table 12.

Net investment losses (excluding FVTPL fixed-income securities) of $6 million compare to gains of $50 million in Q4-2010, as $30 million in equity impairments offset gains on equity securities and brokerage investments.

5.3 Market yield effect

Claims liabilities are discounted at the estimated market yield of the assets backing these liabilities. The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets is referred to as MYA. The MYA to claims liabilities is offset by gains and losses on FVTPL fixed-income securities with the objective that these items offset each other with a minimal overall impact to income. The difference between the MYA and the gains and losses on FVTPL fixed-income securities is referred to as the "market yield effect" in this MD&A.

The process of matching the weighted-dollar duration of the claims liabilities to assets classified as FVTPL works well under normal conditions. However, market fluctuations, changes in yield curve, trading and changes in asset mix can result in a positive or negative market yield effect.

TABLE 12 – MARKET YIELD EFFECT

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Negative impact of MYA on underwriting	**–**	29	(29)	**(81)**	(36)	(45)
Gains (losses) on FVTPL fixed-income securities	**(1)**	(37)	36	**64**	21	43
Market yield effect	**(1)**	(8)	7	**(17)**	(15)	(2)

5.4 Integration and restructuring costs

In connection with the acquisition of AXA Canada, we established an integration plan directed at integrating the acquired business with our own business and capturing cost synergies across the combined entities, including shared services and corporate functions.

Integration and restructuring costs are included in net income and include amounts related to system conversions, severance and other employee-related charges as well as other integration amounts, such as consulting fees and marketing costs related to customer communications and rebranding activities. We recorded $42 million and $71 million of such expenses in the fourth quarter and full year 2011 respectively. We estimate that nearly half of our ultimate level of integration and restructuring costs were recorded in 2011 and expect the majority of future expenses to occur in 2012.

SECTION 6 – Business developments and operating environment

6.1 AXA Canada acquisition

On September 23, 2011, we completed the acquisition of AXA Canada. The total consideration amounted to $2.6 billion plus a contingent consideration of up to $100 million. The completion of this transaction represents a defining milestone in our history. Consistent with our strategy, this acquisition has strengthened our product offerings, improved our capabilities to support insurance brokers, expanded our distribution platform, reinforced competencies in risk selection and deepened the quality of our management team.

With the acquisition, we have enhanced our leading position in Canada by increasing our market share to approximately 16.5% and our DPW to $6.7 billion (pro forma AXA Canada for a full year in 2011). We have solidified our top market positions in Alberta, Ontario, Québec and Nova Scotia and expanded our presence in British Columbia, New Brunswick and Newfoundland. It is expected that the acquisition will ultimately allow us to expand our growth potential, solidify our industry outperformance and, through greater product and geographic diversification, increase the stability of our earnings.

We estimate an IRR from the acquisition – our primary metric when measuring potential targets – of at least 20%. In order to fully reap the benefits of the acquisition, we remain committed to the following five objectives:

1. Create one team with common values.
2. Grow current and acquired portfolios.
3. Ensure that the acquisition is accretive to NOIPS in 2012, and up to 15% in the mid-term.
4. Complete the integration within 18 months of closing.
5. Achieve $100 million of after-tax synergies from a combination of systems-related cost savings, external loss adjustment expense reductions, shared services savings and operational and claims efficiencies.

Ensuring that the AXA Canada customers embrace our offer has been among the top goals we have had as a company since announcing the acquisition in late May of last year. To improve the attractiveness of our offer and ease their transition to Intact, we established and have executed a plan consisting of the following:

- Ensure our track record of top-notch service is maintained.
- Establish a management team for the Company comprised of top talent from both IFC and AXA Canada.
- Maintain the vast majority of AXA Canada front-line staff with broker relationships.
- Add a conversion team of more than 200 individuals to maintain high quality service and accelerate integration efforts.
- Manage rate dislocation for AXA Canada renewals.

The initial response has been favourable. However, we remain in the early stage of the integration and the fourth quarter did not provide enough information to determine an ongoing success rate.

We maintain our $100 million after-tax synergies target and expect to reach this run-rate progressively by the second half of 2013; including a $18-million run rate at the end of 2011 and a target of $50 million by the end of 2012. In addition, we continue to believe further opportunities for benefits exist in the mid-term related to segmentation and additional supply chain benefits.

Integration and restructuring costs typically occur earlier in the integration process than synergies, as they are often required to enable the generation of synergies. During the fourth quarter we recorded $42 million of such expenses, bringing the full year 2011 level to $71 million. The Q4 level was below our previous guidance, but our overall view of integration and restructuring costs has not changed.

We have increased our catastrophe reinsurance coverage to bring the combined entity's coverage back up to our standard. The additional cost of catastrophe reinsurance coverage for the combined organization in 2012 is approximately $30 million, half of which relates to the integration of AXA Canada. We continue to expect short-term supply chain benefits to offset the $15 million increase in AXA-related reinsurance premiums.

6.2 Sale of AXA Life

On January 1, 2012, we completed the sale of AXA Canada's life insurance business to SSQ, Life Insurance Company Inc. for proceeds of $300 million. There was no gain or loss on the transaction as the sale proceeds correspond to the net value recorded on the Company's Consolidated balance sheet for this business. Most of the proceeds from the sale are expected to be applied to reduce debt outstanding.

6.3 Canadian P&C insurance industry results – YTD Q3-2011 comparison

The Canadian P&C insurance results for YTD Q3-2011 are available. Highlights are as follows:

TABLE 13 – CANADIAN P&C INSURANCE RESULTS

	P&C industry[1]	Top 20 Benchmark[2]	IFC
DPW growth	4.0%	4.1%	2.6%
Combined ratio[3]	100.9%	101.7%	98.0%
ROE (YTD annualized)	7.4%	6.8%	19.1%

Industry data source: MSA Research Inc.
1 Excludes Lloyd's, ICBC, SGI, SAF, MPI and Genworth.
2 Excludes Lloyd's, Genworth, AXA Canada and IFC.
3 Combined ratio includes MYA .

We continued to outperform the Canadian P&C insurance industry's 20 largest companies ("Top 20 Benchmark") through the first three quarters of 2011. While our DPW growth was below the Top 20 Benchmark, we delivered a combined ratio 3.7 percentage points better than the Top 20 Benchmark during the first nine months of 2011. The combination of superior underwriting results, investment results and capital management led to an ROE outperformance of 12.3 percentage points versus our industry Top 20 Benchmark, despite having over $758 million of excess capital, prior to the close of the AXA Canada acquisition in late September.

6.4 Ontario auto

In September of 2010, the Ontario government's auto reforms were implemented, offering greater choice for consumers while creating a more stable cost environment. The reforms also directly targeted abuse and fraud in the auto insurance system, which increase costs and lead to higher premiums. As time elapsed following implementation, the initial encouraging signs gained credibility, and resulted in performance improvements for that line of business.

Apart from the government reforms, we have taken actions to combat fraud and abuse in the system:

- We introduced a number of claims initiatives that were aimed at combating fraud and abuse.
- We tightened our acceptance processes for assessments and treatment plans and introduced a centralized payment team.
- We created a special handling and investigations unit for fraudulent cases and have made a number of improvements to our systems to be able to better track and manage the claim costs.

We remain positive that the benefits from the Ontario auto reforms and our actions will materialize as previously outlined, but remain prudent and disciplined in this market for the following reasons:

- The reforms became effective in September of 2010 and since that time approximately 20% of our open claims are disputed through mediation. At the industry level, a significant mediation backlog of about one year currently exists. The size of this backlog maintains a fair level of uncertainty with respect to the interpretation of the new regulations implemented through the reforms.
- A recent court decision has allowed the stacking of physical and psychological impairments when determining catastrophic injuries.

According to industry results, the loss ratio in Ontario auto for year to date Q3-2011, excluding IFC and AXA Canada, was 84.0%, improved from 99.1% in the first nine months of 2010, aided by continued rate increases and as the benefits from auto reforms began to take hold. In the fourth quarter of 2011, the Financial Services Commission of Ontario ("FSCO") approved rate increases of 0.8% (46% of companies filed a request with an average increase of 1.8%). In total, industry rate increases have amounted to 7.2% since September 2010, despite the beneficial impact of the reforms.

6.5 Capital markets

The Canadian equity market improved marginally in the fourth quarter, following two consecutive quarters of decline, as the S&P/TSX Index rose 2.8% while the preferred share index increased 1.1%. For the full year, the S&P/TSX Index declined 11.1% whereas the preferred share index was relatively flat, up 0.4%. Movements in our equity investment values are generally in line with the equity markets' performance, although our exposures to individual sectors may be different. The continued fall in interest rates was largely offset by the widening of corporate bond spreads during the fourth quarter. As such, the improvement in our pre-tax unrealized gain position was primarily attributable to an improvement in equity markets. Tables 11, 23 and 24 provide detailed information on the net investment gains (losses), and unrealized gains (losses) of our investment portfolio.

6.6 Industry pools

Industry pools consist of the "residual market" (or Facility Association) as well as risk-sharing pools ("RSP") in Alberta, Ontario, Québec, generally /CREOodv oo180 dnTjETTjEMC /CREOoREO7afC /CREOo266 BMC ltC/Ctu87260 BMC /CS

SECTION 7 – Strategy and outlook

7.1 Canadian P&C insurance industry 12-month outlook

We are well-positioned to continue outperforming the P&C insurance industry in the current environment due to our pricing and underwriting discipline, claims management capabilities, as well as our prudent investment and capital management practices.

Our two primary objectives are to outperform the industry ROE by at least 500 basis points every year, and to grow our NOIPS by 10% per year over time.

	P&C insurance industry	Our strategy
Pricing and claims environment (12-month outlook)	• Industry premiums are likely to increase at a similar rate as in 2011, with mid single digit growth in personal auto (driven by Ontario), upper single digit growth in personal property (reflecting the impact of water related losses and more frequent and/or severe storms) and low single digit growth in commercial lines. • Loss ratio improvement is expected from personal auto (from rate increases, and as Ontario reforms bring the anticipated cost savings and are effective at slowing claims inflation) and personal property (as a result of the benefit from continued premium increases). • We do not anticipate loss ratio improvement in commercial lines, but expect pricing conditions to improve at a moderate pace over time, following several years of soft industry pricing. • Reinsurance market conditions will likely support firmer premium levels.	• We maintain our disciplined pricing strategy while capitalizing on our strong position to grow organically in the prevailing market conditions. • We restarted our growth efforts in mid-2011 in the Ontario auto market as the results of the reforms unfolded in a positive manner and our efforts to curb fraud and abuse proved successful. • In home insurance, we maintain our focus on the actions already taken, and continue to monitor and adapt to the increasing level of severe weather occurrences, to create a sustainable competitive advantage. • In commercial lines, we intend to build on our 7-point historical loss ratio advantage, and to accelerate our penetration in small to mid-sized businesses. The addition of AXA Canada has bolstered our product offering and enables us to meaningfully grow in the mid-sized segment.
Capital markets	• Recent economic data and comments from the Bank of Canada lead us to believe that interest rates, which are currently very low, might remain low for the foreseeable future. As a result, we estimate that the industry's pre-tax investment yield will decline 50–75 basis points, given its asset mix and duration, which could support firmer conditions in pricing. • Capital markets remain volatile, as economic data (particularly outside of Canada) raise questions about the sustainability of the global recovery. Industry capital levels could be negatively impacted if volatility results in downward pressure on market values. • Global capital requirements are evolving quickly and generally becoming more stringent. This is also true in Canada where OSFI recently published 2012 MCT guidelines which could reduce industry capital ratios.	• We maintain a solid financial position with $435 million in excess capital and a debt-to-capital ratio of 22.9% as at the end of Q4-2011. We intend to allocate the majority of the $300-million proceeds from the sale of AXA Canada's life insurance business towards the term loan facility used to partially finance the acquisition. As a result, our debt-to-capital ratio is expected to be back in line with our target of 20% early in 2012. • Our $11.8-billion cash and investment portfolio is largely Canadian dollar-denominated with minimal foreign exposure (European Government debt and U.S. debt market represent less than 5% of total portfolio). • We expect our market-based yield to continue to decline, offsetting the growth in our investment portfolio. Investment income will be affected accordingly. • We expect the new MCT guidelines to be capital neutral in 2012, but slightly negative in 2013, based on the current composition of our investment portfolio.
Overall	• The industry's ROE was approximately 7% in both 2010 and through nine months of 2011. Although the combined ratio may improve modestly, we believe this would in large part be offset by a reduction in the level of investment income. Consequently, we do not expect material improvement in ROEs in the near term.	• We strongly believe we are likely to outperform the industry's ROE by at least 500 basis points in the next 12 months, due to the following: – Our outperformance was nearly 1,200 basis points through nine months of 2011. – We expect to maintain a combined ratio advantage, due to continued robust action plans across all lines of business and the addition of AXA Canada.

7.2 Critical capabilities

We have several critical capabilities which have enabled us to sustain a performance advantage over other P&C insurers in Canada. These critical capabilities are described in the table below:

Scale	The key benefit of scale is our large database of customer and claims information that enables us to identify trends in claims and more accurately model the risk of each policy. We also use our scale to negotiate preferred terms with suppliers, priority service on repairs, quality guarantees on workmanship and lower material costs.
Sophisticated pricing and underwriting	We have superior underwriting expertise and proprietary segmentation models used to price risks. These models are continuously being refined to create a pricing advantage over competitors and identify certain segments of the market that are more profitable than others. Our objective is to establish pricing that will continue to both attract new clients and maintain existing clients with profitable profiles.
In-house claim expertise	Substantially all of our claims are handled in-house. By managing claims in-house, claims are settled faster and less expensively, and a more consistent service experience is created for the customer.
Broker relationships	The broker channel represents approximately 80% of annual DPW. We have more than 2,000 broker relationships across Canada for customers that prefer the highly-personalized, community-based service that insurance brokers provide. We provide a variety of services including technology, sales training and financing to brokers to enable them to continue to grow and expand their businesses.
Multi-channel distribution	We have a multi-channel distribution strategy including broker and direct-to-consumer brands. This strategy maximizes growth in the market and enables us to appeal to different customer preferences and to be more responsive to consumer trends.
Proven industry consolidator	We are a proven industry consolidator with 12 successful acquisitions since 1988, the most recent being AXA Canada. Our strategy is to target large-scale acquisitions of $500 million or more in DPW and to pursue acquisitions in lines of business where we have an expertise. Our acquisition targets are to achieve an internal rate of return of at least 15%, to bring the loss ratio of the acquired book of business to our average loss ratio and to bring the expense ratio to two points below our ratio, within 18 to 24 months.
Strong expertise in investment portfolio management	Over the years, we have built a strong expertise in investment management. In-house management provides greater flexibility in support of our insurance operations at competitive costs. In establishing our asset allocation, we consider a variety of factors including prospective risk and return of various asset classes, the duration of claim obligations, the risk of underwriting activities and the capital supporting our business. Our primary investment objective is to generate consistent after-tax income while minimizing the potential for extremely large losses. We focus mostly on Canadian income products while preserving capital, diversifying risk and considering capital requirements in evaluating the attractiveness of different investment alternatives.

SECTION 8 – Financial condition

8.1 IFRS Condensed balance sheet

The table below shows the significant audited Consolidated balance sheet captions:

TABLE 15 – BALANCE SHEET

(in millions of dollars)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010	Additions from AXA Canada acquisition as at September 23, 2011
Investments				
Cash and cash equivalents	**206**	138	60	**75**
Debt securities	**7,887**	4,821	4,784	**3,076**
Preferred shares	**1,281**	1,503	1,582	**214**
Common shares	**2,051**	1,877	1,312	**121**
Loans	**403**	314	319	**79**
Total investments	**11,828**	8,653	8,057	**3,565**
Assets classified as held for sale	**1,631**	–	–	**1,459**
Premiums receivables	**2,487**	1,762	1,640	**679**
Deferred acquisition costs	**652**	420	396	**211**
Reinsurance assets	**410**	235	261	**131**
Intangible assets and goodwill	**1,862**	381	338	**1,470**
Other assets	**883**	624	619	**266**
Total assets	**19,753**	12,075	11,311	**7,781**
Liabilities classified as held for sale	**1,330**	–	–	**1,170**
Claims liabilities	**6,886**	4,379	4,270	**2,193**
Unearned premiums	**3,790**	2,586	2,464	**1,148**
Financial liabilities related to investments	**532**	715	406	**40**
Other liabilities	**1,581**	930	856	**561**
Debt outstanding	**1,293**	496	398	**–**
Total liabilities	**15,412**	9,106	8,394	**5,112**
Share capital and contributed surplus	**2,493**	1,089	1,144	
Retained earnings	**1,642**	1,565	1,527	
AOCI	**206**	315	246	
Shareholders' equity	**4,341**	2,969	2,917	
Book value per common share (dollars)	**29.73**	26.47	24.33	

Total assets increased to $19.8 billion as at December 31, 2011, from $12.1 billion as at December 31, 2010. The increase is mainly driven by the acquisition of AXA Canada in September 2011.

Analysis of the most significant balance sheet items

Investments

Total investments stood at $11.8 billion, representing approximately 60% of our total assets as at December 31, 2011. The 37% increase year-over-year is mainly due to the acquisition of AXA Canada in September 2011. See Section 8.2 – *Investments* hereafter for more details.

Claims liabilities

Claims liabilities amounted to $6.9 billion as at December 31, 2011, an increase of $2.5 billion compared to December 31, 2010. The increase is explained in large part by the acquisition of AXA Canada, as well as by the consistent business growth and lower discount rates in 2011. See Section 8.3 – *Claims liabilities* hereafter for more details.

Shareholders' equity

The increase in shareholders' equity from $3.0 billion to $4.3 billion as at December 31, 2011 is mainly explained by:

– common and preferred shares issued in connection with the acquisition of AXA Canada ($1,421 million); and
– net income less dividends declared ($287 million); partially offset by:
– negative variation in AOCI, mainly due to the reclassification to income of net gains on AFS securities ($109 million);
– net after-tax actuarial losses on employee future benefits ($105 million); and
– common shares repurchased for cancellation in connection with the NCIB ($129 million).

See section 8.4 – *Shareholders' equity* for more details.

Other significant variances

Assets and liabilities classified as held for sale

Assets and liabilities classified as held for sale relate to the life insurance activities acquired as part of the acquisition of AXA Canada for which we had entered into a definitive share purchase agreement with SSQ, Life Insurance Company Inc. The sale of these activities was completed on January 1, 2012 for proceeds of $300 million.

Premiums receivables and unearned premiums

The 41% increase in premiums receivables and the 47% increase in unearned premiums are mainly due to the acquisition of AXA Canada in September 2011.

Intangible assets and goodwill

The increase is related to goodwill and intangible assets recognized in connection with the acquisition of AXA Canada. The acquired intangible assets relate to the distribution network and customer relationships acquired.

Other liabilities

Other liabilities amounted to $1.6 billion as at December 31, 2011, an increase of $0.7 billion compared to December 31, 2010. The increase mainly results from the acquisition of AXA Canada and the contingent consideration payable ($90 million).

Debt outstanding

The $0.8-billion increase is related to financing obtained in connection with the acquisition of AXA Canada, more specifically term notes issuance ($400 million) and loans ($400 million). See Section 9.1 – *Financing of AXA Canada acquisition* hereafter for more details.

8.2 Investments

As at December 31, 2011, our total investments reached $11.8 billion, an increase of $3.2 billion from 2010 driven by the acquisition of AXA Canada. Our investment portfolio is mainly comprised of Canadian securities and includes a mix of fixed-income securities, common and preferred shares, cash and short term notes. Nearly all investments are denominated in Canadian dollars and any currency exposure is hedged.

Our portfolio is managed in accordance with our investment policy. The overall risk profile of the portfolio is designed to balance the investment return required to satisfy our liabilities while optimizing the investment opportunities available in the marketplace. Management monitors and enforces compliance with our investment policy.

Fixed-income securities We invest in corporate and government bonds and approximately 98% of our fixed income portfolio is rated 'A' or better. We have no exposure to leveraged capital notes in structured investment vehicles, directly or through the use of derivatives. As at December 31, 2011, we have $236 million ($52 million at December 31, 2010) in asset-backed securities mostly comprised of Canadian credit card loans ($158 million as at December 31, 2011, $40 million as at December 31, 2010) and commercial mortgage-backed securities ($78 million as at December 31, 2011, $12 million as at December 31, 2010). All of these are rated AAA.

Common shares Common equity exposure is focused primarily on dividend-paying Canadian equities. We seek enhanced returns by identifying and investing in shares that are likely to pay increased dividends or special dividends. Management undertakes intensive analysis of investment opportunities to identify special dividend candidates. Similar evaluations are conducted to assess securities most likely to increase dividends. In addition, our equity portfolios are also actively managed to maximize dividend income throughout the year.

Preferred shares We invest in preferred shares to achieve our objective of maximizing dividend income, as such income is not taxable under Canadian laws, provided certain conditions are met. Generally, our preferred share portfolio is not traded and our shares are held until they are called. Consequently, our non-operating results are generally impacted only when preferred shares are impaired, or when the shares are called or sold to avail of selected market opportunities. The preferred share portfolio is comprised entirely of Canadian issuers with a high proportion of the portfolio invested in securities that are at least P2 in their credit rating.

Derivatives We use derivative financial instruments for hedging purposes and to modify the risk profile of the investment portfolio as long as the resulting exposures are within investment policy guidelines.

Investment mix

The following table provides an overview of the investment mix:

TABLE 16 – INVESTMENT MIX

(in millions of dollars, except as otherwise noted)	December 31, 2011	As a % of Total	December 31, 2010	As a % of Total	Fair value of AXA Canada Investments as at September 23, 2011
Short-term notes, including cash and cash equivalents	**450**	**4%**	501	6%	**125**
Fixed-income securities	**7,643**	**65%**	4,458	52%	**3,026**
Preferred shares	**1,281**	**11%**	1,503	17%	**214**
Common shares	**2,051**	**17%**	1,877	22%	**121**
	11,425	**97%**	8,339	97%	**3,486**
Loans	**403**	**3%**	314	3%	**79**
Total investments	**11,828**	**100%**	8,653	100%	**3,565**

As part of our investment strategies, we have both long and short equity positions in order to maximize the value added from active equity portfolio management while at the same time using short positions to mitigate overall equity market volatility. Long positions are reported in Common shares and short positions are reported in Financial liabilities related to investments on the audited Consolidated balance sheets. We also use strategies where a long equity position is hedged using swap agreements or other hedging instruments.

In November 2011, we sought protection against equity market volatility by adopting a put spread strategy to economically hedge us against declines within a certain range.

The following table reconciles the total investments before and after reflecting the hedging strategies.

TABLE 17 – RECONCILIATION TO TOTAL INVESTMENTS (NET OF HEDGING POSITIONS)

(in millions of dollars)	December 31, 2011	December 31, 2010
Total investments (table 16)	**11,828**	8,653
Less: equities sold short positions	**(368)**	(397)
Less: equity exposure reduction	**(49)**	–
Less: swap agreements and other derivatives	**(76)**	(80)
Less: net asset value attributable to third party unit holders	**(70)**	(225)
Total investments (net of hedging positions) (table 18)	**11,265**	7,951

The following tables illustrate our total investments and asset mix after reflecting the impact of hedging strategies and financial liabilities. The investment mix (net of hedging positions) represents our economic exposure by class of assets.

TABLE 18 – INVESTMENT MIX (NET OF HEDGING POSITIONS)

(in millions of dollars, except as otherwise noted)	December 31, 2011	As a % of Total	December 31, 2010	As a % of Total	AXA Canada Investments as at September 23, 2011
Short-term notes, including cash and cash equivalents	**450**	**4%**	501	6%	**125**
Fixed-income securities	**8,185**	**73%**	4,857	61%	**3,026**
Preferred shares	**1,214**	**11%**	1,252	16%	**214**
Common shares	**1,013**	**9%**	1,027	13%	**121**
	10,862	**97%**	7,637	96%	**3,486**
Loans	**403**	**3%**	314	4%	**79**
Total investments (net of hedging positions)	**11,265**	**100%**	7,951	100%	**3,565**

The investment mix as at December 31, 2011 compared to 2010 reflects the impact of the AXA Canada acquisition and a shift towards a higher proportion of fixed-income securities.

Sector mix by asset class

The following table shows sector exposures by asset class as a percentage of total investments (excluding cash and cash equivalents and loans) as at December 31, 2011.

TABLE 19 – INVESTMENT MIX (NET OF HEDGING POSITIONS)

			Common shares		
	Fixed income	Preferred shares	IFC	S&P/TSX weighting	IFC total
Energy	**2%**	**8%**	**40%**	**27%**	**6%**
Materials	**–**	**–**	**6%**	**21%**	**1%**
Industrials	**2%**	**–**	**8%**	**6%**	**3%**
Information technology	**–**	**–**	**1%**	**1%**	**–**
Telecommunication	**1%**	**8%**	**15%**	**5%**	**3%**
Consumer discretionary	**–**	**1%**	**7%**	**4%**	**1%**
Consumer staples	**1%**	**–**	**4%**	**3%**	**1%**
Health care	**–**	**–**	**1%**	**1%**	**–**
Financials	**33%**	**79%**	**13%**	**30%**	**37%**
Utilities	**3%**	**4%**	**4%**	**2%**	**2%**
Government	**58%**	**-**	**1%**	**–**	**46%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total in millions	**8,429**	**1,214**	**1,013**	**n/a**	**10,656**

Our investment portfolio is concentrated mainly in the financial and government sectors. This is due to the fact that our principal investment strategy for equities focuses primarily on dividend-paying Canadian equities, most of principal investment

Net pre-tax unrealized gains and losses on AFS securities

In determining the fair value of investments, we rely mainly on quoted market prices. In cases where an active market does not exist, the estimated fair values are based on recent transactions or current market prices for similar securities.

The following table presents the net pre-tax unrealized gains (losses) on AFS securities:

TABLE 23 – NET PRE-TAX UNREALIZED GAINS (LOSSES) ON AFS SECURITIES

(in millions of dollars)	**December 31, 2011**	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Fixed-income securities	**101**	91	40	19	37
Common shares	**44**	(43)	56	101	139
Preferred shares	**156**	156	245	281	262
Net pre-tax unrealized gain (loss) position	**301**	204	341	401	438

During the fourth quarter, our pre-tax unrealized gain position improved by $97 million. The improvement was essentially driven by an improvement in equity markets. Impairment losses of $30 million were recorded in the quarter.

Unrealized gains on equities decreased by $201 million year-over-year mainly as a result of the sale of preferred and common shares and by the impairment of certain securities for $65 million. These were offset by a $64 million increase in the value of fixed-income securities due to falling interest rates.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions reflecting the trading strategy in the high-dividend common share portfolio.

Impairment recognition

Common shares classified as AFS are assessed for impairment if the current market value drops significantly below the book value, or if there has been a prolonged decline in fair value below book value. Management also assessed whether there are reasons to believe that the decline in the market value is permanent. Based on our assessment, we recorded impairment losses amounting to $30 million and $52 million in the fourth quarter and total year 2011 respectively on AFS common shares.

TABLE 24 – AGING OF UNREALIZED LOSSES ON AFS COMMON SHARES

(in millions of dollars)	**December 31, 2011**	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Less than 25% below book value	36	50	24	8	10
More than 25% below book value for less than 6 consecutive months	4	44	3	2	–
More than 25% below book value for more than 6 consecutive months	**5**	–	4	–	1
Unrealized losses on AFS common shares	45	94	31	10	11

8.3 Claims liabilities

Assessing claims reserve adequacy

Effectively assessing claims reserve adequacy is a critical skill required to effectively manage any P&C insurance business and is a strong determinant of the long-term viability of the organization. The total claims reserve is made up of two main elements: 1) reported claim case reserves, and 2) claims that are IBNR. IBNR reserves supplement the case reserves by taking into account:

- possible claims that have been incurred but not yet reported to us by policyholders;
- expected over/under estimation in case reserves based on historical patterns; and
- other claim adjustment expenses not included in the initial case reserve.

Case reserves and IBNR should be sufficient to cover all expected claims liabilities for events that have already occurred, whether reported or not, taking into account a PfAD and a discount for the time value of money (see Section 5.3 – *Market yield effect*). The discount is applied to the total claims reserve and adjusted on a regular basis based on changes in market yields. If market yields rise, the discount would increase and reduce total claims liabilities and therefore, positively impact net underwriting income in that period, all else being equal. If market yields decline, it would have the opposite effect. IBNR and the PfAD are reviewed and adjusted at least quarterly.

Prior-year claims development (excluding MYA)

The following table shows the development of claims liabilities for the 10 most recent accident years. The reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of insurance contracts and current estimates of claims liabilities for claims still open or claims still unreported. Prior-year claims development can fluctuate from quarter to quarter and year to year, and therefore, should be evaluated over longer periods of time. The historical rate of favourable prior-year claims development as a percentage of opening claims has been approximately 3%-4% per year over the long term.

TABLE 25 – PRIOR-YEAR CLAIMS DEVELOPMENT

(in millions of dollars, except as otherwise noted)		Accident year									
	Total	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001 & earlier
Original reserve[1]		2,004	1,736	1,576	1,415	1,278	1,175	1,153	1,009	862	2,004
(Favourable) unfavourable development during Q4-2011[2]	**(38)**	(19)	1	1	(10)	(2)	(3)	(6)	(3)	(3)	6
(Favourable) unfavourable development during 2011[2]	**(223)**	(135)	4	(8)	(30)	(16)	(14)	(11)	(9)	(7)	3
As a % of original reserve[3]		(8.8)%	0.3%	(0.6)%	(2.2)%	(1.4)%	(1.2)%	(1.0)%	(0.9)%	(0.9)%	0.2%

1 Comprises Intact original reserve, as well as AXA Canada reserve as of September 23, 2011.
2 Including AXA Canada.
3 Calculated on a pro rata basis to account for AXA reserve as of September 23, 2011.

TABLE 26 – ANNUALIZED RATE OF FAVOURABLE PRIOR-YEAR CLAIMS DEVELOPMENT

	Q4-2011	Q4-2010	**2011**	2010
(Favourable) unfavourable prior-year claims development (as a % of opening reserves)	**(2.8)%**	(5.3)%	**(4.9)%**	(4.8)%

Favourable prior-year claims development, at 2.8% of opening reserves on an annualized basis, was less than the 5.3% recorded in Q4-2010 and below our historical level of 3%-4%. Reserves related to Ontario auto reflect the impact of a recent court decision related to the stacking of physical and psychological impairments when determining catastrophic injuries. We also continue to maintain reserves at a level consistent with the uncertainty of the potential outcomes in the mediation process.

2011 favourable prior-year claims development, at 4.9% of opening reserves, was in line with 2010 and above our historical level of 3%-4%.

8.4 Shareholders' equity

Issuance of common shares

On the date of the closing of the acquisition of AXA Canada, we converted our 20,125,000 subscription receipts ("receipts") into 20,125,000 common shares. We had completed our offering of the 20,125,000 receipts at $47.80 per receipt for gross proceeds of $962 million on June 9, 2011. We incurred $42 million in share issuance costs, net of $10 million of taxes, which were accounted for as a reduction in common shares.

Issuance of preferred shares

On July 12, 2011, we issued and sold 10,000,000 non-cumulative rate reset Class A shares Series 1 (the "Series 1 Preferred Shares"), at a price of $25.00 per share, for aggregate gross proceeds of $250 million. For this offering, we incurred $6 million in share issuance costs, net of $2 million of taxes, which were accounted for as a reduction in preferred shares.

On August 18, 2011, we completed a Series 3 offering of preferred shares by issuing and selling 10,000,000 non-cumulative rate reset Class A shares Series 3 (the "Series 3 Preferred Shares"), at a price of $25.00 per share, for aggregate gross proceeds of $250 million. For this offering, we incurred $5 million in share issuance costs, net of $2 million of taxes, which were accounted for as a reduction in preferred shares.

Dividends

Total dividends declared and paid on common shares and preferred shares amounted to $178 million for 2011, compared to $156 million for 2010. The dividends declared for each class of actions are reported in Section 14 – *Investor information* hereafter.

NCIB program

Management believes that a buy-back program is an effective and flexible means to return excess capital to shareholders. Over the past two years, $470 million was returned to shareholders in the form of share buy-backs at an average share price of $44.86.

On February 22, 2010, we launched a NCIB program to purchase during the next twelve months ending February 21, 2011, up to 5% of our public float. On August 5, 2010, we increased the maximum number of shares we could repurchase under the NCIB program from 5% to 10% of our public float. During 2010, 7.7 million common shares had been repurchased for cancellation under the NCIB at an average price of $44.06 per share for a total consideration of $341 million.

On February 9, 2011, we renewed our NCIB program to repurchase another 5% of our outstanding shares. The new program began on February 22, 2011 for a 12-month period. We ceased buying back shares on the day we announced the acquisition of AXA Canada and there were no repurchases since then. The NCIB expires on February 21, 2012 and the Company has decided not to renew the program immediately upon expiry.

TABLE 27 – NCIB

	Maximum shares to be purchased (in units)	YTD December 31, 2011	From inception to December 31, 2011
February 22, 2010 to February 21, 2011 program	11,955,826		
Number of common shares repurchased for cancellation (in units)		**1,979,500**	9,706,502
Weighted-average price per share		**$ 46.69**	$ 44.61
Consideration paid (in millions)		**$ 92**	$ 433
February 22, 2011 to February 21, 2012 program	5,523,548		
Number of common shares repurchased for cancellation (in units)		**771,400**	771,400
Weighted-average price per share		**$ 47.89**	$ 47.89
Consideration paid (in millions)		**$ 37**	$ 37
Total for the period			
Number of common shares repurchased for cancellation (in units)		**2,750,900**	n/a
Weighted-average price per share		**$ 47.03**	n/a
Consideration paid (in millions)		**$ 129**	n/a

8.5 Employee benefit programs

We sponsor a number of defined benefit pension plans and defined contribution pension plans. We also offer paid post-retirement benefit plans providing life insurance and health and dental benefits to certain retirees, which are generally closed to active employees. We also offer post-employment benefit plans that provide health, dental, disability and life insurance coverage. The post-retirement and post-employment benefit plans are unfunded.

TABLE 28 – CHANGE IN NET BENEFIT LIABILITIES

(in millions of dollars)	
Balance as at December 31, 2010	**40**
Net liability acquired from AXA Canada as at September 23, 2011	**154**
Negative impact of variations in discount rate assumptions (recognized in OCI)	**155**
Other actuarial losses (plan experience) (recognized in OCI)	**14**
Actual return on plan assets[1]	**(78)**
Employer contributions	**(64)**
Interest costs on benefit obligation	**45**
Current service costs	**38**
Amortization of past service costs	**7**
Curtailments, settlements gains and termination benefits	**(12)**
Balance as at December 31, 2011	**299**

1 Comprised of expected return on plan assets ($48 million) recognized in income and of actuarial gains on pension plan assets ($30 million) recognized in OCI. See Note18 – *Employee benefits* to the accompanying audited Consolidated financial statements for details.

Net benefit liabilities increased sharply during 2011, mainly due to lower discount rates which went from 5.30% as at December 31, 2010, down to 4.40% as at December 31, 2011. Net benefit liabilities as at December 31, 2011 also include the net liability from the acquisition of AXA Canada.

Benefit obligations are dependent on assumptions, such as the discount rate and the rate of compensation increase. The discount rate, which is used to determine the present value of estimated future benefit payments at the measurement date, is one of the key assumptions of the calculation. We have little discretion in selecting the discount rate, as it must represent the market rate for high-quality corporate fixed-income investments available for the period to maturity of the benefits. As a result, discount rate changes are based on market conditions. A lower discount rate increases the benefit obligation. Our benefit obligations as at December 31, 2011 increased year-over-year by $155 million due to negative variations in discount rate.

The fair value of our pension plan assets amounted to $1.1 billion as at December 31, 2011, of which 57% is invested in fixed-income securities. The remaining portion is essentially invested in equity securities. Plan assets are highly dependent on the pension fund's asset performance and on the level of contributions. During 2011, we achieved a good return on plan assets of 9.4% and we made pension contributions totalling $64 million. Based on an extrapolation of the latest actuarial valuations results of all our plans, adjusted for economic conditions at the end of the current period, our total cash contributions to the pension plans, with respect to the defined benefit component, are expected to be approximately $83 million in 2012.

TABLE 29 – IMPACT OF CHANGES IN KEY ASSUMPTIONS

(in millions of dollars)	Net liability as at December 31, 2011
Impact of a change of 1% in key assumptions: increase (decrease)	
Discount rate:	
Increase	**(216)**
Decrease	**268**
Rate of compensation increase:	
Increase	**65**
Decrease	**(60)**

Refer to Note 18 – *Employee future benefits* to the accompanying audited Consolidated financial statements for more details on our pension plans, post-retirement and post-employment benefit plans.

SECTION 9 – Liquidity and capital resources

9.1 Financing of AXA Canada acquisition

In connection with the acquisition of AXA Canada, we secured long-term financing at attractive rates, despite a volatile capital market environment. The $2.6-billion acquisition was financed with the proceeds from the issuance of subscription receipts exchanged for common shares, as well as from the issuance of preferred shares and term notes, in an aggregate amount of approximately $1.9 billion. This long-term financing (excluding the common shares) was realized at a weighted-average after-tax cost of approximately 3.5%.

TABLE 30 – CURRENT YEAR LONG-TERM FINANCING (NOMINAL AMOUNT)

(in millions of dollars, except as otherwise noted)	Coupon	Dividend	Maturity	Total
Common shares	n/a	Discretionary	n/a	**962**
Series 1 Preferred Shares	n/a	4.2%[1]	n/a	**250**
Series 3 Preferred Shares	n/a	4.2%[1]	n/a	**250**
Series 3 Term notes	6.2%	n/a	July 8, 2061	**100**
Series 4 Term notes	4.7%	n/a	August 18, 2021	**300**
Total				**1,862**

1 The dividend rate will be reset on December 31, 2017 for the Series 1 Preferred Shares and on September 30, 2016 for the Series 3 Preferred Shares.

The balance of the acquisition cost was funded from loans under credit facilities for an aggregate amount of $400 million, as well as from our excess capital. The payment of the contingent consideration will be funded from our cash provided by operating activities.

As a result of the acquisition funding structure, we ended the year 2011 with a debt-to-capital ratio of 22.9%, temporarily above our target of 20%.

We intend to allocate most of the $300-million proceeds from the sale of AXA Life towards the term loan facility used. As a result, our debt-to-capital ratio is expected to be back in line with our target early in 2012.

Term notes

On July 8, 2011, as part of the AXA Canada acquisition financing, by way of a private placement in Canada, we issued $100 million principal amount of unsecured 50-Year term notes (the "Series 3" notes) due July 8, 2061. These notes bear interest at a fixed annual rate of 6.20%, payable in equal semi-annual instalments which will commence on January 8, 2012.

On August 18, 2011, also as part of the AXA Canada acquisition financing, we completed an offering of $300 million finanoBMC (AXA)TjEMC o54O

9.5 Base shelf prospectus and medium-term note supplement

On July 5, 2011, we filed a final short form base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada that will allow us to offer up to $2.5 billion in any combination of debt, preferred or common share securities, subscription receipts, warrants, share purchase contracts and units over the following 25 months. This prospectus replaces a similar one filed in May 2009, which expired in June 2011. We also filed a supplement to our base shelf prospectus to establish a medium term note ("MTN") program that would allow us to issue up to $750 million in unsecured MTN. The Series 3 Preferred Shares and the Series 4 notes offerings were completed under the base shelf prospectus and the MTN supplement such that the amounts available under the respective prospectuses are $1.95 billion and $450 million. We filed these prospectuses to expedite our access to capital markets should the need arise.

9.6 Cash flows

TABLE 32 – SELECTED INFLOWS (OUTFLOWS)

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Operating activities:						
Cash provided by (used in) operating activities	**94**	113	(19)	**529**	360	169
Investing activities:						
Business combination, net of cash acquired	**–**	–	–	**(2,546)**	–	(2,546)
Net cash inflows (outflows) from sales (purchases) of investments	**4**	(82)	86	**266**	196	70
Net purchases of brokerages and books of business and property and equipment	**(11)**	(28)	17	**(66)**	(79)	13
Financing activities:						
Net proceeds from issuance of debt	**–**	–	–	**797**	98	699
Proceeds from issuance of common shares	**(1)**	–	(1)	**910**	–	910
Proceeds from issuance of preferred shares	**–**	–	–	**485**	–	485
Common shares repurchased for cancellation	**–**	(37)	37	**(129)**	(341)	212
Dividends paid	**(53)**	(38)	(15)	**(178)**	(156)	(22)
Change in cash and cash equivalents during the period	**33**	(72)	105	**68**	78	(10)

During 2011 cash provided by operating activities, as well as the proceeds from the issuance of debt, subscription receipts exchanged for common shares, as well as issuance of preferred shares were mainly used for the acquisition of AXA Canada, the payment of dividends and the repurchase of common shares under the NCIB program.

9.7 Contractual obligations

TABLE 33 – CONTRACTUAL OBLIGATIONS

		Payments due by period			
(in millions of dollars)	**Total**	Less than 1 year	1–3 years	4–5 years	After 5 years
Debt outstanding[1]	**1,300**	–	400	–	900
Claims liabilities[2]	**4,247**	1,843	994	629	781
Operating leases on premises and equipment	**443**	98	141	94	110
Pension obligations[3]	**119**	28	49	14	28
Total contractual obligations	**6,109**	1,969	1,584	737	1,819

1 Capital only.
2 Reported claims case reserves.
3 These amounts represent the annual mandatory funding required by OSFI, based on December 31, 2010 actuarial valuations.

We consider that we have sufficient capital resources, cash flows from operating activities and borrowing capacity to support our current and anticipated activities, scheduled principal and interest payments on our outstanding debt, the payment of dividends and other expected financial requirements in the near term, including the payment due to AXA SA.

SECTION 10 – Capital management

10.1 Capital management objectives

Our objectives when managing capital consist of balancing the need to:

- support claims liabilities and ensure the confidence of policyholders,
- support competitive pricing strategies,
- meet regulatory capital requirements,
- provide adequate returns for our shareholders, and
- maintain a leadership position in the Canadian P&C insurance industry.

Our capital is managed on a consolidated basis, as well as individually for each regulated subsidiary. Our federally chartered P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI, the AMF and the ICA. Provincially chartered subsidiaries are subject to the requirements set by the AMF and the Act respecting insurance (Québec). OSFI and AMF have established a MCT guideline, which sets out 100% as the minimum and 150% as the supervisory target MCT standard for Canadian P&C insurance companies. To ensure that we attain our objectives, we have established an internal target of 170% in excess of which, under normal circumstances, we will maintain our capital.

Total capital available and total capital required represent amounts applicable to our regulated P&C insurance subsidiaries and are determined in accordance with prescribed regulatory rules. Total capital available mostly represents total shareholders' equity less specific deductions for disallowed assets including goodwill and intangible assets. Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. We have elected to apply the exemption permitted by OSFI in order to phase in over a period of two years the impact of IFRS conversion on total capital available for MCT calculation purposes.

MCT guidelines change from time to time and may impact our capital levels. We therefore monitor all changes, actual or planned very carefully. At this point in time, we do not foresee any significant impact to our capital levels from the implementation of new MCT guidelines recently published.

The following table presents our combined MCT ratio including all our Canadian insurance subsidiaries as at December 31:

TABLE 34 – COMBINED MCT

(in millions of dollars, except as otherwise noted)	**2011**[1]	2010
Total capital available	**3,285**	2,969
Total capital required	**1,668**	1,272
MCT %	**197%**	233%
Excess capital at 100%	**1,617**	1,697
Excess capital at 150%	**783**	1,061
Excess capital at 170%	**449**	807

1 Estimated.

Our MCT level as at December 31, 2011 remained solid at an estimated 197%. The decrease from December 31, 2010 mainly reflects the decrease in excess capital due to funding of the AXA Canada acquisition, the integration and restructuring costs and the recording of the contingent consideration payable to AXA SA.

As at December 31, 2011, our P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements, as well as above internal targets.

We had a total of $435 million in excess capital over an MCT of 170% as at December 31, 2011, compared to total excess capital of $809 million as at December 31, 2010. The decline in excess capital position mainly reflects capital used to fund the acquisition of AXA Canada.

We maintain adequate excess capital levels designed to ensure we never breach the regulatory minimum requirements. Such levels may vary over time depending on our perception of risks and the potential impact on capital. For example, during periods of high volatility in capital markets, we will maintain higher capital levels to absorb fluctuations in equity markets or interest rates. We will also keep higher levels of excess capital if we foresee growth or acquisition opportunities in the mid-term. Finally, we will return excess capital to shareholders firstly through annual dividend increases and through buy-backs. We intend to increase our dividends annually, albeit at a conservative pace to respect the volatility of the insurance business. We prefer to use buy-backs to return larger amounts of capital since they allow us to control the pace of execution.

10.2 MCT sensitivity

The MCT is impacted by many factors including changes in equity market performance, interest rates and underwriting profitability. Based on our estimated MCT of 197% as at December 31, 2011, the following table sets out the estimated immediate impact or sensitivity of our MCT ratio to certain sudden but independent changes in interest rates and equity market prices as at December 31, 2011. Actual results can differ materially from these estimates for a variety of reasons and therefore these sensitivities should be considered as directional estimates of the underlying factors.

TABLE 35 – MCT SENSITIVITY

	Interest rate[1] 1% increase	Equity markets[2] 10% decline
MCT impact[3]	(5)%	(3)%

1 The yield curve experiences an instantaneous parallel shift.
2 A shock of -10% is applied to all common share holdings net of any equity hedges that we may have. In addition, a shock of approximately -5% is applied to all preferred shares.
3 Capital sensitivities are calculated independently for each risk factor and assume that all other risk variables remain constant. No management action is considered.

Annually, we perform Dynamic Capital Adequacy Testing on the MCT to ensure that we have sufficient capital to withstand significant adverse event scenarios. We review these scenarios each year to ensure appropriate risks are included in the testing process. The 2011 results indicated that our capital position is strong. In addition, our target, actual and forecasted capital position is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

SECTION 11 – Risk management

11.1 Introduction

The Company has a comprehensive risk management framework and internal control procedures designed to manage and monitor various risks in order to protect our business, clients, shareholders and employees. Our risk management programs aim at avoiding risks that could materially impair our financial position, accepting risks that contribute to sustainable earnings and growth and disclosing these risks in a full and complete manner.

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. In order to make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of directors ensures that the Company's management has put appropriate risk management programs in place. The Board of directors, directly and in particular through its Audit and Risk Review Committee oversees the Company's risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the risk management department through the Chief Risk Officer, internal auditors and the independent auditors. A summary of the Company's key risks and the processes for managing and mitigating them is outlined below.

The risks described below and all other information contained in our public documents including our audited Consolidated financial statements and notes should be considered carefully. The risks and uncertainties described below are those we currently believe to be material, but they are not the only risks and uncertainties we face. If any of these risks, or any other risks and uncertainties that we have not yet identified, or that we currently consider to be not material, actually occur or become material risks, our business prospects, financial condition, results of operations and cash flows could be materially adversely affected.

While the Company employs a broad and diversified set of risk mitigation techniques those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes.

11.2 Risk management structure

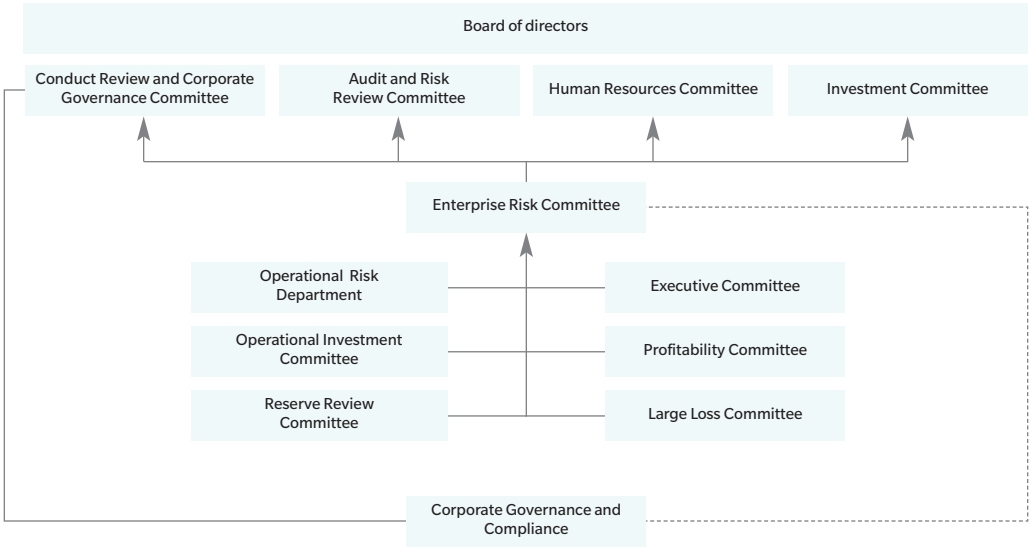
The Board of directors is ultimately responsible for overseeing the Company's risk-taking activities and risk management programs and is supported by the following committees to ensure that risks are being properly measured, monitored and reported:

– ***Audit and Risk Review Committee***: this committee is composed exclusively of independent members of our Board of directors and is chaired by an independent director. In addition to its audit committee functions, which include the review of financial information and the monitoring of internal controls, this committee reviews trends and key risk positions and exposures, risk management programs, practices and internal controls and compliance with key operational risk policies and limits.

- ***Conduct Review and Corporate Governance Committee***: this committee is composed exclusively of independent members of our Board of directors and is chaired by an independent director. This committee reviews, approves or makes recommendations to our Board of directors with respect to related-party transactions, compliance and market conduct programs and policies, including the resolution of conflicts of interests, and restrictions on the use of confidential information.
- ***Human Resources Committee***: this committee is composed exclusively of independent members of our Board of directors and is chaired by an independent director. This committee oversees the management of the Company in relation to human resources matters, including compensation of employees, management and executives as well as assessment of the Chief Executive Officer and senior executives and succession plan. This committee also addresses the compensation practices of the Company against the compensation practices itemized in the Financial Stability Board program, the best practices recommended by governance associations and regulatory requirements and in this regard assesses the risks of the Company's practices after receiving the Chief Risk Officer's report and recommendations.
- ***Investment Committee***: this committee is composed of a majority of independent members of our Board of directors with expertise in capital markets and related areas and is chaired by an independent director. The role of this committee is to advise the Company on the investment strategies that are appropriate in the context of the Company and its subsidiaries' activities as well as for the pension plans. The main functions of this committee are to recommend to the Board of directors the adoption of investment policies aimed at supporting the Company and its subsidiaries in meeting their financial obligations while optimizing risk and return, and minimizing the potential for large losses.
- ***Enterprise Risk Committee*** *(see figure 1)*: this committee is composed of senior officers and is chaired by the Chief Risk Officer designated by our Board of directors. It meets at least on a quarterly basis and oversees and endorses our risk management priorities, assesses the effectiveness of risk management programs, policies and actions of each key function of our business and reports on a quarterly basis to the Audit and Risk Review committee, and semi-annually to our Board of directors. The committee evaluates our overall risk profile, aiming for a balance between risk, return, and capital, and approves risk policies. The committee is mandated to: (i) identify risks that could materially affect our business; (ii) measure risks from a financial or other impact standpoint, such as reputation; (iii) monitor risks; and (iv) manage risk in accordance with the risk tolerance level determined by our Board of directors. Periodically, this committee may establish sub-committees to review specific subjects in greater detail and report back on its findings and recommendations. This allows the committee to access the expertise throughout the Company and to operate more efficiently in addressing key risks.
- ***Corporate Governance and Compliance Department***: this department, under the direction of the Chief Legal Officer, acts independently from operations for various functions, including privacy matters, dealings with the Ombudsman office and public company matters, and reports directly to a committee of the Board of directors for these functions. This department works closely with and reports any issues or risks it identifies in the course of its functions, to the risk management function.

In addition, the Company has other committees responsible for managing, monitoring and reviewing specific aspects of risk related to our operations, investments, profitability, insurance operations, security and business continuity. Further details on how these committees operate, ensure compliance with laws and regulations and report to the Enterprise Risk Committee follow.

TABLE 36 – FIGURE 1 – RISK MANAGEMENT STRUCTURE



11.3 Corporate governance ensuring compliance with laws and regulatory requirements

The Company believes that sound corporate governance and compliance monitoring related to legal and regulatory requirements are paramount for maintaining the confidence of different stakeholders including its investors. Legal and regulatory compliance risk arises from non-compliance with the laws, regulations or guidelines applicable to the Company as well as the risk of loss resulting from non-fulfilment of a contract. The Company is subject to strict regulatory requirements and detailed monitoring of its operations in all provinces and territories where it conducts business, either directly or through its subsidiaries. The Company's corporate governance and compliance program is built on the following foundations:

- The Board of directors and its committees are structured in accordance with sound corporate governance standards. Directors are presented with relevant information in all areas of the Company's operations to enable them to effectively oversee the Company's management, business objectives and risks.
- Disclosure controls and processes have been put into place so that relevant information is obtained and communicated to senior management and the Board of directors to ensure that the Company meets its disclosure obligations while protecting the confidentiality of information. A decision-making process through the Disclosure Committee is also in place to facilitate timely and accurate public disclosure.
- Effective corporate governance depends on sound corporate compliance structures and processes. The Company has established an enterprise-wide Compliance Policy and framework including procedures and policies necessary to ensure adherence to laws, regulations and related obligations. Compliance activities include identification, mitigation and monitoring of compliance/reputation risks, as well as communication, education, and activities to promote a culture of compliance and ethical business conduct.
- The Board of directors and the Audit and Risk Review Committee periodically receive reports on all important litigation, whether in the ordinary course of business where such litigation may have a material adverse effect, or outside the ordinary course of business.
- To manage the risks associated with compliance, regulatory, legal and litigation issues, the Company has specialized resources, reporting to the Chief Legal Officer that remain independent of operations. The Chief Legal Officer reports directly to the Chief Executive Officer and to the Board of directors and its Committees on such matters, including with respect to privacy and Ombudsman complaints. The Company also uses third party legal experts and takes provisions when deemed necessary or appropriate.

While senior management has ultimate responsibility for compliance, it is a responsibility that each individual employee shares. This is clearly set out in Intact's core Business Values and Code of Conduct and employees sign a confirmation that they have reviewed and complied with them annually.

11.4 Ensuring risk management in the operations

Our internal structure is designed to enable the risk management teams, together with operations, to build a sustainable competitive advantage by fully integrating risk management in our daily business activities and strategic planning. Intact believes that each of the employees and management teams is responsible for taking the appropriate action to mitigate risks and ensure compliance with all legal and regulatory requirements:

- Heads of departments have primary responsibility and accountability for the effective control of risks/challenges affecting their respective departments. They are responsible for the execution of the risk management policies set by the Enterprise Risk Committee.
- Risk management members exercise their functions to partner with and support heads of department in the execution of risk management activities. Risk management oversight functions are carried out independently from the management team that originates the risk exposures. Examples of typical activities include the following:
  - Overseeing and objectively challenging the execution of risk management activities;
  - Monitoring the key risks of the business;
  - Having the authority to escalate risk management issues to a higher level and vetoing high risk business activity;
  - Allocating specific accountability for risk responses;
  - Enforcing compliance with the risk policies.

– for our FVTPL fixed-income securities, the estimated impact on net income before income tax expense is assumed to be offset by the MYA. In addition, it is important to note that AFS securities in an unrealized loss position, as reflected in OCI, may at some point in the future be realized either through a sale or impairment.

The Company also uses stress tests to determine the impact of various market scenarios on its financial and capital position. (See MCT monitoring discussion in Section 10 – *Capital management*).

To mitigate these risks, the Company's investment policies set forth limits for each type of investment and compliance with the policies is closely monitored by the Investment Committee. The Company manages market risk through asset class and economic sector diversification and, in some cases, the use of derivatives. The Company also monitors and reviews the duration of its fixed-income securities and its policy liabilities to ensure any duration mismatch is within acceptable tolerances.

The rate of currency exchange may also have an unintended effect on earnings and equity when measured in domestic currency. Although the Company is exposed to some foreign exchange risks arising from securities in some of its US dollar-denominated assets, the general policy is to minimize foreign currency exposure. The Company mitigates foreign exchange rate risks by buying or selling successive monthly foreign exchange forward contracts or entering into foreign exchange swaps.

Credit risk

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to us. The Company's credit risk exposure is concentrated primarily in its fixed income portfolios, preferred share portfolios, over the counter derivatives and, to a lesser extent, in its reinsurance recoverables and annuity agreements entered into with various life insurance companies.

The Company's risk management strategy is to invest in fixed income instruments and preferred shares of high-credit-quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. See Tables 20 and 21 for more details on the breakdown of credit quality of fixed-income securities and preferred shares. In addition, the Company sets limits on the total credit exposure across all assets classes including both on- and off-balance sheet exposures.

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or specific industries. The Company has a significant concentration of its investments in the financial sector. This risk concentration is closely monitored by the Company and it hedges some of the risk as it deems necessary. See Table 19 for more details on the breakdown of investments by economic sector.

Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount. In addition, the Company may be subject to wrong-way risk arising from certain derivative transactions. Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

The Company subjects its derivative-related credit risk to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a quarterly review by the Investment Committee.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of netting clauses in master derivative agreements. The netting clauses in a master derivative agreement provide for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Company's financial obligations toward the counterparty to such an agreement can be set off against obligations such counterparty has toward us. The Company uses netting clauses in master derivative agreements to reduce derivative-related credit exposure. The overall exposure to credit risk that is reduced through the netting clauses may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as by changes in underlying market rates and values.

The use of collateral is another significant credit mitigation technique for managing derivative-related counterparty credit risk. Mark-to-market provisions in the Company's agreements with some counterparties provide the Company with the right to request that the counterparty pay down or collateralize the current market value of its derivatives positions when the value passes a specified threshold amount.

The Company enters into annuity agreements with various Canadian life insurance companies which have credit ratings of at least A- or higher, to provide for fixed and recurring payments to claimants. Under such arrangements, the Company derecognizes the

liability from its audited consolidated balance sheet as the liability to its claimants is substantially discharged, although the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations.

Use of derivatives

The Company uses derivatives principally to mitigate certain of the above mentioned risks. The Company's use of derivatives exposes it to a number of risks, including credit risk, as well as interest rate and equity market fluctuations. The hedging of certain risks with derivatives results in basis risk. Basis risk is the risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company monitors the effectiveness of its hedges on a regular basis.

Insurance related risks

Reserve adequacy risk

Our success depends upon our ability to accurately assess the risks associated with the insurance policies that we write. We establish reserves to cover our estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to premiums collected or due on the insurance policies that we write. Reserves do not represent an exact calculation of liability. Rather, reserves are our estimates of what we expect to be the ultimate cost of resolution and administration of claims. These estimates are based upon various factors, including:

– actuarial projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;
– estimates of trends in claims severity and frequency;
– judicial theories of liability;
– variables in claims handling procedures;
– economic factors (such as inflation);
– judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverage or policy exclusions; and
– the level of insurance fraud.

Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact our ability to accurately assess the risks of the policies that we write. In addition, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer and additional lags between the time of reporting and final settlement of claims.

We continually refine our reserve estimates in an ongoing process as claims are reported and settled. Establishing an appropriate level of reserves is an inherently uncertain process. The following factors may have a substantial impact on our future actual losses and loss adjustment expenses experience:

– the amounts of claims payments;
– the expenses that we incur in resolving claims;
– legislative and judicial developments; and
– changes in economic conditions, including inflation.

To the extent that actual losses and loss adjustment expenses exceed our expectations and the reserves reflected in our audited Consolidated financial statements, we will be required to reflect those changes by increasing our reserves. In addition, government regulators could require that we increase our reserves if they determine that our reserves were understated in the past. When we increase reserves, our pre-tax income for the period in which we do so will decrease by a corresponding amount. In addition, increasing or "strengthening" reserves causes a reduction in our insurance subsidiaries' capital and could cause a downgrading of the financial strength ratings of our insurance subsidiaries. Any such downgrade could, in turn, adversely affect our ability to sell insurance policies.

Business cycle risk

The P&C insurance industry is cyclical, and we may witness changes in the appetite and underwriting capacity of our competitors, depending on their own loss experience and results. This would have different impacts on pricing and our ability to write new business. The industry's profitability can be affected significantly by:

– competition;
– availability of capital to support the assumption of new business;
– rising levels of actual costs that are unforeseen by companies at the time they price their products;

– volatile and unpredictable developments, including unnatural, weather-related and other natural catastrophes or terrorist attacks;
– changes in loss reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop;
– changes in insurance and tax laws and regulations as well as new legislative initiatives;
– general economic conditions, such as fluctuations in interest rates, inflation and other changes in the investment environment, which affect returns on invested capital and may impact the ultimate payout of loss amounts;
– general industry practices.

The financial performance of the P&C insurance industry has historically tended to fluctuate in cyclical patterns of "soft" markets generally characterized by increased competition resulting in lower premium rates and underwriting standards followed by "hard" markets generally characterized by lessening competition, stricter underwriting standards and increasing premiums rates. Our profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on our results of operations and financial condition.

Catastrophic events risk

2011 has been particularly difficult for reinsurers, who had to deal with many catastrophes around the world. It started with two earthquakes in New Zealand and another one in Japan (followed by a huge tsunami) but they were also heavily impacted by other events such as wind storms in the U.S. and floods in Thailand. The occurrence and severity of these types of natural disasters may be affected by climate change and may take different forms, including hurricanes, wind storms, earthquakes, hailstorms, rainstorms, ice storms, floods, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, explosions, crashes and derailments. Despite the use of "models", the incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines. For example, the ice storm in Eastern Canada in 1998 or more recently the wildfires in Slave Lake in May 2011 caused P&C insurance losses in several lines of business, including business interruption, personal property, automobile and commercial property.

Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in our financial results and could materially reduce our profitability or harm our financial condition.

The Company's risk management strategy involves monitoring insured value accumulation and concentration of risks, catastrophe scenario modeling, and reinsurance. It also explains why the distribution of risk amongst an appropriate number of reinsurers is such a key strategy for the Company. See Section 11.6 for more details on the Company's reinsurance program.

Climate change risk

Climate change is a challenge faced by the entire P&C insurance industry. In particular, the Company's home insurance business has been affected due to changing climate patterns and an increase in the number and cost of claims associated with severe storms. Water damages now make up more than half of the Company's home insurance claims.

To address this issue, the Company has launched several initiatives including pricing and product changes to reflect new climate realities, a home insurance action plan, a review of claims processes and a greater focus on consumer loss prevention and education.

Since 2010, the Company has been associated with the University of Waterloo in order to learn from climate change studies on the impact of such changes.

Reinsurance

We use reinsurance to help manage our exposure to insurance risks. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect our premium volume and profitability. The frequency of important events in 2011 clearly shows the impact it can have on the Reinsurers' situation and therefore on the conditions and support provided. Reinsurance companies may exclude some coverage from the policies that we purchase from them or may alter the terms of such policies from time to time. For example, following the terrorist attacks of September 11, 2001, some reinsurers excluded coverage for terrorist acts or priced such coverage at prohibitively high rates. These gaps in reinsurance protection expose us to greater risks and greater potential losses and could adversely affect our ability to write future business. We may not be able to successfully mitigate risks through reinsurance arrangements, which could cause us to reduce our premiums written in certain lines or could result in losses. We align as closely as possible the insurance and reinsurance terms and conditions to minimize these gaps.

As previously described, we are supported by a number of reinsurers who may be affected by difficult situations and results. This increases the potential adverse effect on our results of operations if one or more of our reinsurers are unable to meet their financial obligations. Although all of our reinsurers have, amongst other criteria, a minimum financial strength rating of "A-" from A.M. Best and/or S&P at the time of entering into reinsurance arrangements with us, these ratings are subject to change and may be downgraded. Although reinsurance makes the assuming reinsurer liable to us to the extent of the risk ceded, we are not relieved of our primary liability to our policyholders as the direct insurer. As a result, we bear credit risk with respect to our reinsurers. Despite our efforts to monitor the overall situation with our reinsurers, including a regular review of the accounts payable due to our organization, there is no certainty that our reinsurers will pay all reinsurance claims on a timely basis or at all. We evaluate each reinsurance claim based on the facts of the case, historical experience with the reinsurer for similar claims under existing law, and provide for reinsurance amounts deemed uncollectible in our reserves. Other details regarding reinsurance are also included at Section 11.6.

Competition risk

The P&C insurance industry is highly competitive and intense competition for our insurance products could harm our ability to maintain or increase our profitability, premium levels and written insured risk volume. We believe that the industry will remain highly competitive in the foreseeable future. We also believe that competition in our business lines is based on price, service, commission structure, product features, financial strength and scale, ability to pay claims, ratings, reputation and name or brand recognition. We compete with a large number of domestic and foreign insurers as well as with different Canadian banks that are selling insurance products. These firms may use business models different to ours and sell products through various distribution channels, including brokers and agents who sell products exclusively for one insurer and directly to the consumer. We compete not only for business and individual customers, employers and other group customers but also for brokers and other distributors of investment and insurance products.

In addition, we may not be aware of other companies that may be planning to enter the insurance market or existing insurers that may be planning to raise additional capital. Also, as it occurred in 2010, competitors may add to their offer or try to increase their market share by acquisition, which could have an impact on our capacity to better compete. Any new, proposed or potential legislative or industry development could further increase competition in our markets. We cannot be sure that we will be able to achieve or maintain any particular level of DPW in this competitive environment.

Underwriting ability risk

Our performance depends on our ability to reduce financial loss resulting from the selection of risks to be insured and management of contract clauses. Unfavourable results in these areas can lead to deviations from the estimates based on actuarial assumptions. The Company has adopted policies which specify the Company's retention limits and risk tolerance and its application depends on training and the discipline of our underwriting teams. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk. Moreover, our profitability and ability to grow may also be adversely affected by our mandatory participation in the Facility Association in Canada's automobile insurance markets.

Product and pricing risk

Product design and pricing risk is the risk that the established price is or becomes insufficient to ensure an adequate return for shareholders as compared to the Company's profitability objectives. This risk may be due to an inadequate assessment of market needs, new business context, a poor estimate of the future experience of several factors, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

New products are reviewed by Senior Management and the risk is primarily managed by regularly analyzing the pricing adequacy of the Company's products as compared to recent experience. The pricing assumptions are revised as needed and/or the various options offered by the reinsurance market are utilized.

Operational and strategic risks

These risks are essentially resulting from inadequate or failed processes, people and systems or from external events. These include events such as unauthorized activity, internal and external criminal activity, and information security failure, among others.

We believe that managing the risks related to the Company's business activities significantly reduces losses resulting from failed processes, procedures or controls, inadequate systems, human errors, fraud or external events such as natural disasters. To manage these risks, the Company follows a specific framework that is composed of different steps including identification, measurement, monitoring and mitigation.

For early detection of and clear insight into the Company's key operational risks or any other related type of risks, the Risk Management team uses many tools including periodic risk review interviews with management and risk and control self-assessments of the Company's critical functions. It also monitors and measures the Company's risks on an ongoing basis through key risk indicators which enable management to proactively initiate effective actions. The Company has also developed clear incident reporting channels within the organization to systematically report, manage and monitor operational incidents which could lead to potential financial losses or reputation damage. Ongoing training and exercises provided to all employees also contribute to increasing the operational risk awareness culture within the organization and minimizing the severity and occurrence of incidents.

The effective implementation of the overall operational risk management program depends on management. Management is supported by the Risk Management department which assists in monitoring the risk processes and ensuring that appropriate actions are taken when necessary. The operational risk management department reports to the Enterprise Risk Committee. The committee has the oversight responsibility for all enterprise risks and risk governance within the organization. Finally, to ensure transparency, the committee provides regular updates of its operations to the Audit and Risk Review Committee and the Board of directors.

Strategy implementation risk

In order to seek profitable growth and maximize shareholders' returns, we intend to invest significant resources in expanding our core businesses and implementing our strategies. We cannot be sure that we will continue to succeed in implementing our strategies. We may experience difficulty in executing our strategies because of, among other things, increased competition, difficulty in developing and introducing new products, adverse economic conditions, changes in regulatory requirements and difficulty in our relationships with our distribution networks and insured clients. To help mitigate these risks, the Company relies extensively on technology to improve the Company's capacity to deliver our services.

In executing our growth strategy, we intend to continue to expand our operations and business in part by acquiring additional P&C insurance businesses or companies that distribute P&C insurance products. The acquisition of AXA Canada in 2011 is a prime example of this strategy. However, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on our business, results of operations and financial condition. We cannot be sure that any acquired businesses will achieve the anticipated revenues, income and synergies. Acquisitions could also result in potentially dilutive issuances of equity securities. Failure on our part to manage our acquisition strategy successfully could have a material adverse effect on our business, results of operations and financial condition. In addition, the Company may make acquisitions or invest in businesses outside of Canada. These activities may incur additional risks including specific country risk. We cannot be sure that we will be able to identify appropriate targets, profitably manage additional businesses or successfully integrate any acquired business into our operations.

With respect to the acquisition of AXA Canada, the Company is faced with a number of integration risks including but not limited to:

- the inability to achieve planned synergies on expenses;
- challenges in harmonizing technological systems and processes;
- the inability to retain sufficient business or a deterioration in the profitability of AXA Canada's insurance results. Under certain adverse circumstances, this may lead to a write down of goodwill associated with the transaction; and
- a departure of key employees during the integration phase.

The Company mitigates some of the strategy implementation risks through formal processes and approvals which include:

- obtaining our Board of directors' final approval of the medium-term plan, which provides for strategic planning and capital allocation, and includes risk management analysis;
- having the financial and operational reports reviewed by the Audit and Risk Review Committee and our Board of directors on a quarterly basis;
- having each of our business units develop detailed business plans, which are then executed by local management;
- having each significant acquisition reviewed and approved by our Board of directors;
- oversight and management by the Enterprise Risk Management Committee; and
- maintaining high standards of conduct through distribution of our Code of Conduct to all new employees and through periodic reminders to all employees and training sessions.

Business interruption risk

We may also experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events, an example of which being a global flu pandemic (e.g. H1N1). Our operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. If our business continuity plans cannot be put into action or do not take such events into account, losses may increase further.

In order to maintain the integrity and continuity of the Company's operations in the event of a crisis, we have developed personalized alert and mobilization procedures as well as communication protocols. For example, emergency action plans, business continuity plans, business recovery plans, major health crisis plans, building evacuation plans and crisis communication plans have all been defined and are tested on an ongoing basis. This process is supported by a crisis management structure adapted to our Company's organization and to the type of events we may have to manage.

Distribution risk

Distribution risk is the risk related to the distribution of the Company's P&C insurance products. It includes the inherent risk of dealing with independent distributors, the risk related to new market entrants and the risk associated with the Company's multiple distribution channel strategy. We may also face the risk that one of our channels or business models would not be sustainable in a specific market or context.

We distribute our products primarily through a network of brokers and a great part of our success depends on the capacity of this network to be competitive against other distributors, including "direct" insurers, as well as our ability to maintain our business relationships with them while developing our distribution network strategy.

These brokers sell our competitors' insurance products and may stop selling our insurance products altogether. Strong competition exists among insurers for brokers with demonstrated ability to sell insurance products. Premium volume and profitability could be materially adversely affected if there is a material decrease in the number of brokers that choose to sell our insurance products. In addition, our strategy of distributing through the direct channel may adversely impact our relationship with brokers who distribute our products.

From time to time the Company issues loans or takes equity participation in certain brokers and by doing so, the Company exposes itself to financial risk and to potential relationship issues. In order to maintain strong relationships with brokers, each relationship is managed by officers in each of the main regions in which we operate. To mitigate the financial risk the Company generally receives guarantees and uses standard agreements which contain general security and oversight clauses. The Board of directors participates in this oversight process by reviewing these loan and equity arrangements annually. For different considerations, the brokers' channel has been in a consolidation mode for the last few years and we believe that this situation will continue for the next few years. The acquisition of brokers by others or even by insurers may impact our relationship with some of them and jeopardize our ability to grow our business.

The Company has established and maintains close relationships with its independent distributors by providing technology and training to help strengthen their market position. It closely monitors pricing gaps between its various channels and manages the different channels under different brand names including BrokerLink, its wholly owned broker network.

Regulation and legal risk

Our insurance subsidiaries are subject to regulation and supervision by insurance regulatory authorities of the jurisdictions in which they are incorporated and licensed to conduct business. These laws and regulations delegate regulatory, supervisory and administrative powers to federal, provincial and territorial insurance commissioners and agencies. Such laws and regulations are generally designed to protect policyholders and creditors rather than shareholders, and are related to matters including:

- personal auto insurance rate setting;
- risk-based capital and solvency standards;
- restrictions on types of investments;
- the maintenance of adequate reserves for unearned premiums and unpaid claims;
- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- the licensing of insurers, agents and brokers;
- limitations on dividends and transactions with affiliates; and
- regulatory actions.

We believe that our insurance subsidiaries are in material compliance with all applicable regulatory requirements. It is not possible to predict the future impact of changing federal, provincial and territorial regulations on our operations, and we cannot be sure that laws and regulations enacted in the future will not be more restrictive than current laws. Overall, our business is heavily regulated and changes in regulation may reduce our profitability and limit our growth.

In addition, these laws and regulations typically require us to periodically file financial statements and annual reports, prepared on a statutory accounting basis, and other information with insurance regulatory authorities, including information concerning our capital structure, ownership and financial condition including, on an annual basis, the aggregate amount of contingent commissions paid and general business operations. We could be subject to regulatory actions, sanctions and fines if a regulatory authority believed we had failed to comply with any applicable law or regulation. Any such failure to comply with applicable laws could result in the imposition of significant restrictions on our ability to do business or significant penalties, which could adversely affect our reputation, results of operations and financial condition. In addition, any changes in laws and regulations, including the adoption of consumer or other initiatives regarding contingent and other commissions, rates charged for automobile or claims handling procedures, could materially adversely affect our business, results of operations and financial condition.

In addition to the occasional employment-related litigation, we are a defendant in a number of claims relating to our insurance and other related business operations. We may from time to time be subject to a variety of legal and regulatory actions relating to our current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication;
- disputes regarding sales practices, disclosures, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with our agents, brokers or network providers over compensation and termination of contracts and related claims;
- regulatory actions relating to consumer pressure in relation to benefits realized by insurers;
- disputes with taxing authorities regarding our tax liabilities and tax assets; and
- disputes relating to certain businesses acquired or disposed of by us.

Plaintiffs may also continue to bring new types of legal claims against the Company. Current and future court decisions and legislative activity may increase our exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could have a material adverse effect on our results of operations and financial condition. Unfavourable claim rulings may render fair settlements more difficult to reach. We cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our businesses.

We may be subject to governmental or administrative investigations and proceedings in the context of our highly regulated sectors of activity. We cannot predict the outcome of these investigations, proceedings and reviews, and cannot be sure that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect our results of operations and financial condition. In addition, if we were to experience difficulties with our relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on our ability to do business in that jurisdiction and the price of the Company's common shares.

We are supported by an in-house team of lawyers and staff, and by outside counsel when deemed necessary or appropriate, in handling general regulation and litigation issues and are an active member of the major industry associations. Additionally, our government relations team ensures contact with the governments of the various jurisdictions in which we operate, and can be proactive in situations that could affect our business.

In addition, the profitability of automobile insurers can be significantly affected by many factors, including:

- regulatory regimes which limit their ability to detect and defend against fraudulent claims and fraud rings;
- developing trends in tort and class action litigation;
- changes in other laws or regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims handling procedures; and
- privacy and consumer protection laws that prevent insurers from assessing risks or factors that have a high correlation with risks considered, such as credit scoring.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations associated with financial liabilities. To manage its cash flow requirements, the Company maintains a portion of its investments in liquid securities.

The Company's liquidity management is governed by establishing a prudent policy that identifies oversight responsibilities as well as by setting limits and implementing effective techniques to monitor, measure and control exposure to liquidity risk. A portion of investments is maintained in short-term (less than one year) highly liquid money market securities, which are used to manage the operational requirements of the Company. A large portion of the investments are held in highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements. The Company also has an unsecured committed credit facility.

In connection with the acquisition of AXA Canada, the Company has issued additional MTN. To manage the additional liquidity risk due to an increase in debt outstanding, the Company has issued longer term maturities and has staggered the maturities accordingly.

Limit on dividend and capital distribution risk

As a holding company, IFC is a legal entity and is separate and distinct from its operating subsidiaries, most of which are regulated insurance companies. Canadian insurance regulations limit the ability of our insurance subsidiaries to pay dividends and require our insurance subsidiaries to maintain specified levels of statutory capital and surplus. In addition, for competitive reasons, our insurance subsidiaries need to maintain financial strength ratings which require us to sustain minimum capital levels in our insurance subsidiaries. These restrictions affect the ability of our insurance subsidiaries to pay dividends and use their capital in other ways. The inability of our subsidiaries to pay dividends to us could have a material adverse effect on our business and financial condition, our ability to pay dividends and the price of securities issued by the Company.

Dependency on key employees risk

Our success has been, and will continue to be, dependent on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations.

The Company has developed a focused recruiting strategy to aggressively market careers and opportunities at Intact. The strategy includes an updated web site, focused external recruiting, campaigns, rebranding and targeted advertising. It also includes partnering with four universities on graduate recruiting as well as commercial and personal lines trainee program recruiting. Talent identification and development programs have been implemented to retain and grow existing talent and ingrain succession planning.

11.6 Reinsurance

In the ordinary course of business, we reinsure certain risks with other reinsurers to limit our maximum loss in the event of catastrophic events or other significant losses.

Our objectives related to ceded reinsurance are:

- capital protection;
- reduction in the volatility of results;
- increase in underwriting capacity;
- access to the expertise of reinsurers.

The placement of ceded reinsurance is done almost exclusively on an excess of loss basis (per event or per risk) as per practice, actuarial norms and regulatory guidelines. Under such programs, management considers that in order for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes significant insurance risk related to the underlying reinsured policies and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance. Furthermore, the reinsurance treaties call for timely reimbursement of ceded losses.

The reinsurers chosen to participate in the reinsurance program have a minimum rating of A- from A.M. Best or S&P at inception of the treaties. The financial analysis performed by the Company's specialized reinsurance brokers and other qualitative information are also considered in the selection of the Company's reinsurers. The treaties have a security review clause allowing the Company to change a reinsurer during the term of the treaties if its rating falls below the minimum required. Because of the importance of the Catastrophe program in place, a certain level of concentration exists with high-quality reinsurers but diversification of reinsurers remains a key element and is analyzed and implemented to avoid excessive concentration in a specific reinsurance group. A single catastrophic event such as an earthquake could financially weaken a reinsurer, so distribution of risk is an important reinsurance strategy for the Company.

At December 31, 2011, all of our reinsurance treaties are with unaffiliated reinsurance companies substantially all of which meet our financial strength rating requirements.

In line with industry practice, our reinsurance recoverable with licensed Canadian reinsurers ($276 million as at December 31, 2011, $190 million as at December 31, 2010) is generally unsecured as Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claims liabilities take priority over the reinsurers' subordinated creditors. Reinsurance recoverable with non-licensed reinsurers ($130 million as at December 31, 2011, $45 million as at December 31, 2010) is secured with cash, letters of credit and/or assets held in trust accounts of $183 million as at December 31, 2011 ($66 million as at December 31, 2010).

In order to reflect the new magnitude of the combined business portfolio and our capital base, we have made significant adjustments to our reinsurance coverage as well as in our net retention of risks.

SECTION 12 – Off-balance sheet arrangements

12.1 Securities lending

We participate in a securities lending program to generate fee income. This program is managed by our custodian, a major Canadian financial institution, whereby we lend securities we own to other financial institutions to allow them to meet their delivery commitments. As at December 31, 2011, we had loaned securities, which are reported as Investments in the accompanying audited Consolidated financial statements, with a fair value of $1,550 million (compared to $1,332 million as at December 31, 2010). Collateral is provided by the counterparty and is held in trust by the custodian for our benefit until the underlying security has been returned to us. The collateral cannot be sold or re-pledged externally by us, unless the counterparty defaults on our financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the loaned securities and amounts to $1,628 million at December 31, 2011 ($1,399 million as at December 31, 2010).

SECTION 13 – Accounting and disclosure matters

13.1 Significant accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Our results reflect management's judgments regarding the impact of prevailing global credit and equity market conditions. Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from those estimates.

The following key estimates and assumptions have a significant risk of causing a material adjustment to the carrying value of certain assets and liabilities during the next annual reporting period.

Valuation of claims liabilities

The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business line and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Valuation of pension benefit obligation

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in the assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates are contained in Note 18 – *Employee future benefits* to the accompanying audited Consolidated financial statements.

Impairment

Goodwill and intangible assets

We determine whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. Also, intangible assets under development are not subject to amortization but are tested for impairment on an annual basis. Impairment testing of these assets requires an estimation of the recoverable amount of the cash generating units to which the assets are allocated. The assumptions used in this estimation of recoverable amount are discussed in Note 17 – *Goodwill and intangible assets* to the accompanying audited Consolidated financial statements.

Financial assets

We determine whether financial assets, other than those classified or designated as fair value through profit or loss, are impaired at each audited Consolidated balance sheets date. These financial assets are impaired when there is objective evidence of a decline in fair value below cost. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value of an AFS equity instrument and a loss event that has occurred impairing the expected cash flows of an AFS debt instrument. For asset-backed securities, considerations include liquidity risk, credit risk, volatility, discount rates, prepayment rates and default rate assumptions.

Measurement of embedded derivatives

We own perpetual preferred shares with call options which give the issuer the right to redeem the shares at a particular price. Accounting standards require the value of the option liability to be measured separately from the preferred shares. The value of the option liability for embedded derivatives is determined using a valuation which relies predominantly on the price volatility of the underlying preferred shares, which can be significantly affected by market conditions. Judgment is also required to determine the time period over which the volatility is measured.

Measurement of income taxes

Management exercises judgment in estimating the provision for income taxes. We are subject to income tax laws in various provincial jurisdictions where we operate. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that our interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Business combinations

Upon initial recognition, the acquiree's assets and liabilities have been included in the audited Consolidated balance sheets at fair value. Management estimated the fair values using estimates on future cash flows and discount rates. However, actual results can be different from those estimates. The changes in the estimates that relate to new information obtained about facts and circumstances that existed as of the acquisition date, made at initial recognition with regard to items for which the valuation was incomplete, would have an impact on the amount of goodwill recognized. Any other changes in the estimates made at initial recognition would be reported in the audited Consolidated statements of comprehensive income. The detail on assets acquired and liabilities assumed is presented in Note 4 – *Business combination* to the accompanying audited Consolidated financial statements.

13.2 Financial instruments

An important portion of our audited Consolidated balance sheet is composed of financial instruments. Our financial assets include investments (cash and cash equivalents, debt securities, preferred shares, common shares and loans) and premium receivables. Our financial liabilities include claims liabilities, financial liabilities related to investments and debt outstanding. Derivative financial instruments are mainly used to manage our exposure to market risks and credit risks (see Section 11.5 – *Main risk factors and mitigating actions*). They consist mostly of forwards and futures, swaps, and credit derivatives.

– Forwards are used to mitigate the risk arising from foreign currency fluctuations and futures are used to alter exposure to interest rate fluctuations.

– Swaps are used mainly in conjunction with other financial instruments to synthetically alter the cash flows of certain of our investments.
– Credit derivatives are used mainly to alter credit exposure to specific bond issuers.

Financial instruments are required to be recognized at their fair value on initial recognition. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as FVTPL or AFS are carried at fair value, while all others are carried at amortized cost.

The fair value of financial instruments on initial recognition is normally the transaction price, being the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments are determined based on available information and categorized according to a three-level fair values hierarchy. The distribution of the Company's financial instruments between each of the fair value hierarchy levels is described in Note 8 – *Fair value measurement* to the audited Consolidated financial statements.

Where the fair values of financial assets and financial liabilities reported on the audited Consolidated balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Refer to Note 3 – *Summary of significant accounting policies*, Note 7 – *Derivative financial instruments* and Note 8 – *Fair value measurement* to the accompanying audited Consolidated Financial statements for details on the classification and measurement of financial instruments

13.3 Future changes in accounting policies

We are currently analyzing the impact the following standards will have on our audited Consolidated financial statements:

Financial instruments: classification and measurement

In November 2009, the IASB issued IFRS 9 – *Financial Instruments*. This standard represents the completion of the first part of a three-part project to replace IAS 39 – *Financial Instruments: recognition and measurement*. The new standard reduces complexity by replacing the many different rules in IAS 39. The key features for the new standard are as follows:

– a business model test is applied first in determining whether a financial asset is eligible for amortized cost measurement. The business model objective is based on holding financial assets in order to collect contractual cash flows rather than realizing cash flows from the sale of the financial assets,
– in order to be eligible for amortized cost measurement an asset must have contractual cash flow characteristics representing principal and interest,
– all other financial assets are measured at fair value on the balance sheet,
– an entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in OCI. The dividends on investments for which this election is made must be recognized in profit or loss but gains or losses are not removed from OCI when the equity investment is disposed of, and
– if a financial asset is eligible for amortized cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.

The standard is effective for years beginning on or after January 1, 2015.

Consolidated financial statements

IFRS 10 – *Consolidated financial statements* replaces IAS 27 – *Consolidated and separate financial statements* and SIC-12 – *Consolidation – special purpose entities* and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The main features are as follows:

– the principle of control sets out the three elements of control: (1) power over the investee; (2) exposure, or rights, to variable returns from involvement with the investee; (3) the ability to use power over the investee to affect the amount of the investor's returns, and
– when preparing consolidated financial statements, an entity must use uniform accounting policies for reporting like transactions and other events in similar circumstances. Intragroup balances and transactions must be eliminated. Non-controlling interests in subsidiaries must be presented in the audited consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

The standard is effective for years beginning on or after January 1, 2013.

Joint arrangements

IFRS 11 – *Joint arrangements* replaces IAS 31 – *Interest in joint ventures* and SIC-13 – *Jointly controlled entities – non-monetary contributions by ventures* and is to be applied by all entities that are a party to a joint arrangement, whereby two or more parties have joint control. The key features of this new standard are as follows:

- joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control,
- joint arrangements are classified into two types – joint operations and joint ventures,
- an entity determines the type of arrangement in which it is involved by considering its rights and obligations,
- a joint operator will recognize and measure the assets, liabilities, revenues and expenses in relation to its interest in the arrangement, and
- a joint venturer will recognize an investment and measure it using the equity method.

The standard is effective for years beginning on or after January 1, 2013.

Disclosure of interests in other entities

IFRS 12 – *Disclosure of interests in other entities*, replaces the disclosure requirements of IAS 27 – *Consolidated and separate financial statements*, IAS 28 – *Investments in associates*, and IAS 31 – *Interests in joint ventures*. The IFRS 12 establishes disclosure objectives according to which an entity discloses information regarding consolidated entities, associates, joint arrangements, unconsolidated structured entities and non-controlling interests.

The standard is effective for years beginning on or after January 1, 2013.

Fair value measurement

In May 2011, the IASB issued IFRS 13 – *Fair value measurement* with a view to set out a single IFRS framework for defining, measuring and disclosing fair value. Its main features are as follows:

- defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date,
- the fair value measurement requires an entity to determine the following:
  - the particular asset or liability being measured;
  - for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand alone basis;
  - the market in which an orderly transaction would take place for the asset or liability; and
  - the appropriate valuation technique(s) to use when measuring fair value. The technique(s) should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and
- the entity is to disclose those valuation techniques and inputs used to develop the fair value measurements.

The standard is effective for years beginning on or after January 1, 2013.

Employee benefits

In June 2011, the IASB completed its project to improve the accounting for pension and other post-employment benefits by issuing an amended version of IAS 19 – *Employee benefits*. The amendments aim to:

- eliminate an option to defer the recognition of gains and losses, known as the "corridor method", improving comparability and faithfulness of presentation,
- streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the results of an entity's day-to-day operations, and
- enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The standard is effective for years beginning on or after January 1, 2013.

Financial statement presentation

In June 2011, the IASB amended IAS 1 – *Presentation of financial statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements.

The standard is effective for years beginning on or after January 1, 2013.

13.4 Related-party transactions

We enter into transactions with associates and joint ventures in the normal course of business. All related-party transactions are with entities associated with our distribution segment. These transactions consist mainly of commissions for brokerage services and interest revenue from loans. These transactions are measured at the amount of consideration paid or received as established and agreed by the related parties. Management believes that such exchange amounts approximate fair value.

We also enter into transactions with key management personnel and post-employment plans. Our key management personnel include all members of the Board of directors and named executive officers. Key management personnel can subscribe to insurance products offered by the Company in the normal course of business. The terms and conditions of those operations are essentially the same as those applicable for our clients and employees. Transactions with post-employment plans comprise the contributions paid to these plans.

Note 25 – *Related-party transactions* to the accompanying audited Consolidated financial statements provides additional information on related-party transactions.

13.5 Disclosure controls and procedures

We are committed to providing timely, accurate and balanced disclosure of all material information about the Company and to providing fair and equal access to such information. Management is responsible for establishing and maintaining our disclosure controls and procedures to ensure that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within the Company have been detected. We continue to evolve and enhance our system of controls and procedures.

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2011. Management can therefore provide reasonable assurance that material information relating to the Company and its subsidiaries is reported to it on a timely basis so that it may provide investors with complete and reliable information.

13.6 Internal controls over financial reporting

Management has designed and is responsible for maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has limited the scope of design of our disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) to exclude the controls, policies and procedures of AXA Canada, which was acquired by IFC on September 23, 2011. AXA Canada's contribution to our audited Consolidated financial statements for the year ended December 31, 2011 was 10% of consolidated revenues and 6% of consolidated earnings. Additionally, as at September 23, 2011, AXA Canada's total assets and total liabilities were approximately 39% and 34% of our consolidated total assets and total liabilities, respectively. Management is committed to removing this limitation within the timeframe permitted by regulation, which is within one year following the acquisition date.

To facilitate the adoption of IFRS, we have implemented a one-time control over the transition to IFRS. However, no significant changes were made to our ongoing internal controls over financial reporting during the period ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

SECTION 14 – Investor information

14.1 Outstanding share data

The following table presents the outstanding share data as at the latest practical date of this MD&A.

TABLE 37 – OUTSTANDING SHARE DATA

(number of shares)	February 7, 2012
Common shares	129,553,665
Series 1 Preferred Shares	10,000,000
Series 3 Preferred Shares	10,000,000

Refer to our Annual Information Form for more detailed information on the rights of common shareholders.

Upon closing of the AXA Canada acquisition on September 23, 2011, we converted our Subscription Receipts, issued on June 9, 2011, into 20,125,000 common shares.

On July 12, 2011, we closed an offering of 10,000,000 non-cumulative rate reset Class A Series 1 Preferred Shares and on August 18, 2011, we issued 10,000,000 non-cumulative rate reset Class A Series 3 Preferred Shares. The Series 1 and Series 3 Preferred Shares are convertible into Non-cumulative Floating Rate Class A Shares Series 2 (the "Series 2 Preferred Shares") and Series 4 (the "Series 4 Preferred Shares"), respectively, subject to certain conditions, on December 31, 2017 and September 30, 2016, respectively and on December 31 and on September 30, respectively, every five years thereafter.

See Section 8.4 – *Shareholders' equity* for more information.

14.2 Dividends on common shares and on preferred shares

Common shares

On February 7, 2011, the Board of directors increased the quarterly dividend by 8%, or six cents, to 40 cents per share on our outstanding common shares. The decision reflected our objective of returning value to shareholders, the strength of our financial position and quality of operating earnings. This is the seventh consecutive year we have increased our dividend.

Series 1 Preferred Shares

The holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of directors of the Company, on a quarterly basis for the initial fixed-rate period ending on December 31, 2017, based on an annual rate of 4.20%. The dividend rate will be reset on December 31, 2017 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 1.72%. Subject to certain conditions, on December 31, 2017 and on December 31 every five years thereafter, the holders of Series 1 Preferred Shares will have the right to convert their shares into Non-cumulative Floating Rate Series 2 Preferred Shares. In addition, we have the option to redeem the Series 1 and Series 2 Preferred Shares on the same dates.

Series 3 Preferred Shares

The holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of directors of the Company, on a quarterly basis, for the initial fixed-rate period ending on September 30, 2016, based on an annual rate of 4.20%. The dividend rate will be reset on September 30, 2016 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 2.66%. Subject to certain conditions, on September 30, 2016 and on September 30 every five years thereafter, holders of Series 3 Preferred Shares will have the right to convert their shares into Non-cumulative Floating Rate Class A Series 4 Preferred Shares. In addition, we have the option to redeem the Series 3 and Series 4 Preferred Shares on the same dates.

The following table presents selected annual information as at the dates shown.

TABLE 40 – SELECTED ANNUAL INFORMATION

(in millions of dollars, except as otherwise noted)	IFRS **December 31, 2011**	IFRS December 31, 2010	IFRS January 1, 2010
Investments	**11,828**	8,653	8,057
Total assets	**19,753**	12,075	11,311
Debt outstanding	**1,293**	496	398
Shareholders' equity	**4,341**	2,969	2,917

Refer to Note 29 – *First-time adoption of IFRS* to the accompanying audited Consolidated financial statements for the details of our IFRS adoption.

15.2 Selected quarterly information

TABLE 41 – SELECTED QUARTERLY INFORMATION

(in millions of dollars, except as otherwise noted)	**Q4-2011**	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010
Written insured risks (thousands)	**1,508**	1,251	1,379	946	1,054	1,247	1,369	944
DPW	**1,576**	1,226	1,354	943	1,060	1,206	1,318	914
Total revenues	**1,730**	1,329	1,247	1,225	1,196	1,225	1,220	1,148
Net premiums earned	**1,616**	1,121	1,075	1,068	1,092	1,067	1,054	1,019
(Favourable) unfavourable prior-year claims development	**(38)**	(31)	(72)	(81)	(53)	(25)	(39)	(75)
Net underwriting income (loss)	**118**	65	33	58	22	37	66	69
Combined ratio	**92.7%**	94.2%	97.0%	94.6%	98.0%	96.6%	93.7%	93.2%
NOI	**152**	111	95	101	80	90	119	113
Net income from continuing operations attributable to shareholders	**76**	101	123	157	107	109	141	141
Net income	**84**	101	123	157	107	109	141	141
EPS basic and diluted (in dollars)	**0.62**	0.87	1.12	1.42	0.95	0.96	1.22	1.19
EPS from continuing operations (in dollars)	**0.55**	0.87	1.12	1.42	0.95	0.96	1.22	1.19
NOIPS (in dollars)	**1.14**	0.97	0.87	0.91	0.71	0.79	1.04	0.95

Our results for the third and fourth quarters of 2011 reflect the acquisition of AXA Canada on September 23, 2011.

See discussion on seasonality of the business in Section 6 – *Business developments and operating environment*.

SECTION 16 – Non-IFRS financial measures

Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies in our industry. These Non-IFRS financial measures are used by management and financial analysts to assess our performance.

- NOI, pre-tax NOI, NOIPS and OROE exclude the impact of integration and restructuring costs, change in fair value of contingent consideration, market-based yield effect, as well as the amortization of intangible assets recognized in business combinations.
- AEPS and AROE exclude the impact of integration and restructuring costs, change in fair value of contingent consideration, as well as the amortization of intangible assets recognized in business combinations.
- The market-based yield represents the annualized total pre-tax investment income (before expenses) divided by the average fair values of equity and fixed-income securities held during the reporting period.

We believe that these metrics more accurately reflect our underlying business performance.

TABLE 42 – RECONCILIATION OF OPERATING INCOME (NET AND PRE-TAX) AND NOIPS TO NET INCOME

(in millions of dollars, except as otherwise noted)	**Q4-2011**	Q4-2010	**2011**	2010
Net income	**84**	107	**465**	498
Less net income from discontinued operations	**(8)**	–	**(8)**	–
Add net income tax expense	**40**	29	**137**	139
Add net investment losses (deduct gains) excluding FVTPL fixed-income securities (table 11)	**6**	(50)	**(140)**	(161)
Add market yield effect (table 12)	**–**	8	**17**	15
Add amortization of intangible assets recognized in business combinations	**5**	2	**13**	9
Add integration and restructuring costs	**42**	–	**71**	–
Add change in fair value of contingent consideration	**41**	–	**41**	–
Pre-tax operating income	**210**	96	**596**	500
Add tax impact	**(58)**	(16)	**(136)**	(98)
NOI	**152**	80	**460**	402
Less preferred share dividends	**(5)**	–	**(8)**	–
NOI to common shareholders	**147**	80	**452**	402
Divided by weighted-average number of common shares (millions)	**130**	113	**115**	115
NOIPS (in dollars)	**1.14**	0.71	**3.91**	3.49

SECTION 17 – Cautionary note regarding forward-looking statements

Certain of the statements included in this MD&A about the Company's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely", "potential" or the negative or other variations of these words or other similar or comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: the Company's ability to implement its strategy or operate its business as management currently expects; its ability to accurately assess the risks associated with the insurance policies that the Company writes; unfavourable capital market developments or other factors which may affect the Company's investments and funding obligations under its pension plans; the cyclical nature of the P&C insurance industry; management's ability to accurately predict future claims frequency; government regulations designed to protect policyholders and creditors rather than investors; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; the Company's reliance on brokers and third parties to sell its products to clients; the Company's ability to successfully pursue its acquisition strategy; the Company's ability to execute its business strategy; synergies arising from, and the Company's integration plans relating to the AXA Canada acquisition; management's estimates and expectations in relation to resulting accretion, internal rate of return and debt-to-capital ratio after closing of the AXA Canada acquisition; various other actions to be taken or requirements to be met in connection with the AXA Canada acquisition and integrating the Company and AXA Canada, as well as the sale of AXA Canada's Life Insurance Business to SSQ, Life Insurance Company Inc.; the Company's participation in the Facility Association (a mandatory pooling arrangement among all industry participants) and similar mandated risk-sharing pools; terrorist attacks and ensuing events; the occurrence of catastrophic events; the Company's ability to maintain its financial strength and issuer credit ratings; the Company's ability to alleviate risk through reinsurance; the Company's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); the Company's reliance on information technology and telecommunications systems; the Company's dependence on key employees; general economic, financial and political conditions; the Company's dependence on the results of operations of its subsidiaries; the volatility of the stock market and other factors affecting the Company's share price; and future sales of a substantial number of its common shares.

All of the forward-looking statements included in this MD&A are qualified by these cautionary statements and those made in Section 11 – *Risk Management* herein. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the Consolidated financial statements of Intact Financial Corporation and its subsidiaries, collectively known as "the Company". This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with International financial reporting standards.

In meeting its responsibility for the reliability of Consolidated financial statements, the Company maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal control includes the communication of policies and of the Company's Code of Conduct, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records. The Company's internal auditors review and evaluate the system of internal control.

The Company's Board of directors, acting through the Audit and Risk Review Committee, which is composed entirely of directors, who are neither officers nor employees of the Company, oversees management's responsibility for the design and operation of effective financial reporting and internal control systems, the preparation and presentation of financial information and the management of risk areas.

The Audit and Risk Review Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the Company employs an appropriate system of internal control, adheres to legislative and regulatory requirements and applies the Company's Code of Conduct. The internal and external auditors, as well as the Actuary, have full and unrestricted access to the Audit and Risk Review Committee, with and without the presence of management.

Pursuant to the Insurance Companies Act of Canada or to the Insurance Act ("Québec") ("the Acts"), the Actuary, who is a member of management, is appointed by the Board of directors. The Actuary is responsible for discharging the various actuarial responsibilities required by the Acts and conducts a valuation of policy liabilities, in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit and Risk Review Committee.

The Office of the Superintendent of Financial Institutions Canada for the federally regulated property and casualty ("P&C") subsidiaries and l'Autorité des marchés financiers for the Québec regulated P&C subsidiary make such examinations and inquiries into the affairs of the P&C subsidiaries as deemed necessary.

The Company's external auditors, Ernst & Young LLP, Chartered Accountants, are appointed by the shareholders to conduct an independent audit of the Consolidated financial statements of the Company and meet separately with both management and the Audit and Risk Review Committee to discuss the results of their audit, financial reporting and related matters. The auditors' report to shareholders appears on the following page.

February 7, 2012

Charles Brindamour
Chief Executive Officer

Mark A. Tullis
Senior Vice President and Chief Financial Officer

To the Shareholders of Intact Financial Corporation

We have audited the accompanying consolidated financial statements of **Intact Financial Corporation** which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Intact Financial Corporation as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP [1]

Chartered Accountants

Montréal, Canada
February 7, 2012

[1] CA auditor permit no. 15504

Audited Consolidated financial statements

For the year ended December 31, 2011

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Audited Consolidated balance sheets
(in millions of Canadian dollars)

As at	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Investments	6			
Cash and cash equivalents		**$ 206**	$ 138	$ 60
Debt securities		**7,887**	4,821	4,784
Preferred shares		**1,281**	1,503	1,582
Common shares		**2,051**	1,877	1,312
Loans		**403**	314	319
		11,828	8,653	8,057
Assets classified as held for sale	5	**1,631**	–	–
Accrued investment income		**66**	43	43
Premium receivables		**2,487**	1,762	1,640
Reinsurance assets		**410**	235	261
Income taxes receivable		**58**	52	40
Deferred tax assets	13	**158**	29	56
Deferred acquisition costs		**652**	420	396
Other assets	16	**293**	335	336
Investments in associates and joint ventures	14	**241**	119	98
Property and equipment	15	**67**	46	46
Intangible assets	17	**1,068**	170	159
Goodwill	17	**794**	211	179
Total assets		**$ 19,753**	$ 12,075	$ 11,311
Liabilities				
Liabilities directly associated with assets classified as held for sale	5	**$ 1,330**	$ –	$ –
Claims liabilities	11	**6,886**	4,379	4,270
Unearned premiums	11	**3,790**	2,586	2,464
Financial liabilities related to investments	6	**532**	715	406
Income taxes payable		**17**	78	102
Deferred tax liabilities	13	**123**	28	21
Other liabilities	16	**1,441**	824	733
Debt outstanding	19	**1,293**	496	398
		15,412	9,106	8,394
Shareholders' equity				
Common shares	20	**1,889**	993	1,061
Preferred shares	20	**489**	–	–
Contributed surplus		**115**	96	83
Retained earnings	29	**1,642**	1,565	1,527
Accumulated other comprehensive income	29	**206**	315	246
		4,341	2,969	2,917
Total liabilities and shareholders' equity		**$ 19,753**	$ 12,075	$ 11,311

See accompanying notes to the audited Consolidated financial statements.

On behalf of the Board:

Charles Brindamour
Director

Eileen Mercier
Director

Audited Consolidated statements of comprehensive income
(in millions of Canadian dollars, except as otherwise noted)

For the years ended December 31,	Note	2011	2010
Direct premiums written	12	**$ 5,126**	$ 4,475
Net premiums earned	12	**4,907**	4,231
Net claims incurred	11	**(3,133)**	(2,766)
Underwriting expenses		**(1,501)**	(1,272)
		273	193
Impact of change in net claims discount rate	11	**(81)**	(36)
Underwriting income (loss)		**192**	157
Net investment income	6	**326**	294
Net investment gains (losses)	6	**204**	182
Integration and restructuring costs	16	**(71)**	–
Change in fair value of contingent consideration		**(41)**	–
Share of profit from investments in associates and joint ventures	14	**16**	15
Other revenues		**50**	44
Other expenses		**(41)**	(27)
Finance costs	19	**(41)**	(28)
Net income (loss) before income tax expense (benefit)		**594**	637
Income tax expense (benefit)	13	**137**	139
Net income (loss) from continuing operations attributable to shareholders		**457**	498
Net income (loss) from discontinued operations attributable to shareholders		**8**	–
Net income (loss) attributable to shareholders		**$ 465**	$ 498
Weighted-average number of common shares, basic and diluted (in millions)		**115**	115
Earnings per common share, basic and diluted (in dollars)	21	**$ 3.96**	$ 4.32
From continued operations		**3.89**	4.32
From discontinued operations		**0.07**	–
Dividends paid per common share (in dollars)		**$ 1.48**	$ 1.36
Net income (loss) attributable to shareholders		**$ 465**	$ 498
Other comprehensive income (loss)			
Net actuarial gains (losses) on employee future benefits	18	**(139)**	(41)
Derivatives designated as cash flow hedges:			
Net changes in unrealized gains (losses)		**(15)**	–
Reclassification to income of net (gains) losses		**7**	–
Available-for-sale securities:			
Net changes in unrealized gains (losses)		**42**	257
Reclassification to income of net (gains) losses		**(179)**	(166)
Income tax (expense) benefit	13	**70**	(12)
Other comprehensive income (loss) for the year from continuing operations		**(214)**	38
Total comprehensive income (loss) attributable to shareholders		**$ 251**	$ 536

See accompanying notes to the audited Consolidated financial statements.

Audited Consolidated statements of changes in shareholders' equity

(in millions of Canadian dollars, except as otherwise noted)

	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as at January 1, 2011		**$ 993**	**$ –**	**$ 96**	**$ 1,565**	**$ 315**	**$ 2,969**
Net income (loss) attributable to shareholders		**–**	**–**	**–**	**465**	**–**	**465**
Other comprehensive income (loss)		**–**	**–**	**–**	**(105)**	**(109)**	**(214)**
Total comprehensive income		**–**	**–**	**–**	**360**	**(109)**	**251**
Common shares repurchased for cancellation	20	**(24)**	**–**	**–**	**(105)**	**–**	**(129)**
Common shares issued	20	**920**	**–**	**–**	**–**	**–**	**920**
Preferred shares issued	20	**–**	**489**	**–**	**–**	**–**	**489**
Dividends paid on common shares	20	**–**	**–**	**–**	**(170)**	**–**	**(170)**
Dividends paid on preferred shares	20	**–**	**–**	**–**	**(8)**	**–**	**(8)**
Share-based payments	22	**–**	**–**	**19**	**–**	**–**	**19**
Balance as at December 31, 2011		**$ 1,889**	**$ 489**	**$ 115**	**$ 1,642**	**$ 206**	**$ 4,341**
Balance as at January 1, 2010		$ 1,061	$ –	$ 83	$ 1,527	$ 246	$ 2,917
Net income (loss) attributable to shareholders		–	–	–	498	–	498
Other comprehensive income (loss)		–	–	–	(31)	69	38
Total comprehensive income (loss)		–	–	–	467	69	536
Common shares repurchased for cancellation	20	(68)	–	–	(273)	–	(341)
Dividends paid on common shares	20	–	–	–	(156)	–	(156)
Share-based payments	22	–	–	13	–	–	13
Balance as at December 31, 2010		$ 993	$ –	$ 96	$ 1,565	$ 315	$ 2,969

See accompanying notes to the audited Consolidated financial statements.

Audited Consolidated statements of cash flows
(in millions of Canadian dollars, except as otherwise noted)

For the years ended December 31,	Note	2011	2010
Operating activities			
Net income (loss) attributable to shareholders		**$ 465**	$ 498
Adjustments for non-cash items	23	**(112)**	(102)
Changes in other operating assets and liabilities	23	**(94)**	(171)
Changes in net claims liabilities	11	**270**	135
Net cash flows provided by (used in) operating activities		**529**	360
Investing activities			
Business combination, net of cash acquired	4	**(2,546)**	–
Proceeds from sale of investments		**9,070**	8,555
Purchases of investments		**(8,804)**	(8,359)
Purchases of brokerages and books of business, net of sales		**(10)**	(37)
Purchases of property and equipment and other		**(56)**	(42)
Net cash flows provided by (used in) investing activities		**(2,346)**	117
Financing activities			
Net proceeds from issuance of debt	19	**797**	98
Common shares repurchased for cancellation	20	**(129)**	(341)
Proceeds from issuance of common shares	20	**910**	–
Proceeds from issuance of preferred shares	20	**485**	–
Dividends paid	20	**(178)**	(156)
Net cash flows provided by (used in) financing activities		**1,885**	(399)
Net increase (decrease) in cash and cash equivalents		**68**	78
Cash and cash equivalents, beginning of year		**138**	60
Cash and cash equivalents, end of year	23	**$ 206**	$ 138

See accompanying notes to the audited Consolidated financial statements.

NOTE 1 – Status of the Company

Intact Financial Corporation (the "Company") (TSX: IFC), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange. The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian property and casualty ("P&C") insurance market. On September 23, 2011, the Company acquired all of the issued and outstanding shares of AXA Canada Inc. ("AXA Canada"). Further details of the acquisition are provided in Note 4 – *Business combination*. The Company's significant subsidiaries are Intact Insurance Company, Belair Insurance Company Inc., The Nordic Insurance Company of Canada, Novex Insurance Company, Trafalgar Insurance Company of Canada, Equisure Financial Network Inc., Canada Brokerlink Inc., GP Car and Home Inc., IB Reinsurance Inc., Intact General Insurance Inc., now known as AXA Insurance Inc., Intact Farm Insurance Inc., AXA General Insurance, AXA Pacific Insurance Company and AXA Insurance (Canada).

The registered office of the Company is 700 University Avenue, Toronto, Canada.

NOTE 2 – Basis of presentation

Statement of compliance

These audited Consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As permitted by IFRS 4 – *Insurance Contracts*, the Company applies the Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for the accounting of its insurance contracts. These audited Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of directors on February 7, 2012.

For all years up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS and as such, in preparing these financial statements, management has amended certain accounting policies previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain additional information and footnote disclosures considered material to the understanding of the Company's financial statements prepared in accordance with IFRS are provided in Note 29 – *First-time adoption of IFRS* along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS.

The audited Consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for investments in associates and joint ventures that are accounted for using the equity method, and financial instruments measured at fair value (see Note 3.1b), c) and d) for accounting policy details). Financial assets and liabilities are offset and the net amount is reported on the audited Consolidated balance sheets only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

The Company presents its audited Consolidated balance sheets broadly in order of liquidity.

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally involving a shareholding of more than one half the voting shares. The financial statements of all subsidiary companies are fully consolidated from the date control is transferred to the Company. They are deconsolidated from the date control ceases. All balances, transactions, income and expenses and profits and losses resulting from intercompany transactions and dividends are eliminated in full on consolidation.

Associates are those entities over which the Company exerts significant influence as defined under IFRS and are accounted for using the equity method. See Note 3.1c) – *Investments in associates* for accounting policy details.

Joint ventures are those entities over which the Company exerts joint control as defined under IFRS and are accounted for using the equity method. See Note 3.1d) – *Joint ventures* for accounting policy details.

In preparing these audited Consolidated financial statements, the Company has adopted certain presentation standards. All amounts in these statements are in millions of Canadian dollars except as otherwise noted. Certain comparative figures have been reclassified to conform with the presentation adopted in the current year. Captions used in these audited Consolidated financial statements and the accompanying notes generally have words such as "benefit", "income", "revenue", "profit" or "gains" placed before the words "expense" or "loss".

NOTE 3 – Summary of significant accounting policies

3.1 Significant accounting policies

a) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risks, by comparing the benefits that could become payable under various possible scenarios relative to the premium received from the policyholder for insuring the risk.

Premium and commission revenue recognition

Premiums written are deferred as Unearned premiums and recognized as revenue, net of reinsurance, on a pro rata basis over the terms of the underlying policies, usually twelve months and generally no longer than twenty-four months. Commission revenue is recorded on an accrual basis and included in Other revenues on the audited Consolidated statements of comprehensive income.

Claims liabilities

Claims liabilities are reported gross of the reinsurers' share. The reinsurers' share is reported as an asset in Reinsurance assets.

Claims liabilities are estimated by the appointed actuary using generally accepted Canadian actuarial standard techniques and based on assumptions such as historical loss development factors and payment patterns, future rates of insurance claims frequency and severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance policies. These liabilities are recognized on the audited Consolidated balance sheets and changes are recognized in Net claims incurred on the audited Consolidated statements of comprehensive income. The claims liabilities are only extinguished when the contract expires, is discharged or cancelled.

Claims liabilities are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in claims liabilities is a provision to account for the future development of these insurance claims, including insurance claims incurred but not reported by policyholders ("IBNR"), as well as a provision for adverse deviations, as required by Canadian accepted actuarial practice.

Claims liabilities are discounted to take into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield-based discount rate.

Unearned premiums

Unearned premiums are calculated on a pro rata basis, from the unexpired portion of the premiums written and are recognized over the term of the insurance contract in Net premiums earned on the audited Consolidated statements of comprehensive income.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums were deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income are not considered adequate to cover all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition costs, a liability is accrued for the excess deficiency. The reductions of deferred acquisition costs and the additional liability cannot be reversed in future periods.

Deferred acquisition costs

Policy acquisition costs incurred in acquiring insurance premiums comprise commissions, premium taxes and expenses directly related to the writing or renewal of insurance policies. To the extent they are considered recoverable, the acquisition costs are deferred and amortized on the same basis as the unearned premiums and are reported in Underwriting expenses on the audited Consolidated statements of comprehensive income.

The recoverability of the deferred acquisition costs is tested through the liability adequacy test, performed at the end of each period. The portion of the deferred acquisition costs that appears not to be covered by estimated future benefits is considered as irrecoverable and is written off.

Deferred acquisition costs are derecognized when the corresponding contracts are settled or cancelled.

Reinsurance commissions

Commissions receivable on ceded reinsurance contracts are deferred and amortized on a straight-line basis over the term of the expected premiums payable. The unearned reinsurance commissions are recorded in Other liabilities on the audited Consolidated balance sheets.

Industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the Facility Association ("FA"). In addition, entities can choose to cede certain risks to FA administered risk sharing pools ("RSP"). The related risks associated with FA insurance policies and policies ceded by companies to the RSP are aggregated and shared by the entities in the Canadian P&C insurance industry, generally in proportion to market share and volume of business ceded to the RSP. The Company applies the same accounting policies to FA and RSP insurance it assumes as it does to insurance polices issued by the Company directly to policyholders.

In accordance with Office of Superintendent of Financial Institutions Canada ("OSFI") guidelines, assumed and ceded RSP premiums are reported respectively in Direct and net premiums written. In addition, the Company acts as a "facility carrier" responsible for the administration of a portion of the FA policies. In exchange for providing these services the Company receives fees. Policy issuance fees are earned immediately while claims handling fees are deferred and earned over the servicing life of the claims.

Reinsurance

Reinsurance assets include reinsurers' share of claims liabilities and unearned premiums. The Company reports third party reinsurance balances on the audited Consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance. The estimates for the reinsurers' share of claims liabilities are presented as an asset and are determined on a basis consistent with the related claims liabilities. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Reinsurance liabilities are reported in Other liabilities and relate to ceded premiums written as well as reinstatement premiums payable. Refer to Note 9 – *Financial risk* and Note 10 – *Insurance risk* for further details.

Structured settlements

The Company enters into annuity agreements with various Canadian life insurance companies that have credit ratings of at least A- or higher at the inception date of the contract to provide for fixed and recurring payments to claimants. As a result, the liability to its claimants is substantially discharged and the Company removes that liability from its audited Consolidated balance sheets. However, the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations. Refer to Note 9 – *Financial risk* for further details about credit risk for structured settlements.

b) Financial instruments contracts

The Company has classified or designated its financial assets and liabilities in the following categories:

– Available-for-sale ("AFS"),

Financial assets and liabilities at fair value through profit and loss ("FVTPL"),

Cash and cash equivalents, loans and receivables, or

Other financial liabilities.

The table below summarizes the Company's initial and subsequent measurement basis of financial instruments, as well as the reporting of related changes in fair value based on classification category.

TABLE 3.1 FINANCIAL INSTRUMENTS MEASUREMENT BASIS AND CLASSIFICATION OF RELATED CHANGES IN FAIR VALUE

Classification category	Initial measurement	Subsequent measurement	Changes in fair value
Financial assets			
AFS	Fair value using bid prices at the trade date	Fair value using bid prices at year-end	Reported on the audited Consolidated statements of comprehensive income (in Other comprehensive income (loss) when unrealized or in Net investment gains (losses) when realized or impaired)
FVTPL	Fair value using bid prices at the trade date	Fair value using bid prices at year-end	Reported on the audited Consolidated statements of comprehensive income (in Net investment gains (losses))
Cash and cash equivalents, loans and receivables	Fair value at the issuance date	Amortized cost using the effective interest method	Reported on the audited Consolidated statements of comprehensive income (in Net investment gains (losses)) when realized or impaired (except for cash and cash equivalents where no impairment exists)
Financial liabilities			
FVTPL instruments	Fair value using ask prices at the trade date	Fair value using ask prices at year-end	Reported on the audited Consolidated statements of comprehensive income (in Net investment gains (losses))
Other financial liabilities	Fair value at the issuance date	Amortized cost using the effective interest method	Reported on the audited Consolidated statements of comprehensive income (in Net investment gains (losses)) when the liability is extinguished

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial assets lent by the Company in the course of the securities lending operations are not derecognized because the Company has not transferred the important risks and rewards related to the lent assets.

Financial liabilities are derecognized when they have expired or have been cancelled.

Financial instruments

Available-for-sale instruments

As described in Table 3.1, non-derivative AFS financial assets are recorded at fair value on the audited Consolidated balance sheets on the trade date and changes in fair values are recorded, net of income taxes, in Other comprehensive income (loss) ("OCI") until the financial asset is disposed of, or has become impaired (see Table 6.2 for fair value and unrealized gains and losses). When the asset is disposed of, or has become impaired, the gain or loss is reported in Net investment gains (losses) on the audited Consolidated statements of comprehensive income and the amount is deducted from OCI. Gains and losses on the sale of available-for-sale debt and equity securities are calculated on a first in, first out basis and on an average cost basis, respectively.

FVTPL

Non-derivative financial assets and liabilities at FVTPL are purchased or incurred with the intention of generating profits in the near term ("classified as FVTPL") or are voluntarily so designated by the Company ("designated as FVTPL").

A portion of Company's debt securities backing its claims liabilities has been designated as FVTPL. This designation aims to reduce the volatility caused by the fluctuations in fair values of underlying claims liabilities due to changes in discount rates. To comply with regulatory guidelines, the Company ensures that the weighted dollar duration of the debt securities designated as FVTPL is approximately equal to the weighted dollar duration of the claims liabilities. The rate used to discount claims liabilities is calculated based on a dollar match of investments backing these claims liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash as well as highly liquid investments that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest method, less impairment. Gains and losses are recognized in the audited Consolidated statements of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

Debt outstanding

The Company's medium term notes together with associated issuance costs are classified as Debt outstanding and accounted for at amortized cost using the effective interest method.

Mutual fund investments

The Company invests in mutual funds offered by a third party. These funds invest mainly in equities and distribute most of their income. The Company's participation in these investment vehicles can fluctuate from day to day based on the amount invested by the Company and third parties. When the Company is deemed to control such vehicles, they are consolidated and the third party interest liability is recorded as a liability at fair value and disclosed as Net asset value attributable to third party unitholders (Note 6 – Financial instruments).

Derivative financial instruments

Derivative financial instruments are used for risk management purposes. Currency swaps, options, forwards, futures and total return swaps are held for non-trading purposes to mitigate foreign exchange and market risks.

Derivative financial instruments are recognized at their fair value, with changes in the fair value reported on the audited Consolidated statements of comprehensive income in Net investment gains (losses) during the period in which they arise. See Note 7 – Derivative financial instruments for further details.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (the "host instrument"). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument. The terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and therefore, the embedded derivatives are designated or classified separately from the host contract. Embedded derivatives are financial assets and liabilities classified at FVTPL.

Hedge accounting

The Company uses derivatives in its hedging strategies to manage its exposure to risk arising from financial instruments. Where hedge accounting can be applied, a hedge relationship is designated and documented at inception to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in accomplishing the objective of offsetting changes in either the fair value or the anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Cash flow hedges

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recognized in OCI while the ineffective portion is recognized in Net investment gains (losses). When hedge accounting is discontinued, the amounts accumulated in AOCI are reclassified to Finance costs on the same basis as these costs are incurred. Gains and losses on derivatives are reclassified immediately to Net income (loss) attributable to shareholders when the hedged item is sold or terminated early.

Long-term investments

Long-term investments are unquoted investments for which the Company has no significant influence. These investments are not traded and as such are carried at cost less any accumulated impairment losses, which approximates fair value. The investments are included in Other assets on the audited Consolidated balance sheets.

Fair value measurement

The fair value of financial instruments on initial recognition is normally the transaction price, being the fair value of the consideration given or received.

Subsequent to initial recognition, the fair value of financial instruments is determined based on available information and categorized according to a three-level fair value hierarchy. The distribution of the Company's financial instruments between each of the fair value hierarchy levels is described in Note 8 – Fair value measurement.

All derivatives are carried as financial assets when the fair value is positive and as a financial liability when the fair value is negative. See Table 7.1 for more details.

Where the fair values of financial assets and financial liabilities reported on the audited Consolidated balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values.

For discounted cash flow analyses, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments, currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of financial assets

The Company determines, at each balance sheet date, whether there is objective evidence that financial assets, other than those classified or designated as FVTPL, are impaired. A financial asset or a group of financial assets is impaired when there is objective evidence of impairment as a result of one or more events that has an impact on the estimated future cash flows of the financial asset or group of financial assets. Objective evidence for an available-for-sale equity instrument would include a significant or prolonged decline in fair value of the instrument below its cost. An available-for-sale debt instrument is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows. The following table demonstrates the measurement and recognition of impairment losses for each type of financial asset.

For debt securities classified as AFS, impairment is recorded for the difference between amortized cost and fair value when it is probable that the future cash flows will not be fully recovered, following a credit event that affected the issuer of those debt securities. However, a credit event is not sufficient to constitute, in itself, evidence of impairment. Other factors are considered to conclude that the debt security is impaired, such as payment default. If the risk diminishes or disappears, the impairment provision can be reversed. Impairment reversals are recognized as gains in the audited Consolidated statements of comprehensive income.

For equity instruments classified as AFS, a significant or prolonged decline of the value below the cost is evidence of impairment. The Company determined that common shares with an unrealized loss of at least 25% for a nine-month period and perpetual preferred shares with an unrealized loss of at least 25% for a twelve-month period are generally impaired. In addition, for all equity instruments, a decline below carrying value of more than 50% at the end of any reporting period are generally impaired. When there is objective evidence that impairment exists, the equity instrument is written down, regardless of the unrealized loss, in the audited Consolidated statements of comprehensive income, for an amount equal to the unrealized loss. Impairments on equity instruments are not reversible.

For assets classified as loans and receivables, the instruments that are individually significant are tested for impairment when there is a payment default or when there are objective indications that the counterparty will not honour its obligations. When an instrument in that category is determined to be impaired, its carrying amount is reduced either to its estimated realizable value, which is obtained by discounting estimated future cash flows from the investment concerned using the effective interest rate, or the fair value of collateral. The provision can be reversed when the event that gave rise to its recognition subsequently disappears. The loans and receivables which have not been individually impaired are grouped by similar characteristics to be tested for impairment.

TABLE 3.2 MEASUREMENT AND RECOGNITION OF FINANCIAL ASSET IMPAIRMENT

Instrument category	Loss measurement	Reported loss	Subsequent fair value increases
AFS equity instrument	Difference between acquisition cost and current fair value less any impairment loss on that instrument previously recognized	Unrealized loss removed from OCI and recognized in Net investment gains (losses) on the audited Consolidated statements of comprehensive income	Increases are recognized directly in OCI
AFS debt instrument	Difference between unamortized cost and current fair value less any unrealized loss on that instrument previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses) on the audited Consolidated statements of comprehensive income	Recognized in Net income (loss) attributable to shareholders when there is observable positive development on the original impairment loss event. Otherwise, recognized in OCI
Financial assets carried at amortized cost	Difference between the asset•s carrying value and the present value of the estimated future cash flows	Impairment loss is recognized directly in Net income (loss) attributable to shareholders on the audited Consolidated statements of comprehensive income	Recognized in Net income (loss) attributable to shareholders when there has been a change in the estimates used to determine the asset•s recoverable amount since the last impairment loss was recognized
Financial assets carried at cost	Difference between the asset•s carrying value and the present value of the estimated future cash flows	Impairment loss is recognized directly in Net income (loss) attributable to shareholders on the audited Consolidated statements of comprehensive income	Impairment losses are not reversed

c) Investments in associates

The Company's investments in associates are accounted for using the equity method. Investments in associates are reported on th e audited Consolidated balance sheets at cost plus post-acquisition changes in the Company's share of net assets of the associate s. The Company's profit from investments in associates is shown on the audited Consolidated statements of comprehensive income and reflect the after-tax share of the results of operations of the associates. Profits or losses resulting from transactions bet ween the Company and its associates are eliminated to the extent of the interest in the associate. The Company determines at each report ing date whether there is any objective evidence that the investments in associates are impaired. The financial statements of assoc iates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting polici es of associates into line with those of the Company.

d) Joint ventures

The Company's investments in joint ventures are accounted for using the equity method. Investments in joint ventures are report ed on the audited Consolidated balance sheets at cost plus post-acquisition changes in the Company's share of net assets of the jo int ventures. The Company's profit from investments in joint ventures is shown on the audited Consolidated statements of comprehensive income and reflects the share of the results of operations of the joint ventures after tax. Profits or losses res ulting from transactions between the Company and its joint ventures are eliminated to the extent of the interest in the joint ventures . The Company determines at each reporting date whether there is any objective evidence that the investments in joint ventures are impaired. The financial statements of joint ventures are prepared for the same reporting period as the Company. Where necessary , adjustments are made to bring the accounting policies of joint ventures in line with those of the Company.

e) Assets classified as held for sale and discontinued operations

Assets are classified as held for sale when the carrying amount is to be recovered principally through a sale transaction rathe r than through continued use and such sale is considered highly probable. Assets held for sale are measured at the lower of their carr ying amount or fair value less costs to sell.

Assets classified as held for sale by the Company are considered as discontinued operations if the operations and cash flows ca n be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company and they: represent a separate major line of business or geographical area of operations; are part of a single coordinated plan to dispose of a separ ate major line of business or geographical area of operations; or are a subsidiary acquired exclusively with a view to resell.

Liabilities directly associated with assets classified as held for sale are measured at the lower of their carrying value or fair value less costs to sell. Interest and other expenses related to these liabilities continue to be recorded and the liabilities are presented net of intragroup transactions.

Revenues and expenses from discontinued operations comprise the revenues and expenses of the subsidiary held for sale, adjusted with the revaluations at fair value of the related assets classified as held for sale and corresponding liabilities. Revenues and expenses from discontinued operations are presented on a net basis, as Net income (loss) from discontinued operations in the audited Consolidated statements of comprehensive income.

f) Revenue and expense recognition

Dividends are recognized when the shareholders' right to receive payment is established, which is the ex-dividend date. Dividends paid on instruments sold short are recorded as interest expense. Interest income from debt securities and loans are recognized on an accrual basis. Dividends received, dividends paid and interest income are all reported in Net investment income on the audited Consolidated statements of comprehensive income.

Transaction costs associated with financial instruments classified or designated as FVTPL are recognized on the audited Consolidated statements of comprehensive income as incurred. For other financial instruments, transaction costs are capitalized on initial recognition and amortized using the effective interest method. Premiums earned or discounts incurred for loans and available-for-sale securities are also amortized using the effective interest method.

g) Restructuring and integration costs

A provision for restructuring costs is recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

The provision for restructuring costs is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Cost, recognized on the audited Consolidated statements of comprehensive income, for employee future benefit plans includes:

- The cost of pension benefits provided in exchange for employees' services rendered during the year;
- The interest cost of pension obligations; and
- The expected long-term return on the fair value of plan assets.

For defined contribution plans, the Company pays specified contributions into a separate entity and has no legal or constructiv e obligation to pay further amounts. No liability therefore appears on the Company's audited Consolidated financial statements, except for the expense recognized for contributions due but not yet paid at the end of the reporting period. Obligations for contributions to defined contribution plans are recognized as an expense in Net income (loss) attributable to shareholders in t he periods during which services are rendered by employees.

Post-employment benefits

Health and dental benefits continue to be provided to eligible employees who are absent from work due to long-term disability (or other approved leave) for the duration of their leave. The estimated present value of these benefits is charged to Net income (loss) attributable to shareholders on the audited Consolidated statements of comprehensive income in the period the absence commences .

j) Share-based payments

The Company has three types of shared-based payment plans:

Long-term incentive plan

Certain key employees are entitled to a long-term incentive plan ("LTIP"). Under this plan, the employees are granted awards to receive common shares of the Company as a portion of their compensation. Each award vests and is paid out at the end of a three - year performance cycle. The value of the actual award varies based on a performance measure which compares the Company's three-year average return on equity relative to that of the Canadian P&C insurance industry. The common shares received are restricted for two years.

The Board of directors approved a change in the LTIP in 2010. Under this new program, participants are awarded notional share units referred to as Performance Stock Units ("PSUs") and Restricted Stock Units ("RSUs"). The payout for the PSUs is based on a specific target composed of the difference between the three-year average return on equity of the Company and that of the Canadian P&C industry. Most RSUs automatically vest three years from the year of the grant. Vesting for RSUs is not linked to t he Company's performance.

The Company re-estimates the number of awards that are expected to vest at each reporting period. At the time of the payout, th e Company purchases on the market the amount of common shares based upon the performance targets achieved with respect to the vesting of the performance units and an amount of common shares equal to the amount of RSUs with respect to the vesting of RSUs. This type of compensation is measured at the quoted market value of the award at the grant date and recognized as an expense over the vesting period with a corresponding increase reported in Contributed surplus.

Employee share purchase plan

Employees who are not eligible for the LTIP are entitled to make contributions to a voluntary employee share purchase plan ("ESPP"). Under the ESPP, eligible employees can contribute up to 10% of their annual base salary through a payroll deduction. As an incentive to participate in the plan, the Company contributes to the plan an amount equal to 50% of the employee contribution. The common shares are purchased on the market by an independent broker at the end of each month and are held by a custodian on behalf of the employees. The common shares purchased with the Company's contributions vest upon continued employment for a period of twelve months. The Company's contributions under the ESPP are accrued and expensed over the vesting period.

Deferred share unit plan

Non-employee directors of the Company are eligible to participate to the Company's deferred share unit ("DSU") Plan. Subject to part of their remuneration that must be received in DSUs or shares of the Company, the directors are given the choice of cash, shares of the Company, DSUs or a combination of the three for their compensation. Both the shares and the DSUs vest at the time of the grant. The DSUs are redeemed upon director termination and are settled for cash at that time. When directors elect to re ceive shares, the Company makes instalments to the directors for the purchase of shares of the Company on behalf of the directors. The Company records the expense for cash payments when paid and for share payments when instalments are made to the share agent. The DSUs are cash-settled awards which are accounted for as an expense at the time of granting with a corresponding financial liability reported in Other liabilities. This liability is re-measured at each reporting date based on the current share price with any fluctuations in the liability also recorded as an expense until it is settled in cash.

k) Business combinations

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the fair value of the consideration transferred, measured at acquisition date and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are recognized directly in Net income (loss) attributable to shareholders on the audited Consolidated statements of comprehensive income in the period they are incurred.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be assumed by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration resulting from additional information obtained after the acquisition date about facts and circumstances that existed at the acquisition date are considered measurement period adjustments and reflected in the provisional fair value of assets acquired and liabilities assumed. Subsequent changes in the fair value of the contingent consideration relating to events that occurred after the acquisition date are not considered measurement period adjustments and are recorded in the audited Consolidated statements of comprehensive income.

At the acquisition date, the identifiable assets acquired and liabilities assumed of the acquiree are estimated at their fair value. Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the Company's share in the net identifiable assets acquired and liabilities assumed.

l) Goodwill and intangible assets

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested at least annually for impairment. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the cash generating unit (CGU) that is expected to benefit from the combination (see Note 17 – Goodwill and intangible assets). Gains and losses calculated on the disposal of a business include the carrying value of goodwill relating to the business sold. The Company performs its annual test for goodwill impairment at June 30. The Company currently has one CGU (see Note 3.1 q) – Operating segments for details). The recoverable amount of the CGU was determined based on the present value of expected future cash flows.

Intangible assets acquired separately are measured initially at cost. Intangible assets acquired in a business combination are recorded at fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite lives, as well as those intangibles that are under development, are not subject to amortization, but are tested for impairment on an annual basis. Gains and losses arising from the disposition or impairment of an intangible asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in Other revenues or Other expenses on the audited Consolidated statements of comprehensive income.

The Company's intangible assets consist of distribution network, customer relationships, rights to offer renewals and internally developed software. The useful life of the distribution network has been assessed to be indefinite and, therefore, it is not subject to amortization, but is tested for impairment on an annual basis. The life of this asset is assessed to be indefinite since the related cash flows are expected to continue indefinitely: the projected compound growth it generates is expected to be higher than the loss of its volume. Customer relationships, rights to offer renewals and internally developed software have all been assessed as having finite lives and amortization methods and rates are shown below.

	Method	Term
Customer relationships including rights to offer renewals	Straight-line	10 years
Internally developed software	Straight-line	3 to 7 years

m) Earnings per common share

Earnings per common share is computed by dividing Net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the period. The Company has not issued any share options and, therefore, diluted earnings per common share is the same as earnings per common share.

n) Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation rates are established to depreciate the cost of the assets over their estimated useful lives. Depreciation methods and rates are shown below.

	Method	Rate or term
Computer equipment	Straight-line	30…36 months
Furniture and equipment	Declining balance and straight-line	20% and 60 months, respectively
Leasehold improvements	Straight-line	Over the terms of related leases

o) Current vs. non-current

Assets are considered current when expected to be realized within the Company's normal operating cycle of one year. Liabilities are classified as current when expected to be settled within the Company's normal operating cycle of one year. All other assets and liabilities are considered as non-current.

In line with industry practice for insurance companies, the Company's balance sheets are not presented using current and non-current classifications, but are rather presented broadly in order of liquidity. However, the following balances are generally considered to be current: Investments, Assets classified as held for sale, Accrued investment income, Premium receivables, Reinsurance assets, Income taxes receivable, Deferred acquisition costs, Liabilities directly associated with assets classified as held for sale, Unearned premiums, Financial liabilities related to investments, Income taxes payable and Other liabilities.

The following balances are generally considered non-current: Investments in associates and joint ventures, Deferred tax assets, Property and equipment, Intangible assets, Goodwill, Deferred tax liabilities and Debt outstanding.

p) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to Net income (loss) attributable to shareholders on the audited Consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

q) Operating segments

The Company's business activities comprise P&C insurance operations. These activities are captured within a sole reporting and operating segment, P&C insurance operations. Internal reports on the performance of the segment are regularly reviewed by senior management, the Company's Chief Executive Officer and the Board of directors.

3.2 Standards issued but not yet effective

The Company is currently analyzing the impact that the following standards will have on its audited Consolidated financial statements:

a) Financial instruments: classification and measurement

In November 2009, the IASB issued IFRS 9 – Financial Instruments. This standard represents the completion of the first part of a three-part project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The new standard reduces complexity by replacing the many different rules in IAS 39. The key features for the new standard are as follows:

- A business model test is applied first in determining whether a financial asset is eligible for amortized cost measurement. The business model objective is based on holding financial assets in order to collect contractual cash flows rather than realizing cash flows from the sale of the financial assets,
- In order to be eligible for amortized cost measurement an asset must have contractual cash flow characteristics representing the principal and interest,
- All other financial assets are measured at fair value on the balance sheet,
- An entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in OCI. The dividends on investments for which this election is made must be recognized in profit or loss but gains or losses are not removed from OCI when the equity investment is disposed of, and
- If a financial asset is eligible for amortized cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.

The standard is effective for years beginning on or after January 1, 2015.

b) Consolidated financial statements

IFRS 10 – Consolidated financial statements replaces IAS 27 – Consolidated and separate financial statements and SIC-12 – Consolidation – special purpose entities and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The main features are as follows:

- The principle of control sets out the three elements of control: (1) power over the investee; (2) exposure, or rights, to variable returns from involvement with the investee; (3) the ability to use power over the investee to affect the amount of the investor's returns, and
- When preparing consolidated financial statements, an entity must use uniform accounting policies for reporting like transactions and other events in similar circumstances. Intragroup balances and transactions must be eliminated. Non-controlling interests in subsidiaries must be presented in the consolidated statements of financial position within equity, separately from the equity of the owners of the parent.

The standard is effective for years beginning on or after January 1, 2013.

c) Joint arrangements

IFRS 11 – Joint arrangements replaces IAS 31 – Interest in joint ventures and SIC-13 – Jointly controlled entities – non-monetary contributions by venturers and is to be applied by all entities that are a party to a joint arrangement, whereby two or more parties have joint control. The key features of this new standard are as follows:

- Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control,
- Joint arrangements are classified into two types – joint operations and joint ventures,
- An entity determines the type of arrangement in which it is involved by considering its rights and obligations,
- A joint operator will recognize and measure the assets, liabilities, revenues and expenses in relation to its interest in the arrangement, and
- A joint venturer will recognize an investment and measure it using the equity method.

The standard is effective for years beginning on or after January 1, 2013.

d) Disclosure of interests in other entities

IFRS 12 – Disclosure of interests in other entities, replaces the disclosure requirements of IAS 27 – Consolidated and separate financial statements, IAS 28 – Investments in associates, and IAS 31 – Interests in joint ventures. The IFRS 12 establishes disclosure objectives according to which an entity discloses information regarding consolidated entities, associates, joint arrangements, unconsolidated structured entities and non-controlling interests.

The standard is effective for years beginning on or after January 1, 2013.

e) Fair value measurement

In May 2011, the IASB issued IFRS 13 – Fair value measurement with a view to setting out a single IFRS framework for defining, measuring and disclosing fair value. Its main features are as follows:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date,
- The fair value measurement requires an entity to determine the following:
  - The particular asset or liability being measured;
  - For a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
  - The market in which an orderly transaction would take place for the asset or liability; and
  - The appropriate valuation technique(s) to use when measuring fair value. The technique(s) should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and
- The entity is to disclose those valuation techniques and inputs used to develop the fair value measurements.

The standard is effective for years beginning on or after January 1, 2013.

f) Employee benefits

In June 2011, the IASB completed its project to improve the accounting for pension and other post-employment benefits by issuing an amended version of IAS 19 – Employee benefits. The amendments aim to:

- Eliminate an option to defer the recognition of gains and losses, known as the "corridor method", improving comparability and faithfulness of presentation,
- Streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the results of an entity's day-to-day operations, and
- Enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The standard is effective for years beginning on or after January 1, 2013.

g) Financial statement presentation

In June 2011, the IASB amended IAS 1 – Presentation of Financial Statements. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements

The standard is effective for years beginning on or after January 1, 2013.

3.3 Signi"cant accounting judgments, estimates and assumptions

The carrying values of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of certain assets and liabilities during the next annual reporting period are:

a) Valuation of claims liabilities

The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business line and claim type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

b) Valuation of pension benefit obligation

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in the assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates are contained in Note 18.4 – Assumptions used.

c) Impairment

Goodwill and intangible assets

The Company determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. Also, intangible assets under development are not subject to amortization but are tested for impairment on an annual basis. Impairment testing of these assets requires an estimation of the recoverable amount of the cash generating units to which the assets are allocated. The assumptions used in this estimation of the recoverable amount are discussed in Note 17 – Goodwill and intangible assets.

Financial assets

The Company determines whether financial assets, other than those classified or designated as FVTPL, are impaired at each audited Consolidated balance sheet date. These financial assets are impaired when there is objective evidence of a decline in fair value below cost. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value of an AFS equity instrument and a loss event that has occurred impairing the expected cash flows of an AFS debt instrument. For asset-backed securities, considerations include liquidity risk, credit risk, volatility, discount rates, prepayment rates and default rate assumptions.

d) Measurement of embedded derivatives

The Company owns perpetual preferred shares with call options which give the issuer the right to redeem the shares at a particular price. Accounting standards require the value of the option liability to be measured separately from the preferred shares. The value of the option liability for embedded derivatives is determined using a valuation which relies predominantly on the price volatility of the underlying preferred shares, which can be significantly affected by market conditions. Judgment is also required to determine the time period over which the volatility is measured.

e) Measurement of income taxes

Management exercises judgment in estimating the provision for income taxes. The Company is subject to income tax laws in various provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

f) Business combinations

Upon initial recognition, the acquiree's assets and liabilities have been included in the audited Consolidated balance sheets at fair value. Management estimated the fair values using estimates on future cash flows and discount rates. However, actual results can be different from those estimates. The changes in the estimates that relate to new information obtained about facts and circumstances that existed as of the acquisition date, made at initial recognition with regard to items for which the valuation was incomplete, would have an impact on the amount of goodwill recognized. Any other changes in the estimates made at initial recognition would be reported in the audited Consolidated statements of comprehensive income. The detail on assets acquired and liabilities assumed is presented in Note 4 – Business combination.

NOTE 4 Business combination

On May 31, 2011, the Company announced that it had signed a definitive agreement with AXA SA for the acquisition of all of the issued and outstanding shares of its subsidiary AXA Canada for a cash consideration of $2,621 million and contingent consideration of up to $100 million. Following receipt of all required regulatory approvals, the acquisition closed and AXA Canada became a wholly owned subsidiary on September 23, 2011. The combination of the Company and AXA Canada represents an opportunity to combine two of the leading P&C insurance operators in Canada and is consistent with the Company's strategy to grow through significant acquisitions in areas where it has strong expertise.

AXA Canada provided P&C insurance in Canada, principally through a network of independent brokers. It carried out its activities primarily through its wholly-owned insurance subsidiaries, AXA Insurance Inc., AXA Insurance (Canada), AXA Pacific Insurance Company, AXA General Insurance, and AXA Farm Insurance Inc. and offered life and health insurance products in Canada through its subsidiary AXA Life Insurance Inc. ("AXA Life Insurance"). The Company sold AXA Life Insurance as it does not relate to its core activities (see Note 5 – Assets classified as held for sale and directly associated liabilities).

The results of operations of AXA Canada are included in the audited Consolidated financial statements from the date of acquisition. The net premiums earned included in the audited Consolidated statements of comprehensive income contributed by AXA Canada are $515 million and the net income (loss) attributable to shareholders is $28 million excluding the effect of the related financial impact of the acquisition financing. Had AXA Canada been consolidated from January 1, 2011, the additional net premiums earned would have been $1,886 million, the additional net income (loss) from continuing operations attributable to shareholders, $277 million, and the additional net income (loss) from discontinuing operations attributable to shareholders $33 million.

The following table summarizes the consideration paid for AXA Canada, and the amounts recognized for the assets acquired and liabilities assumed at the acquisition date.

TABLE 4.1 BUSINESS COMBINATION

As at (in millions of $)	September 23, 2011
Cash consideration paid	$ 2,621
Fair value of contingent consideration	48
Purchase price	2,669
Provisional fair value of assets acquired and liabilities assumed	
Investments (including cash and cash equivalents of $75 million)	3,565
Assets classified as held for sale	1,459
Investments in associates and joint ventures	100
Premium receivables	679
Reinsurance assets	131
Deferred tax assets	89
Deferred acquisition costs	211
Property and equipment	13
Intangible assets	897
Other assets	64
Claims liabilities	(2,193)
Unearned premiums	(1,148)
Liabilities directly associated with assets classified as held for sale	(1,170)
Deferred tax liabilities	(128)
Other liabilities	(473)
Total identi“able net assets	2,096
Goodwill	$ 573

The fair value of the acquired identifiable intangible assets is based on a discounted cash flow analysis of the distribution network and the customer relationships acquired. The useful life of the distribution network has been assessed as indefinite and is therefore not subject to amortization, but tested for impairment on an annual basis. Customer relationships are amortized over a period of 10 years.

Goodwill reflects the quality of the acquired business and the synergies expected following the integration of AXA Canada. None of the goodwill is expected to be deductible for tax purposes.

A contingent consideration contract clause requires the Company to pay up to an additional $100 million to AXA SA based on the development of the consolidated reserves of AXA Canada, excluding the life and health business, as at December 31, 2010. The calculation period of this consideration ends on December 31, 2016.

During the fourth quarter of 2011, the Company assessed the fair value of the contingent consideration at $48 million which was recorded as an increase in the purchase price and goodwill as at September 23, 2011. There were no other significant adjustments made to the fair value of assets acquired and liabilities assumed in the fourth quarter of 2011.

The determination of the fair value of the identifiable assets and liabilities acquired is complete, except for property and equipment, other assets and other liabilities. The review of the fair values of those assets will be completed by June 30, 2012.

NOTE 5 Assets classi“ed as held for sale and directly associated liabilities

As part of the acquisition of AXA Canada, the Company acquired AXA Life Insurance. On September 26, 2011, the Company announced that it had entered into a definitive share purchase agreement to sell this subsidiary to a third party. The transaction closed on January 1, 2012, following receipt of all regulatory approvals.

For the purpose of these audited Consolidated financial statements, AXA Life Insurance was measured at fair value less costs to sell and classified as a disposal group held for sale. Therefore, all its assets are grouped together in Assets classified as held for sale and all its liabilities are grouped together in Liabilities directly associated with assets classified as held for sale.

AXA Life Insurance qualifies as a discontinued operation as at December 31, 2011, given that the subsidiary was classified as a disposal group, acquired for resale purposes.

NOTE 6 Financial instruments

6.1 Investments

The following tables summarize the Company's investments.

TABLE 6.1 INVESTMENTS BY CLASSIFICATION

(in millions of $)	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, loans and receivables	Total
As at December 31, 2011					
Cash and cash equivalents	…	…	…	206	206
Debt securities					
Short-term notes	244	…	…	…	244
Fixed income					
Investment grade					
Government	2,318	…	2,315	…	4,633
Corporate	1,170	3	1,583	…	2,756
Asset-backed	119	…	117	…	236
Below investment grade	9	…	9	…	18
Total debt securities	3,860	3	4,024	…	7,887
Preferred shares					
Investment grade					
Retractable	165	…	…	…	165
Fixed-rate perpetual	323	…	…	…	323
Other perpetual	792	…	…	…	792
Non-rated	1	…	…	…	1
Total preferred shares	1,281	…	…	…	1,281
Common shares	1,063	435	553	…	2,051
Loans	…	…	…	403	403

TABLE 6.2 CARRYING VALUE OF INVESTMENTS

(in millions of $)	FVTPL[1] instruments	Other investments				Total investments
	At fair value	Unamortized cost	Unrealized gains	Unrealized losses	Net unrealized gains (losses)	At carrying value
As at December 31, 2011						
Cash and cash equivalents	…	206	…	…	…	206
Debt securities						
Short-term notes	…	244	…	…	…	244
Fixed income						
Investment grade						
Government	2,315	2,237	81	…	81	4,633
Corporate	1,586	1,153	18	(1)	17	2,756
Asset-backed	117	116	3	…	3	236
Below investment grade	9	9	…	…	…	18
Total debt securities	4,027	3,759	102	(1)	101	7,887
Preferred shares						
Investment grade						
Retractable	…	164	3	(2)	1	165
Fixed-rate perpetual	…	245	78	…	78	323
Other perpetual	…	715	83	(6)	77	792
Non-rated	…	1	…	…	…	1
Total preferred shares	…	1,125	164	(8)	156	1,281
Common shares	988	1,019	89	(45)	44	2,051
Loans	…	403	…	…	…	403
Total investments	5,015	6,512	355	(54)	301	11,828
As at December 31, 2010						
Cash and cash equivalents	…	138	…	…	…	138
Debt securities						
Short-term notes	…	363	…	…	…	363
Fixed income						
Investment grade						
Government	1,591	1,320	26	(1)	25	2,936
Corporate	832	627	12	(1)	11	1,470
Asset-backed	…	51	1	…	1	52
Total debt securities	2,423	2,361	39	(2)	37	4,821
Preferred shares						
Investment grade						
Retractable	25	239	6	(4)	2	266
Fixed-rate perpetual	75	418	147	…	147	640
Other perpetual	85	396	110	…	110	591
Non-rated	…	3	3	…	3	6
Total preferred shares	185	1,056	266	(4)	262	1,503
Common shares	856	882	150	(11)	139	1,877
Loans	…	314	…	…	…	314
Total investments	3,464	4,751	455	(17)	438	8,653

1 Fair value through profit or loss.

(in millions of $)	FVTPL[1] instruments	Other investments				Total investments
	At fair value	Unamortized cost	Unrealized gains	Unrealized losses	Net unrealized gains (losses)	At carrying value
As at January 1, 2010						
Cash and cash equivalents	…	60	…	…	…	0 6
Debt securities						
Short-term notes	…	211	…	…	…	112
Fixed income						
Investment grade						
Government	1,631	1,625	13	(10)	3	3,259
Corporate	689	506	16	…	16	1,211
Asset-backed	…	100	3	…	3	103
Total debt securities	2,320	2,442	32	(10)	22	4,784
Preferred shares						
Investment grade						
Retractable	17	307	10	(13)	(3)	321
Fixed-rate perpetual	45	609	168	…	168	822
Other perpetual	48	310	81	…	81	439
Total preferred shares	110	1,226	259	(13)	246	1,582
Common shares	585	650	80	(3)	77	1,312
Loans	…	319	…	…	…	193
Total investments	3,015	4,697	371	(26)	345	8,057

1 Fair value through profit or loss.

As of December 31, 2011, asset-backed securities consisted of auto loan receivables, credit card receivables and asset-backed commercial paper. All of these asset-backed securities are AAA rated as at December 31, 2011 and 2010.

As at December 31, 2011, the fair value of the loans was $436 million (December 31, 2010 – $330 million). The fair value was established using valuation techniques that used both input parameters based on observable market data and input parameters not based on observable market data.

The Company uses Dominion Bond Rating Services (“DBRS”) and Standard & Poor’s (“S&P”) to rate debt securities and preferred shares. Debt securities with a rating equal to or above BBB- are classified as investment grade. Preferred shares with a rating equal to or above P3 low are classified as investment grade.

6.2 Securities lending

The Company participates in a securities lending program to generate fee income. This program is managed by the Company’s custodian, a major Canadian financial institution, whereby the Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. As at December 31, 2011, the Company has loaned securities (which are reported in Investments) with a fair value of $1,550 million (December 31, 2010 – $1,332 million and January 1, 2010 – $1,002 million).

Collateral is provided by the counterparty and is held in trust by the custodian for the benefit of the Company until the underlying security has been returned to the Company. The collateral cannot be sold or re-pledged externally by the Company, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the underlying loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the securities loaned and amounts to $1,628 million at December 31, 2011 (December 31, 2010 – $1,399 million and January 1, 2010 – $1,052 million).

6.3 Equities sold short

Among the Company's various investment strategies is a market neutral equity investment strategy. The objective of this strategy, which consists of having both long and short equity positions, is to maximize the value added from active equity portfolio management while at the same time using short positions to mitigate overall equity market volatility. Long positions are reported in Common shares and short positions are reported in Financial liabilities related to investments on the audited Consolidated balance sheets.

The Company has secured its short positions by pledging government debt securities as collateral.

TABLE 6.3 LONG AND SHORT POSITIONS

	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
(in millions of $)	Fair value	Debt securities pledged as collateral	Fair value	Debt securities pledged as collateral	Fair value	Debt securities pledged as collateral
Long positions	369	…	398	…	184	…
Short positions	(368)	377	(397)	407	(183)	183

The following table shows the terms to maturity of the Company's investment portfolio.

TABLE 6.4 MATURITY OF INVESTMENTS

(in millions of $)	One year or less	Over one year to five years	Over five years	No specific maturity	Total
As at December 31, 2011					
Cash and cash equivalents	206	…	…	…	206
Short-term notes	244	…	…	…	244
Fixed income	741	4,136	2,766	…	7,643
Preferred shares	22	115	29	1,115	1,281
Common shares	1	…	…	2,050	2,051
Loans	42	171	183	7	403
Total investments	1,256	4,422	2,978	3,172	11,828
As at December 31, 2010					
Cash and cash equivalents	138	…	…	…	138
Short-term notes	363	…	…	…	363
Fixed income	346	2,639	1,473	…	4,458
Preferred shares	43	147	74	1,239	1,503
Common shares	…	…	…	1,877	1,877
Loans	35	157	114	8	314
Total investments	925	2,943	1,661	3,124	8,653
As at January 1, 2010					
Cash and cash equivalents	60	…	…	…	60
Short-term notes	211	…	…	…	211
Fixed income	141	3,045	1,387	…	4,573
Preferred shares	19	191	115	1,257	1,582
Common shares	…	…	…	1,312	1,312
Loans	33	155	121	10	319
Total investments	464	3,391	1,623	2,579	8,057

The following table details the Company's financial liabilities related to investments.

TABLE 6.5 DETAILS OF THE COMPANY•S FINANCIAL LIABILITIES RELATED TO INVESTMENTS

As at (in millions of $)	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable to investment brokers on unsettled trades	4	10	13
Equities sold short positions (Table 6.3)	368	397	183
Derivative liabilities (Table 7.1)	23	16	16
Embedded derivatives (Note 7.2)	67	67	67
Net asset value attributable to third party unit holders	70	225	127
Total "nancial liabilities related to investments	532	715	406

The following table provides additional details about the items reported in Net investment income and Net investment gains (losses).

TABLE 6.6 DETAILS OF THE COMPANY•S NET INVESTMENT INCOME AND NET INVESTMENT GAINS LOSSES

For the years ended (in millions of $)	December 31, 2011	December 31, 2010
Amounts reported in Net investment income		
Interest income from:		
Financial instruments at FVTPL	116	96
AFS financial instruments	84	75
Loans and receivables	21	19
Total interest income	221	190
Dividend income (expense) from:		
Dividends paid on equities sold short	(11)	(10)
Financial instruments at FVTPL, net	33	26
AFS financial instruments	109	109
Dividends from long-term investments, at cost	…	1
Total dividend income	131	126
Expenses	(26)	(22)
Net investment income	326	294
Amounts reported in Net investment gains (losses):		
Net realized gains (losses) from:		
Financial instruments classified as FVTPL	(16)	4
Financial instruments designated as FVTPL	46	45
Derivative financial instruments	(34)	(35)
AFS financial instruments	265	190
Embedded derivatives	(2)	(8)
Impairment losses of:		
Common shares	(52)	(14)
Retractable preferred shares	(13)	…
Other net gains (losses)	10	…
Net investment gains (losses)	204	182

NOTE 7 Derivative “nancial instruments

7.1 Types of derivatives

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign excha nge rate, equity or commodity instrument or index.

The Company uses derivatives to mitigate certain risks described in Note 9 – Financial risk.

a) Forwards and futures

Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter market. Futures are standardized contracts with respect to amounts and settlement dates, and are traded on regular future exchanges.

Interest-rate forwards and futures are contractual obligations to buy or sell an interest rate sensitive financial instrument on a predetermined future date at a specified price.

Currency forwards and futures are contractual obligations to exchange one currency for another on a predetermined future date.

The Company uses forwards and futures for risk management purposes. Forwards are used to mitigate the risk arising from foreign currency fluctuations and futures are used to alter exposure to interest rate fluctuations.

b) Swaps

Total return swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates or value of an index, a basket of stocks or a single stock, applied to a notional amount.

Currency swaps include single-currency, cross-currency and cross-currency interest-rate swaps. Single-currency swaps are agreements where two counterparties exchange a series of payments based on different interest rates (such as fixed rates for floating rates) applied to a notional amount in a single currency. Cross-currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross-currency interest-rate swaps involve the exchange of both interest and principal amounts in two different currencies.

The Company uses swaps for risk management purposes, mainly in conjunction with other financial instruments to synthetically alter the cash flows of certain investments.

c) Credit derivatives

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument from one counterparty to another.

The Company uses credit derivatives for risk management purposes, mainly to alter credit exposure to specific bond issuers.

The following table shows the fair values and the notional amounts of derivatives by terms of maturity. Positive fair values ar e reported in Other assets and negative fair values are reported in Financial liabilities.

TABLE 7.1 FAIR VALUES AND NOTIONAL AMOUNTS OF DERIVATIVES BY TERM TO MATURITY AND NATURE OF RISK

	Fair value		Notional amount			
(in millions of $)	Positive	Negative	One year or less	Over one year to five years	Over five years	Total
As at December 31, 2011						
Held for non-trading purposes						
Foreign currency exposure						
Forwards	…	4	285	…	…	285
Swaps	3	…	23	…	…	23
Interest rate exposure						
Futures	…	…	291	…	…	291
Swaps	3	…	…	130	…	130
Options	…	…	223	…	…	223
Equity exposure						
Total return swaps	…	15	554	…	…	554
Options	8	4	780	7	…	787
Credit exposure						
Credit default swaps	…	…	10	…	…	10
Inflation exposure						
Swaptions	…	…	…	180	77	257
Total	14	23				
As at December 31, 2010						
Held for non-trading purposes						
Foreign currency exposure						
Forwards	…	…	32	…	…	32
Swaps	4	…	4	23	…	27
Interest rate exposure						
Futures	…	…	75	…	…	75
Equity exposure						
Total return swaps	…	15	412	…	…	412
Options	…	…	2	11	…	13
Credit exposure						
Credit default swaps	…	1	…	50	…	50
Total	4	16				
As at January 1, 2010						
Held for non-trading purposes						
Foreign currency exposure						
Forwards	…	…	29	…	…	29
Swaps	2	…	…	28	…	28
Interest rate exposure						
Futures	…	…	…	…	…	…
Equity exposure						
Total return swaps	…	15	385	…	…	385
Options	1	…	1	12	3	16
Credit exposure						
Credit default swaps	…	1	…	52	…	52
Total	3	16				

7.2 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable. The fair value of the embedded derivatives amounted to $67 million as at December 31, 2011, December 31, 2010 and January 1, 2010 and is linked entirely to the Company's investment in perpetual preferred shares. The Company did not attempt to establish a notional amount for these embedded derivatives but a proxy for that amount could be the original cost of these perpetual preferred shares which amounted to $921 million as at December 31, 2011 (December 31, 2010 – $964 million and January 1, 2010 – $1,160 million). Embedded derivatives are reported in Financial liabilities related to investments on the audited Consolidated balance sheets.

NOTE 8 Fair value measurement

8.1 Determination of fair value and fair value hierarchy

In accordance with IFRS 7 for financial instruments measured at fair value on the audited Consolidated balance sheets, the Company categorizes its fair value measurements according to a three-level hierarchy as described below:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

A financial instrument is regarded as quoted in an active market (Level 1) if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. When a quoted active market exists, the fair values of financial assets are based on bid prices and the fair values of financial liabilities are based on ask prices.

In the absence of an active market, fair values are based on inputs other than quoted prices that are observable for the asset or liability directly or indirectly (Level 2). Such inputs include prevailing market rates for instruments with similar characteristics and risk profiles, the closing price of the most recent trade date subject to liquidity adjustments or average brokers' quotes when trades are too sparse to constitute an active market. The Company determines the fair values of some instruments by using valuation techniques commonly used by the market participants, which refer to observable market data, like discounted cash flow analyses and option pricing models. For some other financial instruments, the Company relies on the valuation services of third parties that developed the structure of these instruments. The third parties measure the fair values of the financial instruments using the following valuation techniques:

- When the financial instrument is a derivative, the fair value is calculated on the basis of observable market data and reflects the estimated amount that the Company would receive or might have to pay to terminate the contracts as at December 31,
- When the financial instrument is made up of underlying securities quoted on an active market, the third party uses bid prices for financial assets and ask prices for financial liabilities at the valuation date,
- When the financial instrument is made up of underlying funds, investments in the underlying mutual funds are valued at the net asset value of the shares held, as determined by the manager of the underlying funds at the valuation date.

TABLE 8.1 FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(in millions of $)	Level 1	Level 2	Level 3	Total
As at December 31, 2010				
Investments				
Debt securities				
Short-term notes	363	…	…	363
Fixed income				
Investment grade				
Government	2,228	708	…	2,936
Corporate	944	526	…	1,470
Asset-backed	…	52	…	52
Total debt securities	3,535	1,286	…	4,821
Preferred shares				
Investment grade				
Retractable	266	…	…	266
Fixed-rate perpetual	609	…	31	640
Other perpetual	555	…	36	591
Non-rated	6	…	…	6
Total preferred shares	1,436	…	67	1,503
Common shares	1,877	…	…	1,877
Total investments measured at fair value	6,848	1,286	67	8,201
Derivatives				
Derivative “nancial assets	…	4	…	4
Derivative “nancial liabilities	…	(16)	…	(16)
Embedded derivatives	…	…	(67)	(67)
Total derivatives	…	(12)	(67)	(79)
Equities sold short positions	397	…	…	397
Total other “nancial liabilities measured at fair value	397	…	…	397

(in millions of $)	Level 1	Level 2	Level 3	Total
As at January 1, 2010				
Investments				
Debt securities				
Short-term notes	211	…	…	211
Fixed income				
Investment grade				
Government	2,692	567	…	3,259
Corporate	262	949	…	1,211
Asset-backed	…	103	…	103
Total debt securities	3,165	1,619	…	4,784
Preferred shares				
Investment grade				
Retractable	321	…	…	321
Fixed-rate perpetual	787	…	35	822
Other perpetual	407	…	32	439
Total preferred shares	1,515	…	67	1,582
Common shares	1,312	…	…	1,312
Total investments measured at fair value	5,992	1,619	67	7,678
Derivatives				
Derivative “nancial assets	…	3	…	3
Derivative “nancial liabilities	…	(16)	…	(16)
Embedded derivatives	…	…	(67)	(67)
Total derivatives	…	(13)	(67)	(80)
Equities sold short positions	183	…	…	183
Total other “nancial liabilities measured at fair value	183	…	…	183

Changes in the embedded derivatives are reported in Net investment gains (losses) on the audited Consolidated statements of comprehensive income. An equal change in the asset component is reported in OCI.

The following table shows a reconciliation of the opening and closing carrying values of the Company’s embedded derivatives.

TABLE 8.2 RECONCILIATION OF LEVEL 3 FINANCIAL INSTRUMENTS

(in millions of $)	Asset component (preferred shares)	Embedded derivatives (financial liabilities)
Carrying value as at January 1, 2011	67	(67)
Gains (losses) reported in Net investment gains (losses)	24	(2)
Gains (losses) reported in OCI	(22)	…
Purchases	24	(24)
Sales	(37)	37
Business combinations (Note 4)	11	(11)
Carrying value as at December 31, 2011	67	(67)
Carrying value as at January 1, 2010	67	(67)
Gains (losses) reported in Net investment gains (losses)	(3)	(8)
Gains (losses) reported in OCI	11	…
Purchases	6	(6)
Sales	(14)	14
Carrying value as at December 31, 2010	67	(67)

Gains (losses) reported in Net investment gains (losses) for embedded derivatives still held as at December 31, 2011 amounted to $21 million for 2011 (December 31, 2010 – $12 million).

The following table shows the impact of changing the implied volatility by 10% on the carrying value of the Company's embedded derivatives and the resulting gains (losses). The Company believes that this percentage change provides a fair indication of how the Company's Net income (loss) attributable to shareholders would be impacted in the event of a significant change in this non-observable valuation parameter.

TABLE 8.3 SENSITIVITY ANALYSIS FOR LEVEL 3 FINANCIAL INSTRUMENTS

	10% increase in volatility	10% decrease in volatility
As at December 31, 2011		
Asset component		
Increase (decrease) in preferred shares	10	(10)
Increase (decrease) in OCI	10	(10)
Embedded derivatives		
Increase (decrease) in financial liabilities	10	(10)
Increase (decrease) in net investment gains (losses)	(10)	10
As at December 31, 2010		
Asset component		
Increase (decrease) in preferred shares	12	(12)
Increase (decrease) in OCI	12	(12)
Embedded derivatives		
Increase (decrease) in financial liabilities	12	(12)
Increase (decrease) in net investment gains (losses)	(12)	12

NOTE 9 Financial risk

The Company has a comprehensive risk management framework and internal control procedures designed to manage and monitor various risks in order to protect the Company's business, clients, shareholders and employees. The risk management programs aim to avoid risks that could materially impair the Company's financial position, accept risks that contribute to sustainable earnings and growth and disclose these risks in a full and complete manner.

Effective risk management consists in identifying, understanding and communicating all risks that the Company is exposed to in the course of its operations. In order to make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of directors ensures that the Company's management has put appropriate risk management programs in place. The Board of directors, directly and in particular through its Audit and Risk Review Committee ("Audit Committee"), oversees the Company's risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the Risk Management Department through the Chief Risk Officer, internal auditors and the independent auditors. A summary of the Company's key risks arising from its financial instruments and the processes for managing and mitigating them is outlined below. For more information on the risks arising from the Company's financial instruments and its overall operations, see Section 11 – Risk management of the 2011 Management Discussion and Analysis related to these audited Consolidated financial statements.

The majority of the investment portfolio is invested in well established, active and liquid markets. See Note 8 – Fair value measurement for information about how the Company categorizes its fair value measurements according to a three-level hierarchy.

9.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other market price risk, such as equity price risk. The Company's exposures to market risk together with the Company's risk management practices used to mitigate these risks are explained below. The Company's investment policies establish principles and limits pertaining to these risks. The Investment Committee regularly monitors compliance with these investment policies.

a) Equity price risk

Equity price risk is the risk of losses arising from movements in equity market prices. The Company is significantly exposed to changes in equity market prices.

Sensitivity analysis is one risk management technique that assists management in ensuring that risks assumed remain within the Company's risk tolerance level. Sensitivity involves varying a single factor to assess the impact that this would have on the Company's results and financial condition.

As at December 31, 2011, a 10% increase in equity markets and a 5% increase in the price of preferred shares, excluding the impact of any impairment, would decrease Net income (loss) before income tax expense (benefit) by $20 million ($14 million as at December 31, 2010). However, it would increase OCI by $187 million ($177 million as at December 31, 2010). Excluding the impact of any impairment, a 10% decrease in equity prices and a 5% decrease in preferred share prices would have the corresponding opposite effect, lowering OCI by the same amount.

The impact resulting from changes in equity markets, described above, is generally a linear relationship to the change in the equity markets. Therefore, the impact will increase or decrease in linear proportion to the changes in equity markets.

The above sensitivity analysis was prepared using the following key assumptions:

- The securities in the Company's portfolio are not impaired,
- Interest rates and equity prices move independently,
- Shifts in yield curve are parallel,
- Credit and liquidity risks have not been considered, and
- For the Company's FVTPL debt securities, the estimated impact on Net income (loss) before income tax expense (benefit) is assumed to be offset by the market yield adjustment ("MYA"). In addition, it is important to note that AFS securities in an unrealized position, as reflected in OCI, may at some point in the future be realized either through a sale or impairment.

To mitigate these risks, the Company's investment policies set forth limits for each type of investment and compliance with the policies is closely monitored by the Investment Committee. The Company manages market risk through asset class and economic sector diversification and, in some cases, the use of derivatives.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is significantly exposed to changes in interest rates. Movements in short-term and long-term interest rates, including changes in credit spreads, cause changes in realized and unrealized gains and losses. To mitigate interest rate risk, the Company uses interest rate futures and bond forwards to hedge the variability in cash flows related to the issuance of its debt.

As at December 31, 2011, a 100 basis point increase in interest rates would increase Net income (loss) before income tax expense (benefit) by approximately $7 million ($22 million as at December 31, 2010), as a result of marking to market the written call option liabilities embedded in the Company's redeemable preferred shares. A 100 basis point increase would also decrease OCI by approximately $188 million ($167 million as at December 31, 2010). Conversely, a 100 basis point decrease in interest rates would lower Net income (loss) before income tax expense (benefit) and increase OCI by the same amounts, respectively.

The above sensitivity analysis was prepared using the following key assumptions:

- The securities in the Company's portfolio are not impaired,
- Interest rates and equity prices move independently,
- Shifts in the yield curve are parallel,
- Credit and liquidity risks have not been considered, and
- For the Company's FVTPL debt securities, the estimated impact on Net income (loss) before income tax expense (benefit) is assumed to be offset by the MYA. In addition, it is important to note that AFS instruments in an unrealized loss position, as reflected in OCI, may be realized at some point in the future through a sale or impairment.

The Company's exposure to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates is detailed in Table 9.1.

Interest rate risk exposures are reported based on the earlier of financial instruments contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown in the table below represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value. The following table does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates.

TABLE 9.1 EXPOSURE TO INTEREST RATE RISK

		Fixed rate				
(in millions of $, except as otherwise noted)	Floating rates	Under 12 months	Over 1 to 5 years	Over 5 years	Non-rate sensitive	Total
As at December 31, 2011						
Assets						
Cash on hand net of overdrafts	76	…	…	…	88	164
Cash equivalents	…	42	…	…	…	42
Effective interest rate		0.86%				
Short-term notes	…	244	…	…	…	244
Effective interest rate		0.87%				
Fixed income	88	724	4,070	2,761	…	7,643
Effective interest rate		1.60%	1.80%	2.55%		
Preferred shares	70	21	838	352	…	1,281
Effective interest rate		5.48%	5.01%	4.78%		
Common shares	…	…	…		… 2,051	2,051
Loans	…	42	164	117	80	403
Effective interest rate		5.85%	5.90%	5.86%		
Reinsurance assets	…	111	116	52	131	410
Effective interest rate		2.30%	2.30%	2.30%		
Other assets	3	3	…	…	7,509	7,515
Total assets	237	1,187	5,188	3,282	9,859	19,753
Liabilities and shareholders• equity						
Claims liabilities	…	2,741	2,858	1,287	…	6,886
Effective interest rate		2.30%	2.30%	2.30%		
Debt outstanding	400	…	…	893	…	1,293
Effective interest rate				5.53%		
Financial liabilities related to investments	23	3	31	20	455	532
Effective interest rate			4.95%	4.76%		
Other liabilities	…	…	…		… 6,701	6,701
Shareholders• equity	…	…	…		… 4,341	4,341
Total liabilities and shareholders• equity	423	2,744	2,889	2,200	11,497	19,753
Net long (short) exposure	(186)	(1,557)	2,299	1,082	(1,638)	…

(in millions of $, except as otherwise noted)	Floating rates	Fixed rate Under 12 months	Over 1 to 5 years	Over 5 years	Non-rate sensitive	Total
As at December 31, 2010						
Assets						
Cash on hand net of overdrafts	(32)	…	…	…	…	(32)
Cash equivalents	…	170	…	…	…	701
Effective interest rate		0.94%				
Short-term notes	…	363	…	…	…	633
Effective interest rate		1.17%				
Fixed income	15	346	2,624	1,473	…	4,458
Effective interest rate		2.00%	2.49%	3.51%		
Preferred shares	120	34	628	721	…	1,503
Effective interest rate		5.06%	4.80%	5.15%		
Common shares	…	…	…	…	1,877	1,877
Loans	…	35	157	122	…	314
Effective interest rate		5.85%	5.92%	5.84%		
Reinsurance assets	…	77	109	30	19	235
Effective interest rate		3.39%	3.39%	3.39%		
Other assets	…	1	3	…	3,183	3,187
Total assets	103	1,026	3,521	2,346	5,079	12,075
Liabilities and shareholders• equity						
Claims liabilities	…	1,555	2,220	604	…	4,379
Effective interest rate		3.39%	3.39%	3.39%		
Debt outstanding	…	…	…	496	…	496
Effective interest rate				5.91%		
Financial liabilities related to investments	29	9	23	32	622	715
Effective interest rate			4.26%	5.08%	2.25%	
Other liabilities	…	…	…	…	3,516	3,516
Shareholders• equity	…	…	…	…	2,969	2,969
Total liabilities and shareholders• equity	29	1,564	2,243	1,132	7,107	12,075
Net long (short) exposure	74	(538)	1,278	1,214	(2,028)	…

TABLE 9.1 EXPOSURE TO INTEREST RATE RISK (continued)

(in millions of $, except as otherwise noted)	Floating rates	Fixed rate: Under 12 months	Fixed rate: Over 1 to 5 years	Fixed rate: Over 5 years	Non-rate sensitive	Total
As at January 1, 2010						
Assets						
Cash on hand net of overdrafts	(32)	…	…	…	…	(32)
Cash and cash equivalents	…	92	…	…	…	2 9
E ective interest rate		0.19%				
Short-term notes	…	211	…	…	…	112
E ective interest rate		0.21%				
Fixed income	14	141	3,031	1,387	…	4,573
E ective interest rate		1.38%	2.62%	4.04%		
Preferred shares	119	12	514	937	…	1,582
E ective interest rate		5.08%	5.00%	5.50%		
Common shares	…	…	…	…	1,312	1,312
Loans	…	33	154	132	…	319
E ective interest rate		5.94%	5.90%	5.76%		
Reinsurance assets	…	100	108	35	18	261
E ective interest rate		3.71%	3.71%	3.71%		
Other assets	…	…	3	…	2,990	2,993
Total assets	101	589	3,810	2,491	4,320	11,311
Liabilities and shareholders• equity						
Claims liabilities	…	1,768	1,892	610	…	4,270
E ective interest rate		3.71%	3.71%	3.71%		
Debt outstanding	…	…	…	398	…	398
E ective interest rate				5.78%		
Financial liabilities related to investments	32	13	16	35	310	406
E ective interest rate			4.53%	5.51%	2.25%	
Other liabilities	…	…	…	…	3,320	3,320
Shareholders• equity	…	…	…	…	2,917	2,917
Total liabilities and shareholders• equity	32	1,781	1,908	1,043	6,547	11,311
Net long (short) exposure	69	(1,192)	1,902	1,448	(2,227)	…

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not significantly exposed to changes in foreign exchange rates. The Company is exposed to some foreign exchange risks arising from securities in some of its U.S. dollar-denominated assets; however, the general policy is to minimize foreign currency exposure. The Company mitigates foreign exchange rate risks by buying or selling successive monthly foreign exchange forward contracts or entering into foreign exchange swaps.

9.2 Basis risk

The Company's use of derivatives exposes it to a number of risks, including credit risk as well as interest rate and equity mar ket fluctuations. The hedging of certain risks with derivatives results in basis risk. Basis risk is the risk that offsetting inves tments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the pos ition. The Company monitors the effectiveness of its hedges on a regular basis.

9.3 Credit risk

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to us. The Company's credit risk exposure is concentrated primarily in its debt portfolios, preferred share portfoli os, over-the-counter derivatives and, to a lesser extent, in its reinsurance recoverable and annuity agreements entered into with variou s life insurance companies.

a) Maximum exposure to credit risk

The table below details the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements available to the Company to mitigate this risk. For on-balance sheet exposures, maximum credit exposure is defined as the carrying value of the asset. Detail on these credit risk exposures including information on how the Company mitigates these, is given in the remaining part of the note.

TABLE 9.2 MAXIMUM EXPOSURE TO CREDIT RISK

As at (in millions of $)	December 31, 2011	December 31, 2010	January 1, 2010
On-balance sheet credit risk exposure			
Cash and cash equivalents	206	138	60
Debt securities	7,887	4,821	4,784
Preferred shares	1,281	1,503	1,582
Common shares	2,051	1,877	1,312
Loans	403	314	319
Derivative financial assets (Table 7.1)	14	4	3
Premium receivables	2,487	1,762	1,640
Reinsurance assets	410	235	261
Other financial assets[1]	371	362	349
Total on-balance sheet credit risk exposure	15,110	11,016	10,310
O -balance sheet credit risk exposure			
Original price of annuities purchased[2]	598	456	426
Total o -balance sheet credit risk exposure	598	456	426

1 Other financial assets include the following amounts as reported on the audited Consolidated balance sheets: Other receivables, Accrued investment income, Income taxes r and Long-term investments at cost.
2 See paragraph titled Structured settlements below for details.

b) Structured settlements

The Company has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments. Therefore, the net risk to the Company is any credit risk related to the life insurers. Since the Company deals with registered life insurers, this credit risk is minimal.

At December 31, 2011, none of the life insurers from which the Company had purchased annuities was in default. The original purchase price of the annuities totalled $598 million (December 31, 2010 – $456 million and January 1, 2010 – $426 million). The risk-adjusted balance is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount and is $1 million at December 31, 2011, December 31, 2010 and as at January 1, 2010.

c) Investments

The Company's risk management strategy is to invest in debt instruments and preferred shares of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The Company's investment policy requires that, at the time of the investment, substantially all debt securities have a minimum credit rating of BBB and preferred shares have a minimum credit rating of P3. Management monitors subsequent credit rating changes on a regular basis.

For the Company's OSFI-regulated subsidiaries, the assets invested in any entity or group of related entities are limited by OSFI to 5% of the subsidiaries' assets. The Company also monitors aggregate concentrations of credit risk by country of issuance and by industry. See Table 9.3 hereafter.

The Company receives guarantees for loans.

d) Derivative-related risk

Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

The Company subjects its derivative-related credit risk to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a quarterly review by the Investment Committee.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of netting clauses in master derivative agreements. The netting clauses in a master derivative agreement provide for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Company's financial obligations toward the counterparty to such an agreement can be set off against obligations such counterparty has toward the Company. The Company uses netting clauses in master derivative agreements to reduce derivative-related credit exposure. The overall exposure to credit risk that is reduced through the netting clauses may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as by changes in underlying market rates and values.

The use of collateral is another significant credit mitigation technique for managing derivative-related counterparty credit risk. Mark-to-market provisions in the Company's agreements with some counterparties provide the Company with the right to request that the counterparty pay down or collateralize the current market value of its derivatives positions when the value passes a specified threshold amount.

The replacement cost of $6 million (December 31, 2010 – $4 million) represents the total fair value of all outstanding contracts in a gain position, before factoring in the master netting agreements of $1 million (December 31, 2010 – nil) and excludes fair values relating to exchange traded instruments as they are subject to daily margining and are deemed to have no credit risk.

The credit equivalent amount of $45 million (December 31, 2010 – $37 million) is the sum of the replacement cost plus an add-on amount for potential future credit exposure as defined by OSFI. The risk-adjusted balance is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount.

e) Reinsurance

The Company relies on reinsurance to manage underwriting risk. Although reinsurance makes the assuming reinsurer liable to the Company to the extent of the risk ceded, the Company is not relieved of its primary liability to its policyholders as the direct insurer. As a result, the Company bears credit risk with respect to its reinsurers. There is no certainty that its reinsurers will pay all reinsurance claims on a timely basis or at all.

The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. In addition, the Company has minimum rating requirements for its reinsurers. Substantially all reinsurers are required to have a minimum credit rating of A- at inception of the treaty. Rating agencies used are A.M. Best and Standard & Poor's. The Company also requires that most of its treaties have a security review clause allowing the Company to replace a reinsurer during the treaty period should the reinsurer's credit rating fall below the level acceptable to the Company. Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at the year-end date.

The Company is the assigned beneficiary of collateral consisting of cash, trust accounts and letters of credit totalling $183 million as at December 31, 2011 (December 31, 2010 – $66 million) as guarantees from unlicensed reinsurers. This collateral is held in support of policy liabilities of $130 million at December 31, 2011 (December 31, 2010 – $45 million) and could be used should these reinsurers be unable to meet their obligations.

f) Concentration of credit risk

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or specific industries. The Company has a significant concentration of its investments in the financial sector. This risk concentration is closely monitored by the Company and it hedges some of the risk as it deems necessary.

TABLE 9.3 CONCENTRATIONS OF CREDIT RISK FOR INVESTMENTS

As at	December 31, 2011	December 31, 2010	January 1, 2010
By country of issuer			
Canada	91.5%	93.0%	92.8%
U.S.	2.3%	0.8%	0.7%
Other	6.2%	6.2%	6.5%
Total	100.0%	100.0%	100.0%
By industry			
Government	42.2%	38.9%	43.4%
Banks, insurance and diversified financial services	35.2%	37.3%	37.3%
Energy	8.8%	7.9%	5.0%
Other	13.8%	15.9%	14.3%
Total	100.0%	100.0%	100.0%

9.4 Liquidity risk

Liquidity risk is the risk

Risks associated with commercial and personal property may vary in relation to the geographical area of the risk insured by the Company. The Company's exposure to concentrations of insurance risk, in terms of type of risk and level of insured benefits, is mitigated by careful selection and implementation of underwriting strategies, which is in turn largely achieved through diversification across industry sectors and geographical areas. For automobile insurance, legislation is in place at a provincial level and this creates differences in the benefits provided among the provinces.

As at December 31, 2011, direct premiums written were derived from Personal Auto 47% (December 31, 2010 – 49%), Personal Property 24% (December 31, 2010 – 24%), Commercial Automobile 8% (December 31, 2010 – 8%) and Commercial P&C 21% (December 31, 2010 – 19%). The provincial split of direct premiums written was Ontario 45% (December 31, 2010 – 46%), Québec 26% (December 31, 2010 – 25%), Alberta 18% (December 31, 2010 – 18%) and other provinces 11% (December 31, 2010 – 11%).

The Enterprise Risk Committee monitors the Company's overall risk profile, aiming for a balance between risk, return and capital and determines policies concerning the Company's risk management framework. The Committee's mandate is to identify, measure and monitor risks and avoid risks that are outside of the Company's risk tolerance level. Further, in order to minimize unforeseen risks, new products are subject to an internal product and approval review process.

b) Claims management and reinsurance

One objective of the Company is to ensure that sufficient claims liabilities are established to cover future insurance claim payments. The Company's success depends upon its ability to accurately assess the risk associated with the insurance contracts underwritten by the Company. The Company establishes claims liabilities to cover the estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claims liabilities do not represent an exact calculation of the liability. Rather, claims liabilities are the Company's estimates of its expected ultimate cost of resolution and administration of claims. Expected inflation is taken into account when estimating claims liabilities, thereby mitigating inflation risk.

Overseen by the Insurance Committee, strict claim review policies are in place to assess all new and ongoing claims. In addition, regular detailed reviews of claims handling procedures and frequent investigations of possible fraudulent claims reduce the Company's risk exposure. Further, the Company enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that could negatively impact the business. The Company has established a Large Loss Committee responsible for analyzing large losses and contentious matters to ensure that appropriate claims liabilities are established and approved.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and hail or wind storms). The placement of ceded reinsurance is almost exclusively on an excess-of-loss basis (per event or per risk) as per practice, actuarial norms and regulatory guidelines. Under such programs, management considers that in order for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes the significant insurance risk related to the underlying reinsured contracts and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claims liabilities and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its contract holders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet the obligations that are assumed under such reinsurance agreements. The Company evaluates reinsurance recoverables and receivables at each balance sheet date and provides for reinsurance amounts deemed uncollectible. The Company's placement of reinsurance is diversified such that it is not dependent on a single reinsurer and the Company's operations are not substantially dependent upon any single reinsurance contract. The Company has collateral in place to support amounts receivable and recoverable from non-registered-reinsurers.

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect the Company's ceded premium volume and profitability. Reinsurance companies exclude some types of coverage from the contracts that the Company purchases from them or may alter the terms of such contracts from time to time. These gaps in reinsurance protection expose the Company to greater risk and greater potential loss and could adversely affect its ability to underwrite future business. Where the Company cannot successfully mitigate risk through reinsurance arrangements, consideration is given to reducing premiums written in order to lower its risk.

c) Sensitivity to insurance risk

The principal assumption underlying the claims liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience.

Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

- Average claim costs including claim handling costs,
- Average claims by accident year,
- Trends in claims severity and frequency, and
- Other factors such as inflation, expected or in-force government pricing and coverage reforms, and the level of insurance fraud.

Most or all of the qualitative factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Company's ability to accurately assess the risk of the insurance contracts that the Company underwrites. In addition, there may be significant lags between the occurrence of the insured event and the time it is actually reported to the Company and additional lags between the time of reporting and final settlement of claims.

The Company refines its claims liabilities estimates on an ongoing basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process and the policies surrounding this are overseen by the Company's Reserve Review Committee.

The claim liabilities' sensitivity to certain key assumptions are outlined below. It has not been possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process. The analysis below is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on Net income (loss) before income tax expense (benefit) and shareholders' equity. Movements in these assumptions may be non-linear and may be correlated with one another.

TABLE 10.1 SENSITIVITY ANALYSIS

Sensitivity factors (in millions of $, except as otherwise noted)	Change in assumptions	Impact on Net income (loss) before income tax expense (benefit)	Impact on Shareholders' equity
Average number of claims (frequency)	+5%	(52)	(38)
Average claim cost (severity)	+5%	(305)	(225)

NOTE 11 Claims liabilities

11.1 Movement of claims liabilities

Claims liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts earned at the balance sheet date, including insurance claims incurred but not reported. The ultimate amount of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the insurance claims incurred.

The following table presents movements in the Company's net claims liabilities during the year.

TABLE 11.1 MOVEMENT OF THE NET CLAIMS LIABILITIES

(in millions of $)	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
As at December 31, 2011			
Balance, beginning of year	4,379	216	4,163
Current year claims	3,464	108	3,356
Prior-year (favourable) unfavourable claims development	(212)	11	(223)
Total claims incurred	3,252	119	3,133
Increase (decrease) due to changes in discount rate	84	3	81
Claims paid	(3,022)	(76)	(2,946)
Business combination (Note 4)	2,193	106	2,087
Balance, end of year	6,886	368	6,518
As at December 31, 2010			
Balance, beginning of year	4,270	243	4,027
Current year claims	3,014	55	2,959
Prior-year (favourable) unfavourable claims development	(194)	(1)	(193)
Total claims incurred	2,820	54	2,766
Increase (decrease) due to changes in discount rate	38	2	36
Claims paid	(2,749)	(83)	(2,666)
Balance, end of year	4,379	216	4,163

The following table presents movements in the Company's unearned premiums during the year.

TABLE 11.2 UNEARNED PREMIUMS

(in millions of $)	Direct unearned premiums	Ceded unearned premiums	Net unearned premiums
As at December 31, 2011			
Balance, beginning of year	2,586	19	2,567
Premiums written	5,126	160	4,966
Premiums earned	(5,070)	(163)	(4,907)
Business combination (Note 4)	1,148	25	1,123
Balance, end of year	3,790	41	3,749
As at December 31, 2010			
Balance, beginning of year	2,463	17	2,446
Premiums written	4,475	123	4,352
Premiums earned	(4,352)	(121)	(4,231)
Balance, end of year	2,586	19	2,567

The following table presents net claims liabilities by line of business and nature of risk.

TABLE 11.3 NET CLAIMS LIABILITIES

(in millions of $)	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
December 31, 2011			
Personal lines			
Automobile	3,546	24	3,522
Property	761	154	607
Total personal lines	4,307	178	4,129
Commercial lines			
Automobile	543	6	537
P&C	2,036	184	1,852
Total commercial lines	2,579	190	2,389
Total	6,886	368	6,518
December 31, 2010			
Personal lines			
Automobile	2,562	25	2,537
Property	462	81	381
Total personal lines	3,024	106	2,918
Commercial lines			
Automobile	358	4	354
P&C	997	106	891
Total commercial lines	1,355	110	1,245
Total	4,379	216	4,163
January 1, 2010			
Personal lines			
Automobile	2,413	24	2,389
Property	495	92	403
Total personal lines	2,908	116	2,792
Commercial lines			
Automobile	343	3	340
P&C	1,019	124	895
Total commercial lines	1,362	127	1,235
Total	4,270	243	4,027

The following table presents net unearned premiums by line of business and nature of risk.

TABLE 11.4 UNEARNED PREMIUMS

(in millions of $)	Direct unearned premiums	Ceded unearned premiums	Net unearned premiums
December 31, 2011			
Personal lines			
Automobile	1,782	1	1,781
Property	935	1	934
Total personal lines	2,717	2	2,715
Commercial lines			
Automobile	259	2	257
P&C	814	37	777
Total commercial lines	1,073	39	1,034
Total	3,790	41	3,749
December 31, 2010			
Personal lines			
Automobile	1,301	…	1,301
Property	664	…	664
Total personal lines	1,965	…	1,965
Commercial lines			
Automobile	171	1	170
P&C	450	18	432
Total commercial lines	621	19	602
Total	2,586	19	2,567
January 1, 2010			
Personal lines			
Automobile	1,253	…	1,253
Property	616	…	616
Total personal lines	1,869	…	1,869
Commercial lines			
Automobile	164	…	164
P&C	431	18	413
Total commercial lines	595	18	577
Total	2,464	18	2,446

11.2 Fair value of net claims liabilities

The Company estimates that the fair values of net claims liabilities approximate their carrying values. There was no premium deficiency at the audited Consolidated balance sheet dates.

TABLE 11.5 CARRYING VALUE OF CLAIMS LIABILITIES

(in millions of $)	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
December 31, 2011			
Undiscounted value	6,587	356	6,231
Effect of time value of money using a discount rate of 2.30% (2010 … 3.39%)	(370)	(17)	(353)
Provision for adverse deviation	669	29	640
Carrying value	6,886	368	6,518
December 31, 2010			
Undiscounted value	4,289	213	4,076
E ect of time value of money using a discount rate of 3.39% (2009 … 3.71%)	(324)	(15)	(309)
Provision for adverse deviation	414	18	396
Carrying value	4,379	216	4,163
January 1, 2010			
Undiscounted value	4,218	239	3,979
E ect of time value of money using a discount rate of 3.71% (2008 … 4.24%)	(345)	(17)	(328)
Provision for adverse deviation	397	21	376
Carrying value	4,270	243	4,027

A 1% decrease (increase) in the discount rate would cause an increase (decrease) of $164 million in the fair value of claims liabilities at December 31, 2011.

11.3 Reinsurance

In the ordinary course of business, the Company reinsures certain risks with other reinsurers to limit its maximum loss in the event of catastrophic events or other significant losses. The following table shows the Company's net retention and reinsurance coverage limits by nature of risk.

TABLE 11.6 REINSURANCE NET RETENTION AND COVERAGE LIMITS BY NATURE OF RISK[1]

(in millions of $, except as otherwise noted)	December 31, 2011	December 31, 2010
Single risk events[2]		
Net retentions:		
On special risks property policies	1.5	…
On property policies	2…5	5
On liability policies	5…10	10
Multi-risk events and catastrophes		
Net retentions	15…25	25
Coverage limit	1,430…1,500	1,500
Risk retained based on the loss exposure:		
$0…$15 million	100.0%	100.0%
$15…$25 million	32.5%…100.0%	26.5%
$25…$50 million	0.0%…35.0%	26.5%
$50…$1,000 million	0.0%…10.0%	10.0%
$1,000…$1,500 million	0.0%	0.0%

1 The return and reinsurance coverage limits on contracts acquired following the acquisition of AXA Canada are similar in substance. However, the amounts and percentages c are sometimes lower.
2 For certain special classes of business or types of risks, the retention may be lower through specific treaties or the use of optional reinsurance.

TABLE 11.7 NET INCOME (LOSS) FROM REINSURANCE INCLUDED ON THE AUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

As at (in millions of $)	December 31, 2011	December 31, 2010
Reduction in:		
Net premiums earned	(163)	(121)
Net claims incurred	122	55
Underwriting expenses	21	20
Net income (loss) before income tax expense (benefit)	(20)	(46)

11.4 Prior-year claims development

The following tables show the estimates of cumulative incurred claims, including IBNR, for the five most recent accident years, with subsequent developments during the periods and together with cumulative payments to date. The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still open or claims still unreported.

TABLE 11.8 PRIOR YEAR CLAIMS DEVELOPMENT – DIRECT

		Accident year				
(in millions of $)	Total	2011[1]	2010	2009	2008	2007 & earlier
Undiscounted claims liabilities outstanding at end of accident year		3,630	1,483	1,461	1,370	3,993
Revised estimates						
One year later		…	1,390	1,398	1,375	3,817
Two years later		…	…	1,408	1,345	3,744
Three years later		…	…	…	1,347	3,665
Four years later		…	…	…	…	3,612
Current estimate		3,630	1,390	1,408	1,347	3,612
Paid claims in subsequent periods						
One year later		…	(559)	(599)	(619)	(1,175)
Two years later		…	…	(174)	(157)	(570)
Three years later		…	…	…	(139)	(481)
Four years later		…	…	…	…	(327)
Cumulative payment to date		…	(559)	(773)	(915)	(2,553)
Direct undiscounted claims liabilities	6,587	3,630	831	635	432	1,059
Discounting and change in discount rate	299					
Direct claims liabilities	6,886					

1 In September 2011, the operations of AXA Canada were integrated into the Company•s operations. Total direct claims liabilities include $2,131 million (all accident years combined) related to AXA Canada.

13.2 E ective income tax rate

The effective rates of income tax on the audited Consolidated statements of comprehensive income are different from the combined Canadian federal and provincial income tax rate of 23.1% (2010 – 22.0%). The difference is broken down in Table 13.2.

The audited Consolidated statements of comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense (benefit) to differ from what it would have been if based on statutory tax rates.

TABLE 13.2 EFFECTIVE TAX RATE RECONCILIATION

For the years ended	December 31, 2011	December 31, 2010
Income tax expense (benefit) calculated at statutory tax rates	28.0%	30.4%
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	(6.7)%	(6.3)%
Non-deductible (non-taxable) other loss (income)	3.9%	(0.3)%
(Non-taxable) non-deductible portion of capital (gains) losses	(0.4)%	(0.3)%
Recovery of tax asset not recognized	(2.0)%	(0.6)%
Other	0.3%	(0.9)%
E ective income tax rate	23.1%	22.0%

13.3 Components of deferred tax assets and liabilities

TABLE 13.3 COMPONENTS OF DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Audited Consolidated balance sheets			Audited Consolidated statements of comprehensive income	
(in millions of $)	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010
Deferred tax assets					
Net claims liabilities	80	56	58	(1)	(1)
Investments	…	…	3	…	…
Deferred expenses for tax purposes	79	35	36	15	(1)
Property and equipment	…	3	4	…	(2)
Losses available for carry forward	15	16	15	…	…
Post-employment benefit plans	79	10	3	37	6
Other	3	1	1	1	…
Total deferred tax assets	256	121	120	52	2
Deferred tax liabilities					
Deferred income for tax purposes	55	77	42	(21)	35
Deferred gains and losses on specified debt obligations	22	23	28	(3)	(4)
Investments	…	2	…	6	4
Property and equipment	9	8	6	6	…
Intangible assets	135	10	9	2	…
Other	…	…	…	2	1
Total deferred tax liabilities	221	120	85	(10)	36
Reported in:					
Deferred tax assets	158	29	56		
Deferred tax liabilities	123	28	21		
Income tax expense (benefit) reported to Net income (loss) attributable to shareholders				17	18
Income tax expense (benefit) reported in OCI				(79)	16

At December 31, 2011, the Company had not recognized a deferred tax asset of $4 million (December 31, 2010 – nil) of unused non-capital losses. The Company has recognized a deferred tax asset for all other unused non-capital losses as at December 31, 2011, December 31, 2010 and January 1, 2010.

At December 31, 2011, the Company had allowable capital losses of $38 million (December 31, 2010 – $56 million), which had not been recognized when computing the deferred tax asset. These losses, which have no expiry date, can be used to reduce future taxable capital gains.

NOTE 14 Investments in associates and joint ventures

The investments in associates and joint ventures are investments in private entities.

TABLE 14.1 SUMMARIZED AGGREGATE FINANCIAL INFORMATION OF ASSOCIATES AND JOINT VENTURES

As at (in millions of $)	December 31, 2011	December 31, 2010	January 1, 2010
Current assets	309	96	85
Non-current assets	428	316	239
Total assets	737	412	324
Current liabilities	211	67	64
Non-current liabilities	290	232	200
Total liabilities	501	299	264
Net assets	236	113	60
Investments in associates and joint ventures	241	119	98

TABLE 14.2 SHARE OF PROFIT FROM INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

For the years ended December 31, (in millions of $)	2011	2010
Revenue	259	190
Net income (loss)	37	28
Share of pro“t from investments in associates and joint ventures	16	15

Investments in associates and joint ventures are initially recorded at the amount of consideration paid, which includes the fair value of tangible assets, intangible assets and goodwill identified on acquisition.

During the reporting period, there were no events or changes in circumstances that indicated that the carrying values of these investments may not be recoverable.

NOTE 15 Property and equipment

TABLE 15.1 RECONCILIATION OF CARRYING VALUE

(in millions of $)	Cost	Accumulated depreciation	Carrying value
December 31, 2011			
Computer equipment	41	26	15
Furniture and equipment	76	49	27
Leasehold improvements	42	17	25
Total property and equipment	159	92	67
December 31, 2010			
Computer equipment	25	18	7
Furniture and equipment	64	44	20
Leasehold improvements	39	20	19
Total property and equipment	128	82	46
January 1, 2010			
Computer equipment	79	73	6
Furniture and equipment	64	42	22
Leasehold improvements	35	17	18
Total property and equipment	178	132	46

TABLE 15.2 RECONCILIATION OF MOVEMENT

(in millions of $)	Computer equipment	Furniture and equipment	Leasehold improvements	Total
As at December 31, 2011				
Carrying value, beginning of year	7	20	19	46
Acquisitions	12	8	2	22
Disposals	…	(1)	…	(1)
Depreciation expense	(5)	(5)	(4)	(14)
Business combination (Note 4)	1	5	8	14
Carrying value, end of year	15	27	25	67
As at December 31, 2010				
Carrying value, beginning of year	6	22	18	46
Acquisitions	5	4	5	14
Disposals	…	…	…	…
Depreciation expense	(4)	(6)	(4)	(14)
Carrying value, end of year	7	20	19	46
As at January 1, 2010				
Carrying value, beginning of year	8	23	18	49
Acquisitions	4	5	5	14
Disposals	…	…	…	…
Depreciation expense	(6)	(6)	(5)	(17)
Carrying value, end of year	6	22	18	46

NOTE 16 Other assets and other liabilities

16.1 Components of other assets

TABLE 16.1 COMPONENTS OF OTHER ASSETS

As at (in millions of $)	December 31, 2011	December 31, 2010	January 1, 2010
Other receivables	231	248	245
Employee future benefit assets (Note 18)	21	56	60
Long-term investments, at cost	16	19	21
Prepaids	14	9	8
Other	11	3	2
Total other assets	293	335	336

During the reporting period, there were no events or changes in circumstances that indicated that the carrying values of the long-term investments may not be recoverable.

16.2 Components of other liabilities

TABLE 16.2 COMPONENTS OF OTHER LIABILITIES

As at (in millions of $)	December 31, 2011	December 31, 2010	January 1, 2010
Premium and sale taxes payable	132	104	93
Commissions payable	277	170	119
Industry pools payable	202	216	229
Employee future benefit liabilities (Note 18)	320	96	71
Restructuring provision	27	…	…
Contingent consideration (Note 4)	90	…	…
Other payables	393	238	221
Total other liabilities	1,441	824	733

The restructuring provision has been established based on the decisions communicated as at December 31, 2011 and the greater part of the provision is expected to be paid in 2012. The corresponding expense is presented in Integration and restructuring costs on the audited Consolidated statements of comprehensive income. Following the announcement of the acquisition of AXA Canada, the Company established an integration plan directed at integrating the acquired business with its own business and capturing cost synergies across the combined entities, including shared services and corporate functions.

Integration and restructuring costs are primarily related to employee-related costs, consulting, branding and technology-related expenses. These costs totalling $71 million are included in Integration and restructuring costs on the audited Consolidated statements of comprehensive income.

As at December 31, 2011, the fair value of the contingent consideration was reassessed from $48 million to $89 million. The $41 million increase in value is recorded in Change in fair value of contingent consideration on the audited Consolidated statements of comprehensive income. The total consideration as at December 31, 2011 includes $1 million in interest and is payable during the first quarter of 2012.

NOTE 17 Goodwill and intangible assets

TABLE 17.1 RECONCILIATION OF CARRYING VALUE

(in millions of $)	Cost	Accumulated depreciation	Carrying value
December 31, 2011			
Goodwill	794	…	794
Distribution network	820	…	820
Customer relationships and rights to offer renewals	192	58	134
Internally developed software	206	92	114
Total intangible assets	1,218	150	1,068
December 31, 2010			
Goodwill	211	…	211
Distribution network	…	…	…
Customer relationships and rights to offer renewals	110	45	65
Internally developed software	171	66	105
Total intangible assets	281	111	170
January 1, 2010			
Goodwill	179	…	179
Distribution network	…	…	…
Customer relationships and rights to offer renewals	94	35	59
Internally developed software	143	43	100
Total intangible assets	237	78	159

TABLE 17.2 RECONCILIATION OF MOVEMENTS

	Intangible assets				
(in millions of $)	Distribution network	Customer relationships and rights to offer renewals	Internally developed software	Total intangible assets	Goodwill
Balance as at December 31, 2011					
Carrying value, beginning of year	…	65	105	170	211
Acquisitions and costs capitalized	…	5	35	40	10
Dispositions	…	…	…	…	…
Business combinations (Note 4)	820	77	…	897	573
Amortization expense	…	(13)	(26)	(39)	…
Carrying value, end of year	820	134	114	1,068	794
As at December 31, 2010					
Carrying value, beginning of year	…	59	100	159	179
Acquisitions and costs capitalized	…	18	28	46	47
Dispositions	…	(2)	…	(2)	(15)
Amortization expense	…	(9)	(24)	(33)	…
Carrying value, end of year	…	66	104	170	211

17.1 Goodwill

The carrying value of goodwill is allocated to a single CGU, which is the Company's sole operating segment, P&C insurance operations.

17.2 Intangible assets

Management has determined that intangible assets with finite lives are not impaired. Intangible assets with indefinite useful lives and intangible assets which are under development are subject to annual impairment testing. The carrying values of these intangible assets have been allocated to the P&C insurance operations CGU, being the lowest level at which there are separately identifiable cash flows.

17.3 Impairment test and assumptions

The Company performs an annual goodwill impairment test, as well as an impairment test for intangible assets with an indefinite useful lives and for intangible assets under development. The most recent tests were performed as at June 30, 2011. As at this date, the P&C insurance operations CGU was tested for impairment using a value-in-use calculation based on the following key estimates and assumptions:

- Cash flow projections for the next five years are based on financial budgets approved by management and are determined by budgeted margins based on past performance and management expectations for the Company and the industry,
- Cash flows beyond the five-year period were extrapolated using estimated growth rates of 3.0% (December 31, 2010 – 3.0%), which do not exceed the long-term average past growth rate for the insurance business in which the Company operates, and
- A pre-tax, company specific risk adjusted discount rate of 11.5% was used (December 31, 2010 – 12.3%).

The test results indicate that the recoverable amount of the P&C insurance operations CGU exceeds its carrying value and no impairment loss for goodwill or intangible assets has been recognized for the year ended December 31, 2011 or in prior periods.

The Company is not aware of any reasonably possible change in any of the above key assumptions that would cause the carrying value of the CGU to exceed its recoverable amount. The carrying value of the CGU would remain below its recoverable amount even if

TABLE 18.2 POST RETIREMENT AND POST EMPLOYMENT BENEFIT PLAN MOVEMENTS

(in millions of $)	Expenses (revenue)	Net actuarial gains (losses) recognized in OCI	Present value of benefit obligation	Fair value of plan assets
Balance as at January 1, 2011	…	(1)	(17)	…
Current service cost	1	…	(1)	…
Interest costs on benefit obligation	1	…	(1)	…
Settlement and curtailment	(6)	…	6	…
Expense recognized on the audited Consolidated statements of comprehensive income	(4)			
Net actuarial gains (losses) recognized in OCI	…	1	1	…
Employer contributions	…	…	…	1
Benefit payments	…	…	1	(1)
Business combination (Note 4)	…	…	(24)	…
Balance as at December 31, 2011		…	(35)	…
Balance as at January 1, 2010	…	…	(15)	…
Current service cost	…	…	…	…
Interest costs on benefit obligation	1	…	(1)	…
Net actuarial gains (losses) recognized in OCI	1	(1)	(2)	…
Expense recognized on the audited Consolidated statements of comprehensive income	2			
Employer contributions		…	…	1
Benefit payments		…	1	(1)
Balance as at December 31, 2010		(1)	(17)	…

18.2 Funding status

The following table shows the aggregate funding status of the Company's pension and post-retirement and post-employment benefit plans as well as the net pension surplus (deficit) amounts reported in Other assets and Other liabilities.

TABLE 18.3 FUNDING STATUS

	Pension plans			Post-retirement and post-employment benefit plans		
As at (in millions of $)	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Benefit obligation	(1,371)	(705)	(566)	(35)	(17)	(15)
Fair value of plan assets	1,093	682	570	…	…	…
Surplus (de"cit)	(278)	(23)	4	(35)	(17)	(15)
Unamortized past service costs	14	…	…	…	…	…
Net benefit liability	(264)	(23)	4	(35)	(17)	(15)
Reported on the audited Consolidated balance sheets in:						
Other assets	21	56	60	…	…	…
Other liabilities	(285)	(79)	(56)	(35)	(17)	(15)

Based on the latest actuarial valuations of all its plans, total cash contributions by the Company to the pension plans are expected to be approximately $83 million in 2012.

TABLE 18.4 PENSION PLANS STATUS AND EXPERIENCE ADJUSTMENTS ON PLAN LIABILITIES AND PLAN ASSETS FOR THE CURRENT AND PREVIOUS FOUR PERIODS

As at December 31, (in millions of $)	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(1,371)	(705)	(566)	(449)	(553)
Fair value of plan assets	1,093	682	570	460	586
Surplus (deficit)	(278)	(23)	4	11	33
Experience adjustments on plan liabilities	(17)	(6)	(28)	…	(2)
Experience adjustments on plan assets	30	52	67	(154)	(6)

TABLE 18.5 POST RETIREMENT AND POST EMPLOYMENT BENEFIT PLANS STATUS AND EXPERIENCE ADJUSTMENTS ON PLAN LIABILITIES FOR THE CURRENT AND PREVIOUS FOUR PERIODS

As at December 31, (in millions of $)	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(35)	(17)	(15)	(15)	(16)
Surplus (deficit)	(35)	(17)	(15)	(15)	(16)
Experience adjustments on plan liabilities	2	(1)	1	…	(2)

18.3 Composition of pension plan assets

The following table shows the composition of the Company's pension plan assets, at fair value.

TABLE 18.6 COMPOSITION OF PENSION PLAN ASSETS

As at	December 31, 2011	December 31, 2010	January 1, 2010
Equity securities	44.3%	40.6%	50.3%
Debt securities	55.4%	58.2%	45.1%
Cash and cash equivalents	0.3%	1.2%	4.6%

18.4 Assumptions used

The following table summarizes the key weighted average assumptions used in measuring of the Company's pension and post-retirement and post-employment benefit plans and related expenses.

TABLE 18.7 ASSUMPTIONS

	Pension plans			Post-retirement and post-employment benefit plans		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
To determine bene“t obligation at end of period						
Discount rate	4.4%	5.3%	6.1%	4.2%	4.9%	5.6%
Rate of increase in future compensation	3.5%	3.5%	3.5%	n/a	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	8.5%	9.0%	8.5%
Dental care cost trend rate	n/a	n/a	n/a	4.5%	4.5%	4.5%
To determine bene“t expense (recovery) for the period						
Discount rate	5.3%	6.1%	6.7%	4.9%	5.6%	6.0%
Rate of increase in future compensation	3.5%	3.5%	3.5%	n/a	n/a	n/a
Expected long-term rate of return on plan assets	6.3%	6.8%	7.0%	n/a	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	9.0%	8.5%	9.0%
Dental care cost trend rate	n/a	n/a	n/a	4.5%	4.5%	4.5%

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. The expected long-term rate of return is determined based on the expected future performance for each asset class and is weighted based on the current and expected asset portfolio mix. Consideration is given to historical performance, the premium return generated from an actively managed portfolio, economic developments, inflation rates and administrative expenses.

18.5 E ect of a change in the health care cost trend

A 1% increase or decrease in the health care and dental care cost trend rate would not significantly affect on the Company's results or financial position as at the balance sheet date.

NOTE 19 Debt outstanding

19.1 Term notes

On August 18, 2011, as part of the AXA Canada acquisition financing, the Company completed an offering of a $300 million principal amount of unsecured medium term notes (the "Series 4" notes). These notes bear interest at a fixed annual rate of 4.70% until maturity on August 18, 2021, payable in equal semi-annual instalments which will commence on February 18, 2012. In relation to this offering, the Company entered into future contracts to manage the interest risk on a portion of the notes for the period from the announcement of the acquisition of AXA Canada to the offering closing. These futures were designated as a cash flow hedge and terminated on August 12, 2011.

On July 8, 2011, also as part of the AXA Canada acquisition financing, by way of a private placement in Canada, the Company issued a $100 million principal amount of unsecured 50-Year term notes (the "Series 3" notes) due July 8, 2061. These notes bear interest at a fixed annual rate of 6.20%, payable in equal semi-annual instalments which will commence on January 8, 2012.

On March 23, 2010, the Company completed an additional Series 2 offering of a $100 million principal amount of unsecured medium term notes. The medium term notes bear interest at a fixed annual rate of 6.40% until maturity on November 23, 2039, payable in equal semi-annual instalments which commenced on May 23, 2010.

TABLE 19.1 TERM NOTES OUTSTANDING TERMS

	Series 1	Series 2	Series 3	Series 4
Date issued	August 31, 2009	November 23, 2009	July 8, 2011	August 18, 2011
Date of supplemental issue		March 23, 2010		
Maturity date	September 3, 2019	November 23, 2039	July 8, 2061	August 18, 2021
Principal amount outstanding (in millions)	$250	$250	$100	$300
Fixed annual rate	5.41%	6.40%	6.20%	4.70%
Semi-annual coupon payment due each year on:	March 3 September 3	May 23 November 23	January 8 July 8	February 18 August 18

19.2 Credit facilities

On September 23, 2011, to fund a portion of the purchase price for the acquisition of AXA Canada, the Company obtained a loan of $100 million from a two-year term loan facility (the "Tranche A Facility") and obtained a loan of $300 million from a three-year term loan facility (the "Tranche B Facility"). Both loans bear interest at the prime rate plus a margin or at the bankers' acceptance rate plus a margin.

Effective September 23, 2011, the Company obtained a four-year unsecured revolving term facility of $250 million maturing on September 23, 2015 to replace a previous revolving term facility of $250 million that was due to mature on December 20, 2013. This credit facility may be drawn as prime loans at the prime rate plus a margin or as bankers' acceptances at the bankers' acceptance rate plus a margin. As at December 31, 2011, this facility was undrawn.

As part of the covenants of the loans under the credit facilities, the Company is required to maintain certain financial ratios which were fully met as at December 31, 2011.

The following table present details of debt outstanding:

TABLE 19.2 FAIR VALUE AND CARRYING VALUE OF DEBT OUTSTANDING

	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
(in millions of $)	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Term notes, series 1	249	275	249	265	249	253
Term notes, series 2	247	282	247	269	149	147
Term notes, series 3	99	110	…	…	…	…
Term notes, series 4	298	307	…	…	…	…
Tranche A Facility	100	100	…	…	…	…
Tranche B Facility	300	300	…	…	…	…
Total debt outstanding	1,293	1,374	496	534	398	400

The term notes and loans under the credit facilities are accounted for at amortized cost which equals their carrying value. The term notes may be redeemed at the option of the issuer, in whole or in part at any time, at a redemption price equal to the greater of Government of Canada Yield at the date of redemption plus a margin or their par value. The loans under the credit facilities may be repaid and cancelled by the Company at any time.

Interest expense on term notes and credit facilities are presented as Finance costs on the audited Consolidated statements of comprehensive income.

NOTE 20 Common shares and preferred shares

20.1 Authorized

Authorized share capital consists of an unlimited number of common shares and Class A shares.

20.2 Issued and outstanding

TABLE 20.1 ISSUED AND OUTSTANDING SHARES

	Number of shares	Amount (in millions of $)	Dividends declared per share (in $)
Classes of shares			
As at December 31, 2011			
Common	129,553,665	1,889	1.48
Class A			
Series 1 Preferred	10,000,000	244	0.49
Series 3 Preferred	10,000,000	245	0.39
		489	
As at December 31, 2010			
Common	112,179,565	993	1.36
As at January 1, 2010			
Common	119,906,567	1,061	1.28

Common

On the acquisition closing date for AXA Canada, the Company converted its 20,125,000 subscription receipts (“receipts”) into 20,125,000 common shares. The Company had completed its offering of the 20,125,000 receipts on June 9, 2011 at $47.80 per receipt for gross proceeds of $962 million. For this offering, the Company incurred $42 million in share issuance costs, net of $10 million of taxes, which were accounted for as a reduction in common shares on the audited Consolidated balance sheets.

Class A

Issued and outstanding Class A shares rank prior to common shares for both dividends and return of capital.

Series 1 Preferred

On July 12, 2011, the Company issued 10,000,000 non-cumulative rate reset Class A shares Series 1 (the "Series 1 Preferred Shares"), at a price of $25.00 per share, for aggregate gross proceeds of $250 million. For this offering, the Company incurred $6 million in share issuance costs, net of $2 million in taxes, which were accounted for as a reduction in preferred shares on the audited Consolidated balance sheets.

The holders of these shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of directors of the Company, on a quarterly basis for the initial fixed-rate period ending on December 31, 2017, based on an annual rate of 4.20%. The dividend rate will be reset on December 31, 2017 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 1.72%. Subject to certain conditions, on December 31, 2017 and on December 31 every five years thereafter, the holders of Series 1 Preferred Shares will have the right to convert their shares into Non-cumulative Floating Rate Class A Shares Series 2 (the "Series 2 Preferred Shares"). In addition, the Company has the option to redeem the Series 1 and Series 2 Preferred Shares on the same dates.

Series 3 Preferred

On August 18, 2011, the Company completed a Series 3 offering of preferred shares by issuing 10,000,000 non-cumulative rate reset Class A shares Series 3 (the "Series 3 Preferred Shares"), at a price of $25.00 per share, for aggregate gross proceeds of $250 million. For this offering, the Company incurred $5 million in share issuance costs, net of $2 million of taxes, which were accounted for as a reduction in preferred shares on the audited Consolidated balance sheets.

The holders of these shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of directors of the Company, on a quarterly basis, for the initial fixed-rate period ending on September 30, 2016, based on an annual rate of 4.20%. The dividend rate will be reset on September 30, 2016 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 2.66%. Subject to certain conditions, on September 30, 2016 and on September 30 every five years thereafter, holders of Series 3 Preferred Shares will have the right to convert their shares into Non-cumulative Floating Rate Class A Shares Series 4 (the "Series 4 Preferred Shares"). In addition, the Company has the option to redeem the Series 3 and Series 4 Preferred Shares on the same dates.

TABLE 20.2 RECONCILIATION OF NUMBER OF COMMON SHARES OUTSTANDING

	December 31, 2011 (in shares)	December 31, 2010 (in shares)
Balance, beginning of the year	112,179,565	119,906,567
Common shares repurchased for cancellation	2,750,900	7,727,002
Common shares issued	20,125,000	…
Balance, end of the year	129,553,665	112,179,565

TABLE 20.3 RECONCILIATION OF NUMBER OF CLASS A SHARES OUTSTANDING

	December 31, 2011 (in shares)	December 31, 2010 (in shares)
Balance, beginning of the year	…	…
Series 1 Preferred Shares issued	10,000,000	…
Series 3 Preferred Shares issued	10,000,000	…
Balance, end of the year	20,000,000	…

20.3 Normal course issuer bid

On February 22, 2010, the Company commenced a normal course issuer bid ("NCIB") to purchase during the following twelve months ending February 21, 2011, up to 5% of its public float. On August 5, 2010, the Company announced an increase in the maximum number of shares it could repurchase under the NCIB from 5% to 10% of its public float. On February 9, 2011, the Company announced that it would renew its NCIB program to repurchase approximately 5% of its outstanding shares. The new

program began on February 22, 2011 for a twelve-month period. However, following the acquisition of AXA Canada, the Company suspended its NCIB program. As at December 31, 2011, 2,750,900 (December 31, 2010 – 7,727,002) common shares had been repurchased for cancellation under the NCIB at an average price of $47.03 (December 31, 2010 – $44.06) per share for a total consideration of $129 million (December 31, 2010 – $341 million). Total cost paid, including fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased for cancellation and the excess of $105 million (December 31, 2010 – $273 million) was charged to retained earnings.

NOTE 21 Earnings per share

Earnings per common share were calculated by dividing the profit attributable to the common shares of the Company by the average number of common shares outstanding during the year. Dilution is not applicable. The profit attributable to the common shares and the average number of common shares outstanding during the year are calculated as follows:

TABLE 21.1 EARNINGS PER SHARE

As at (in millions of $, except as otherwise noted)	December 31, 2011	December 31, 2010
Net income (loss) attributable to common shares		
Net income from continuing operations	457	498
Less: Dividends declared on preferred shares, net of tax	8	…
Adjusted net income (loss) from continuing operations attributable to common shares	449	498
Net income (loss) from discontinued operations	8	…
Total net income (loss) attributable to common shares	457	498
Weighted average number of common shares outstanding		
Number of common shares outstanding at beginning of the year	112,179,565	119,906,567
Adjustment for weighted average shares issued at the date of acquisition of AXA Canada	5,513,699	…
Adjustment for weighted average common shares repurchased under the NCIB program	(2,384,771)	(4,809,677)
Weighted average number of common shares outstanding at end of year	115,308,493	115,096,890
EPS … basic and diluted (in dollars)	3.96	4.32

NOTE 22 Share-based payments

22.1 Long-Term Incentive Plans

The following table shows the outstanding units and fair value for each of the Company's performance cycles.

TABLE 22.1 OUTSTANDING UNITS AND FAIR VALUE BY PERFORMANCE CYCLE

	Number of units	Per unit fair value at grant date (in $)	Amount (in millions of $)
As at December 31, 2011			
2009…2011 performance cycle	368,242	23.06	8
2010…2012 performance cycle	419,617	35.06	15
2011…2013 performance cycle	227,832	48.06	11
Total	1,015,691	33.63	34
As at December 31, 2010			
2008…2010 performance cycle	47,563	32.76	2
2009…2011 performance cycle	224,201	23.06	5
2010…2012 performance cycle	357,873	35.06	12
Total	629,637	30.61	19

The following table shows the movements in the Long-Term Incentive Plans ("LTIP") share units during the year.

TABLE 22.2 MOVEMENTS IN LTIP

	December 31, 2011 (in units)	December 31, 2010 (in units)
LTIP (share equivalents)		
Outstanding, beginning of year	629,637	163,060
Net change in estimate during the year	386,054	466,577
Outstanding, end of year	1,015,691	629,637
LTIP (restricted common shares)		
Outstanding, end of year	50,719	53,495

The amount charged to Other expenses in the audited Consolidated statements of comprehensive income for LTIP was $19 million for the year ended December 31, 2011 (December 31, 2010 – expense of $13 million).

22.2 Employee Share Purchase Plan

The following table shows the movements in Employee Share Purchase Plan ("ESPP") restricted common shares during the year.

TABLE 22.3 MOVEMENTS IN ESPP

	December 31, 2011 (in units)	December 31, 2010 (in units)
ESPP (restricted common shares)		
Outstanding, beginning of year	107,562	108,546
Awarded during the year	112,250	100,490
Vested or forfeited during the year	(99,495)	(101,474)
Outstanding, end of year	120,317	107,562

The amount charged to Other expenses in the audited Consolidated statements of comprehensive income for the ESPP was $5 million for the year ended December 31, 2011 (December 31, 2010 – $4 million).

22.3 Deferred share unit plan

The deferred share units are cash-settled awards for which the provision recorded as at December 31, 2011 is $3 million (2010 – $2 million). The amount charged to Other expenses on the audited Consolidated statements of comprehensive income was $1 million for the year ended December 31, 2011 (December 31, 2010 – $1 million).

NOTE 23 Additional information on the audited Consolidated statements of cash ”ows

The following table provides additional details on the items included in net cash flows from operating activities.

TABLE 23.1 ADDITIONAL INFORMATION ON THE AUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of $)	December 31, 2011	December 31, 2010
Adjustments for non-cash items		
Net investment (gains) losses	(204)	(182)
Deferred income tax expense (benefit)	17	18
Depreciation of property and equipment	14	14
Amortization of intangible assets	39	33
Net premiums on debt securities classified as available-for-sale	18	11
Other	4	4
Total as reported on the audited Consolidated statements of cash ”ows	(112)	(102)
Changes in other operating assets and liabilities		
Assets classified as held for sale	(172)	…
Liabilities directly associated with assets classified as held for sale	160	…
Unearned premiums, net	56	122
Deferred acquisition costs, net	(21)	(24)
Premium and other receivables	(29)	(125)
Income taxes payable, net	(84)	(36)
Other operating assets	63	4
Other operating liabilities	(67)	(112)
Total as reported on the audited Consolidated statements of cash ”ows	(94)	(171)
Composition of cash and cash equivalents		
Cash, net of bank overdrafts	164	(32)
Cash equivalents	42	170
Total cash and cash equivalents	206	138
Other relevant cash ”ow disclosures		
Interest paid … financing activities	33	30
Interest received … operating activities	233	181
Dividends received … operating activities	131	137
Income taxes paid (recovered) … operating activities	208	150

NOTE 24 Contingencies, commitments and guarantees

24.1 Contingencies

In the normal course of operations, various insurance claims and legal proceedings are instituted against the Company. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management’s opinion, the Company has made adequate provision for, or has adequate insurance to cover all insurance claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the Company’s consolidated future operating results and financial position.

The Company provides indemnification agreements to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements.

24.2 Commitments

The Company has entered into commercial operating leases on certain property and equipment. These leases have an average life of one to fourteen years with renewal options included in the contracts. Future minimum rental payments under non-cancellable operating leases as at the end of the reporting period are as follows:

TABLE 24.1 OPERATING LEASE COMMITMENTS

As at (in millions of $)	December 31, 2011
Within one year	98
After one year but not more than five years	234
More than five years	111
Total operating lease rental payments	443

24.3 Guarantees

As at December 31, 2011, a $1 million structured settlements provision has been taken representing an amount equal to the estimated fair value of the financial guarantees issued (Note 9.3 b).

NOTE 25 Related-party transactions

The Company enters into transactions with associates and joint ventures in the normal course of business, as well as key management personnel and post-employment plans. Transactions with related parties are at normal market prices and mostly comprise commissions for insurance policies and interest and principal payments on loans.

25.1 Transactions with associates and joint ventures

TABLE 25.1 REVENUES AND EXPENSES WITH ASSOCIATES AND JOINT VENTURES

For the years ended (in millions of $)	December 31, 2011	December 31, 2010
Reported in:		
Income		
Net investment income	7	4
Expenses		
Underwriting expenses	131	100

TABLE 25.2 AUDITED CONSOLIDATED BALANCE SHEETS AMOUNTS WITH ASSOCIATES AND JOINT VENTURES

As at (in millions of $)	December 31, 2011	December 31, 2010
Reported in:		
Assets		
Loans	222	70
Liabilities		
Other liabilities	44	41

25.2 Compensation of key management personnel

Key management personnel are comprised of all members of the Board of directors and the Named Officers (as defined in Form 51-102F6 Statement of Executive compensation and disclosed in the Company's Management Proxy Circular in connection with its annual meeting of shareholders). The summary of compensation of key management personnel for the year is as follows:

TABLE 25.3 COMPENSATION OF KEY MANAGEMENT PERSONNEL

For the years ended (in millions of $)	December 31, 2011	December 31, 2010
Salary	2	2
Share-based awards	6	4
Annual incentive plans[1]	3	3
Pension value	1	1
Total compensation of key management personnel	12	10

1 Annual incentive plans are based on the Company•s performance versus the industry. Figures are preliminary as industry data will only be available in March 2012. The Com circular will reflect the final figures.

Key management personnel can purchase insurance products offered by the Company in the normal course of business. The terms and conditions of such transactions are essentially the same as those available to clients and employees of the Company.

25.3 Post-employment plans

The Company's transactions with post-employment plans comprise the contributions paid to the plans, which represent for the year ended December 31, 2011, $63 million for the pension plans (December 31, 2010 – $35 million) and $1 million for other post-employment plans (December 31, 2010 – $1 million).

The Company did not conclude any other transactions with post-employment plans and there are no payable amounts as at December 31, 2011 and 2010.

NOTE 26 Capital management

The Company's objectives for managing capital consist in maintaining sufficient capital to support claims liabilities and ensure the confidence of policyholders, support competitive pricing strategies, meet regulatory capital requirements, provide returns for its shareholders and maintain a leadership position in the Canadian P&C insurance industry.

The federally chartered P&C insurance subsidiaries of the Company are subject to regulatory capital requirements as defined by OSFI and the Insurance Companies Act ("ICA"). Provincially chartered subsidiaries are subject to the requirements set by the Autorité des marchés financiers ("AMF") and the Act respecting insurance (Québec). OSFI and AMF have established a Minimum Capital Test ("MCT") guideline which sets out 100% as the minimum and 150% as the supervisory target MCT standard for Canadian P&C insurance companies. To ensure that it attains its objectives, the Company has established an internal target of 170% in excess of which, under normal circumstances, the Company will maintain its capital.

The following table presents the aggregate MCT for the Company's P&C insurance subsidiaries.

TABLE 26.1 MINIMUM CAPITAL TEST

As at (in millions of $, except as otherwise noted)	December 31, 2011[1]	December 31, 2010
Total capital available	3,285	2,969
Total capital required	1,668	1,272
Excess capital	1,617	1,697
MCT %	197%	233%
Excess capital at 150%	783	1,061

1 Estimated.

Total capital available and total capital required represent aggregate amounts applicable to the Company's regulated P&C insurance subsidiaries and are determined in accordance with prescribed regulatory rules. Total capital available mostly represents total shareholders' equity less specific deductions for disallowed assets including goodwill and intangible assets. Total capital required is calculated by categorizing assets and liabilities and applying prescribed risk factors to each category. The Company elected to apply

the exemption permitted by OSFI in order to phase in over a period of two years the impact of IFRS conversion on total capital available for MCT calculation purposes. As at December 31, 2011, the Company's P&C insurance subsidiaries were in compliance with regulatory requirements as well as internal targets.

Annually, the Company performs Dynamic Capital Adequacy Testing on the MCT to ensure that the Company has adequate capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The 2011 results indicated that the Company's capital position is strong. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

NOTE 27 Subsequent events

On January 1, 2012, the Company completed the sale of AXA Life Insurance Inc. to SSQ, Life Insurance Company Inc. The transaction was concluded for an amount of $300 million.

No other matters or circumstances have arisen since the end of the financial reporting period which are not otherwise dealt with in the audited Consolidated financial statements, which have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

NOTE 28 Disclosures on rate regulation

The Company's insurance subsidiaries are licensed under insurance legislation in each of the provinces and territories in which they conduct business. Automobile insurance is a compulsory product and is subject to different regulations across the provinces and territories in Canada, including those with respect to rate setting. Rate setting mechanisms generally fall under three categories:

Category	Description
File and use	Insurers file their rates with the relevant authorities and wait for a prescribed period of time and then implement the proposed rates.
File and approve	Insurers must wait for specific approval of filed rates before they may be used.
Use and file	Rates are filed following use.

The following table lists the provincial authorities which regulate automobile insurance rates. Automobile direct written premiums in these provinces totalled $2,707 million in 2011 ($2,528 million as at December 31, 2010) and represented approximately 96.5% (99.2% as at December 31, 2010) of direct automobile premiums written.

TABLE 28.1 PROVINCIAL AUTHORITIES AND RATE FILINGS

Province	Rate filing	Regulatory authority
Alberta	File and approve or file and use	Alberta Automobile Insurance Rate Board
Ontario	File and approve	Financial Services Commission of Ontario
Québec	Use and file	Autorité des marchés financiers
Nova Scotia	File and approve	Nova Scotia Utility and Review Board
New Brunswick	File and approve	New Brunswick Insurance Board
Prince Edward Island	File and approve	Island Regulatory Appeals Commission
Newfoundland and Labrador	File and approve	Board of Commissioners of Public Utilities

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. At December 31, 2011 and 2010, the Company had no significant regulatory asset or liability.

NOTE 29 First-time adoption of IFRS

29.1 Accounting policies … basis of preparation

The audited Consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with IFRS, as issued by the IASB. Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). The 2010 comparative statements have been restated to conform with IFRS.

The Company adopted IFRS in accordance with IFRS 1 – First-time adoption of International Financial Reporting Standards . The first date at which IFRS was applied was at the Company's transition date, January 1, 2010. The Company has:

- Provided comparative financial information,
- Applied the same accounting policies throughout all periods presented,
- Retrospectively applied all effective IFRS standards as of December 31, 2011, as required, and
- Applied the optional exemptions and mandatory exceptions as applicable for first-time IFRS adopters.

IFRS 1 grants limited exemptions from these requirements in specified areas where the cost of complying with the standards would likely exceed the benefits to users of financial statements. IFRS 1 also prohibits retrospective application of IFRS in some areas, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. Below are the details of the Company's optional and mandatory exemptions.

29.2 IFRS optional exemptions

The Company has applied the following applicable optional exemptions:

a) Business combinations

IFRS 1 provides the option to apply IFRS 3 – Business combinations , retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date and such business combinations have not been restated. As a result of applying this exemption, any goodwill and intangible assets arising on such business combinations before the transition date have not been adjusted from the carrying value previously determined under Canadian GAAP.

b) Employee benefits

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19 – Employee benefits, for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under Canadian GAAP in the opening retained earnings at the transition date. The Company elected to recognize all cumulative gains and losses at the transition date in the opening retained earnings for all of its employee benefit plans.

c) Property and equipment

IFRS 1 provides the option to retrospectively apply IAS 16 – Property, plant, and equipment , for the determination of net book value at the date of transition or to use the property, plant and equipment's fair value as its deemed cost upon transition to IFRS. The Company elected to retrospectively apply IAS 16 at the transition date and this resulted in no accounting difference.

d) Designation of financial assets and financial liabilities

IFRS 1 permits an entity to irrevocably re-designate certain financial instruments. Upon transition, the Company elected not to change the classification or designation of its financial assets or liabilities from previous Canadian GAAP.

e) IFRS 4 transitional provisions

IFRS 1 provides the option to apply the transitional provisions of IFRS 4 – Insurance contracts, by which the Company need not disclose information about claims development that occurred more than five years before the end of the first financial year in which it applies IFRS.

29.3 IFRS mandatory exceptions

The Company has applied the following applicable mandatory exemptions:

a) Hedge accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 – Financial Instruments: Recognition and Measurement at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of the transition date are recognized as hedges in the Company's results under IFRS.

Upon the transition date, the Company discontinued the hedge relationship as the hedge accounting criteria required by IFRS were not satisfied. The hedging and hedged instruments within this former hedging relationship are accounted for at their fair value and the change in the fair value is recognized on the audited Consolidated statements of comprehensive income under IFRS. This change resulted in no accounting difference as the change in the fair value of the hedged instrument is reported to net income under IFRS, not to other comprehensive income as per Canadian GAAP.

b) Estimates

The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

29.4 On-transition changes in accounting policies

In addition to the exemptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Company.

a) Employee future benefits

Actuarial gains and losses

Under Canadian GAAP, actuarial gains and losses that arose in calculating the present value of the defined benefit obligation and the fair value of plan assets were recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" was established as 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% was amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% corridor were deferred.

Under IFRS, entities have the choice of recognizing ongoing actuarial gains and losses in the audited Consolidated statements of comprehensive income over time similar to the Canadian GAAP "corridor" approach, or alternatively, immediately recognizing actuarial gains and losses in OCI in the period in which they occur. The Company has elected to recognize all actuarial gains and losses immediately in OCI. On January 1, 2010, cumulative unrecognized actuarial losses were fully recognized in retained earnings. Subsequent actuarial gains and losses are recognized in OCI and are not reclassified to Net income (loss) attributable to shareholders. The present value of the accrued benefit obligations, net of the fair value of plan assets are recognized on the audited Consolidated balance sheets.

b) Financial instruments

Under Canadian GAAP, available-for-sale equity instruments were measured at fair value with changes in fair value reported, net of taxes, in OCI until the asset was disposed of or had became other than temporarily impaired. At the end of each balance sheet date a quantitative assessment was made to identify available-for-sale equity instruments which had a significant or prolonged decline in fair value. Management then applied judgment based on each issuer's financial condition to determine if the decline was "other than temporary" and if objective evidence of impairment existed.

Under IFRS, the Company still determines, at each balance sheet date, whether there is objective evidence that available-for-sale equity instruments are impaired. Objective evidence for an available-for-sale equity instrument includes also a significant or prolonged decline in fair value of the instrument below its cost. However, the impairment assessment is less judgmental as determination whether an available-for-sale equity instrument decline is "other than temporary" is not required. Therefore, impairment losses under IFRS will likely be recognized earlier than under Canadian GAAP. In addition, under IFRS, perpetual preferred shares are assessed for impairment using the equity impairment rules, whereas under Canadian GAAP debt impairment rules were appropriate.

At the transition date to IFRS, retrospective application of these rules was required. This resulted in reclassification from OCI to opening retained earnings for impairments which would have occurred prior to January 1, 2010 under IFRS rules. This reclassification has no overall impact on the Company's shareholders' equity. Net investment gains (losses) reported under Canadian GAAP for the financial year 2010 were restated under IFRS as these prior period IFRS impairments impact the measurement of realized gains and losses in 2010 under IFRS.

c) Income taxes

Income tax effect on reconciling differences between Canadian GAAP and IFRS

Differences for income tax include the effect of recording, where applicable, the deferred tax effect on differences between Canadian GAAP and IFRS.

29.5 Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first-time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following tables represent the reconciliations from Canadian GAAP to IFRS for the respective periods noted for the audited Consolidated balance sheets and audited Consolidated statements of comprehensive income.

TABLE 29.1 LEGEND TO TABLES IN NOTE 29.5

Reference in tables below	Reference to
a.	Note 29.4 a) … Employee future benefits
b.	Note 29.4 b) … Financial instruments
c.	Note 29.4 c) … Income taxes

TABLE 29.2 RECONCILIATION OF THE AUDITED CONSOLIDATED BALANCE SHEETS AS OF JANUARY 1, 2010

Canadian GAAP accounts (in millions of $)	Canadian GAAP balance	IFRS reclass adjustments	Subtotal		IFRS measurement adjustments	IFRS balance	IFRS accounts (in millions of $)
Assets							Assets
Cash and cash equivalents	$ 60	(60)	…		…	$ …	Investments
Invested assets	…	60	60		…	60	Cash and cash equivalents
Debt securities	4,784	…	4,784		…	4,784	Debt securities
Equity securities	2,894	(1,312)	1,582			1,582	Preferred shares
	…	1,312	1,312		…	1,312	Common shares
Loans	319	…	319		…	319	Loans
	7,997	60	8,057		…	8,057	
Accrued interest and dividend income	43	…	43		…	43	Accrued investment income
	…	98	98		…	98	Investments in associates and joint ventures
Premium receivables	1,640	…	1,640		…	1,640	Premium receivables
Other receivables	245	(245)	…		…	…	
Reinsurance assets	261	…	261		…	261	Reinsurance assets
Income taxes receivable	40	…	40		…	40	Income taxes receivable
Future income tax asset	38	…	38	c	18	56	Deferred tax assets
Deferred acquisition costs	396	…	396		…	396	Deferred acquisition costs
Other assets	293	101	394	a	(58)	336	Other assets
	…	46	46		…	46	Property and equipment
Intangibles	159	…	159		…	159	Intangible assets
Goodwill	179	…	179		…	179	Goodwill
Total assets	$ 11,351	…	11,351		(40)	$ 11,311	Total assets
Liabilities							Liabilities
Claims liabilities	$ 4,270	…	4,270		…	$ 4,270	Claims liabilities
Unearned premiums	2,464	…	2,464		…	2,464	Unearned premiums
Financial liabilities	406	…	406		…	406	Financial liabilities related to investments
Income taxes payable	102	…	102		…	102	Income taxes payable
Future income tax liability	26	…	26	c	(5)	21	Deferred tax liabilities
Other liabilities	703	…	703	a	30	733	Other liabilities
Debt outstanding	398	…	398		…	398	Debt outstanding
	8,369	…	8,369		25	8,394	
Shareholders• equity							Shareholders• equity
Share capital	1,061	…	1,061		…	1,061	Share capital
Contributed surplus	83	…	83		…	83	Contributed surplus
Retained earnings	1,902	…	1,902	a	(375)	1,527	Retained earnings
Accumulated other comprehensive loss	(64)	…	(64)	b	310	246	Accumulated other comprehensive income (loss)
	2,982	…	2,982		(65)	2,917	
Total liabilities and shareholders• equity	$ 11,351	…	11,351		(40)	$ 11,311	Total liabilities and shareholders• equity

TABLE 29.3 RECONCILIATION OF THE AUDITED CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2010

Canadian GAAP accounts (in millions of $)	Canadian GAAP balance	IFRS reclass adjustments	Subtotal		IFRS measurement adjustments	IFRS balance	IFRS accounts (in millions of $)
Assets							Assets
Cash and cash equivalents	$ 138	(138)	…		…	$ …	Investments
Invested assets		138	138		…	138	Cash and cash equivalents
Debt securities	4,821	…	4,821		…	4,821	Debt securities
Equity securities	3,380	(1,877)	1,503		…	1,503	Preferred shares
		1,877	1,877		…	1,877	Common shares
Loans	314	…	314		…	314	Loans
	8,515	138	8,653		…	8,653	
Accrued interest and dividend income	43	…	43		…	43	Accrued investment income
		119	119		…	119	Investments in associates and joint ventures
Premium receivables	1,762	…	1,762		…	1,762	Premium receivables
Other receivables	248	(248)	…		…	…	
Reinsurance assets	235	…	235		…	235	Reinsurance assets
Income taxes receivable	52	…	52		…	52	Income taxes receivable
Future income tax asset	20	…	20	c	9	29	Deferred tax assets
Deferred acquisition costs	420	…	420		…	420	Deferred acquisition costs
Other assets	335	83	418	a	(83)	335	Other assets
		46	46		…	46	Property and equipment
Intangibles	170	…	170		…	170	Intangible assets
Goodwill	211	…	211		…	211	Goodwill
Total assets	$ 12,149	…	12,149		(74)	$ 12,075	Total assets
Liabilities							Liabilities
Claims liabilities	$ 4,379	-	4,379		…	$ 4,379	Claims liabilities
Unearned premiums	2,586	…	2,586		…	2,586	Unearned premiums
Financial liabilities							Financial liabilities related to investments
	715	…	715		…	715	
Income taxes payable	78	…	78		…	78	Income taxes payable
Future income tax liability	54	…	54	c	(26)	28	Deferred tax liabilities
Other liabilities	771	…	771	a	53	824	Other liabilities
Debt outstanding	496	…	496		…	496	Debt outstanding
	9,079	…	9,079		27	9,106	
Shareholders• equity							Shareholders• equity
Share capital	993	…	993		…	993	Share capital
Contributed surplus	96	…	96		…	96	Contributed surplus
Retained earnings	1,894	…	1,894	a,b	(329)	1,565	Retained earnings
Accumulated other comprehensive loss	87	…	87	b	228	315	Accumulated other comprehensive income (loss)
	3,070	…	3,070		(101)	2,969	
Total liabilities and shareholders• equity	$ 12,149	…	12,149		(74)	$ 12,075	Total liabilities and shareholders• equity

TABLE 29.4 RECONCILIATION OF THE AUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AS OF DECEMBER 31, 2010

Canadian GAAP accounts (in millions of $, except as otherwise noted)	Canadian GAAP balance	IFRS reclass adjustments	Subtotal		IFRS measurement adjustments	IFRS balance	IFRS accounts (in millions of $, except as otherwise noted)
Revenues							
Premiums written							
Direct	$ 4,475	…	4,475		…	$ 4,475	Direct premiums written
Ceded	(123)	123	…		…	…	
Net	4,352	(4,352)	…		…	…	
Changes in unearned premiums	(121)	121	…		…	…	
Net premiums earned	4,231	…	4,231		…	4,231	Net premiums earned
	…	(2,766)	(2,766)		…	(2,766)	Net claims incurred
	…	(1,272)	(1,272)		…	(1,272)	Underwriting expenses
	4,231	(4,038)	193		…	193	
	…	(36)	(36)		…	(36)	Impact of change in net claims discount rate
	4,231	(4,074)	157		…	157	Underwriting income (loss)
Interest income	179	115	294		…	294	Net investment income
Dividend income	136	(136)	…		…	…	
Net investment gains (losses)	64	…	64	b	118	182	Net investment gains (losses)
	…	15	15		…	15	Share of profit of investments in associates and joint ventures
Distribution income and other	59	(15)	44		…	44	Other revenues
Expenses							
Underwriting							
Claims	(2,802)	2,802	…		…	…	
Commissions, premium taxes and general expenses	(1,272)	1,272	…		…	…	
Distribution expenses and other	(21)	…	(21)	a	(6)	(27)	Other expenses
Investment expenses	(21)	21	…		…	…	
Interest on debt outstanding	(28)	…	(28)		…	(28)	Finance costs
Income before income taxes	525	…	525		112	637	Net income (loss) before income (benefit)
Income tax expense (benefit)	105	…	105	c	34	139	Income tax expense (benefit)
Net income	$ 420	…	420		78	$ 498	Net income (loss) attributable to shareholders
Earnings per share, basic and diluted (dollars)	3.65					4.32	Earnings per share, basic and diluted (dollars)
	…	…	…	a	(42)	(42)	Net actuarial gains (losses) on employee future benefits
							Available…for…sale securities:
Net decrease (increase) in unrealized losses on available…for…sale securities	257	…	257		…	257	Net changes in net unrealized gains (losses)
Income taxes	(70)	70	…		…	…	
Reclassification to income of net (gains) losses on available…for…sale securities	(47)	…	(47)	b	(118)	(165)	Reclassification to income of net (gains) losses
Income taxes	11	(70)	(59)	c	47	(12)	Income tax benefit (expense)
Other comprehensive income (loss)	151	…	151		(113)	38	Other comprehensive income (loss) for the year
Comprehensive income (loss)	$ 571	…	571		(35)	$ 536	Total comprehensive income (loss) attributable to shareholders

Five-year financial history

(in millions of Canadian dollars, except as noted)

	IFRS		Canadian GAAP		
	2011	2010	2009	2008	2007
Consolidated performance					
Written insured risks (thousands)	5,084	4,614	4,604	4,601	4,680
Direct premiums written	5,099	4,498	4,275	4,146	4,108
Net premiums earned	4,880	4,231	4,055	4,040	3,932
(Favourable) unfavourable prior-year claims development	(223)	(193)	(94)	(114)	(116)
Net underwriting income (loss)[1]	273	193	54	117	189
Combined ratio[1]	94.4%	95.4%	98.7%	97.1%	95.2%
Net investment income	326	294	293	329	345
Net investment gains (losses)	204	182	(173)	(288)	74
Income before income taxes	594	637	140	124	672
Effective tax rate	23.1%	22.0%	9.4%	(3.8)%	24.3%
Net operating income[1]	460	402	282	361	457
Net income	465	498	127	128	508
Net operating income per share ($)	3.91	3.49	2.35	2.96	3.61
Earnings per share ($)	3.96	4.32	1.06	1.05	4.01
Average number of shares outstanding (millions)	115	115	119.9	122.0	126.7
Operating return on equity	15.3%	15.1%	9.2%	11.3%	13.6%
Return on equity	14.3%	16.9%	4.5%	4.4%	15.4%
Personal lines … total					
Written insured risks (thousands)	4,465	4,089	4,098	4,103	4,190
Direct written premiums	3,627	3,308	3,121	3,010	2,962
Net premiums earned	3,535	3,139	2,993	2,959	2,845
Combined ratio[1]	95.0%	97.5%	99.3%	101.2%	96.7%
Net underwriting income[1]	179	76	21	(36)	93
Personal auto					
Written insured risks (thousands)	2,723	2,475	2,455	2,449	2,514
Direct written premiums	2,419	2,236	2,127	2,057	2,058
Net premiums earned	2,406	2,157	2,067	2,068	2,008
Combined ratio[1]	90.9%	98.1%	94.9%	95.9%	94.5%
Net underwriting income[1]	219	41	105	85	111
Personal property					
Written insured risks (thousands)	1,742	1,614	1,643	1,654	1,676
Direct written premiums	1,208	1,072	994	953	904
Net premiums earned	1,129	982	926	891	837
Combined ratio[1]	103.5%	96.5%	109.0%	113.6%	102.2%
Net underwriting income[1]	(40)	35	(84)	(121)	(18)
Commercial lines … total					
Written insured risks (thousands)	619	525	506	498	490
Direct written premiums	1,472	1,190	1,154	1,136	1,146
Net premiums earned	1,345	1,092	1,062	1,081	1,087
Combined ratio[1]	93.0%	89.3%	96.9%	85.9%	91.1%
Net underwriting income[1]	94	117	33	153	96
Commercial auto					
Written insured risks (thousands)	325	282	269	264	256
Direct written premiums	396	336	322	318	321
Net premiums earned	384	326	315	319	320
Combined ratio[1]	86.5%	86.0%	79.8%	87.2%	93.7%
Net underwriting income[1]	52	46	64	41	20
Commercial P&C					
Written insured risks (thousands)	294	243	237	234	234
Direct written premiums	1,076	854	832	818	825
Net premiums earned	961	766	747	762	767
Combined ratio[1]	95.6%	90.7%	104.1%	85.3%	90.1%
Net underwriting income[1]	42	71	(31)	112	76
Financial condition					
Excess capital (over 170% MCT)	435	809	859	428	702
MCT	197%	233%	232%	205%	188%
Cash provided by (used in) operating activities	529	360	538	620	620
Debt-to-total-capital ratio	22.9%	14.3%	11.8%	0.0%	0.0%
Book value per share ($)	29.73	26.47	24.88	21.96	25.48
Investments					
Performance					
Market-based investment yield	4.0%	4.2%	4.5%	5.0%	5.1%
Total investments	11,828	8,653	8,057	6,605	7,246
Portfolio mix (net of hedging positions)					
Short-term notes, including cash and cash equivalents	4%	6%	3%	12%	0%
Fixed-income securities	73%	61%	64%	55%	53%
Preferred shares	11%	16%	19%	18%	20%
Common shares	9%	13%	10%	11%	24%
Loans	3%	4%	4%	4%	3%

1 Excluding MYA

Two-year quarterly review

(in millions of Canadian dollars, except as noted)

	IFRS 2011				IFRS 2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance								
Written insured risks (thousands)	1,508	1,251	1,379	946	1,054	1,247	1,369	944
Direct premiums written	1,576	1,226	1,354	943	1,060	1,206	1,318	914
Net premiums earned	1,616	1,121	1,075	1,068	1,091	1,067	1,054	1,019
(Favourable) unfavourable prior-year claims development	(38)	(31)	(72)	(82)	(53)	(25)	(39)	(76)
Net underwriting income (loss)[1]	118	64	33	58	21	37	66	69
Combined ratio[1]	92.7%	94.2%	97.0%	94.6%	98.0%	96.6%	93.7%	93.2%
Net investment income	103	74	75	74	71	74	76	73
Net investment gains (losses)	(7)	78	71	62	13	66	63	40
Income before income taxes	116	118	152	208	136	137	181	183
Effective tax rate	34.3%	15.0%	19.1%	24.3%	21.7%	20.3%	22.1%	22.9%
Net operating income[1]	152	111	95	102	80	90	119	113
Net income	84	101	123	157	107	109	141	141
Net operating income per share ($)	1.14	0.97	0.87	0.91	0.71	0.79	1.04	0.95
Earnings per share ($)	0.62	0.87	1.12	1.42	0.95	0.96	1.22	1.19
Average number of shares outstanding (millions)	130	111	109	111	113	114	115	119
Operating return on equity	15.3%	14.0%	13.6%	14.8%	15.1%	n/a	n/a	n/a
Return on equity	14.3%	16.8%	17.3%	17.8%	16.9%	n/a	n/a	n/a
Personal lines … total								
Written insured risks (thousands)	1,300	1,122	1,216	827	922	1,123	1,215	829
Direct written premiums	1,027	934	995	671	751	928	976	653
Net premiums earned	1,118	826	799	792	811	791	783	754
Combined ratio[1]	91.7%	94.0%	99.4%	96.0%	99.4%	99.3%	97.2%	94.0%
Net underwriting income[1]	93	49	5	32	3	6	22	45
Personal auto								
Written insured risks (thousands)	778	676	756	513	542	671	751	511
Direct written premiums	664	622	674	459	494	626	665	451
Net premiums earned	754	563	549	540	556	545	539	517
Combined ratio[1]	93.3%	86.4%	85.7%	97.7%	103.0%	96.3%	95.7%	97.0%
Net underwriting income[1]	52	76	79	12	(18)	20	23	16
Personal property								
Written insured risks (thousands)	522	446	460	314	380	452	464	318
Direct written premiums	363	312	321	212	257	302	311	202
Net premiums earned	364	263	250	252	255	246	244	237
Combined ratio[1]	88.6%	110.3%	129.5%	92.3%	91.7%	106.0%	100.3%	87.8%
Net underwriting income[1]	41	(27)	(74)	20	21	(14)	(1)	29
Commercial lines … total								
Written insured risks (thousands)	208	129	163	119	132	124	154	115
Direct written premiums	549	292	359	272	309	278	342	261
Net premiums earned	498	295	276	276	280	276	271	265
Combined ratio[1]	95.0%	94.9%	90.0%	90.4%	93.8%	88.6%	83.8%	90.9%
Net underwriting income[1]	25	15	28	26	18	31	44	24
Commercial auto								
Written insured risks (thousands)	101	68	92	64	71	65	85	61
Direct written premiums	130	83	108	75	85	79	101	71
Net premiums earned	130	88	84	82	84	84	80	78
Combined ratio[1]	93.0%	82.8%	75.4%	91.7%	93.9%	80.5%	74.6%	95.0%
Net underwriting income[1]	10	15	21	6	6	16	20	4
Commercial P&C								
Written insured risks (thousands)	107	61	71	55	61	59	69	54
Direct written premiums	419	209	251	197	224	199	241	190
Net premiums earned	368	207	192	194	196	192	191	187
Combined ratio[1]	95.7%	100.0%	96.2%	89.9%	93.8%	92.0%	87.6%	89.2%
Net underwriting income[1]	15	0	7	20	12	15	24	20
Financial condition								
Excess capital (over 170% MCT)	435	534	758	784	809	800	766	866
MCT	197%	202%	228%	236%	233%	223%	218%	237%
Cash provided by (used in) operating activities	94	359	92	(16)	113	330	(27)	(56)
Debt-to-total-capital ratio	22.9%	23.4%	14.4%	14.4%	14.3%	14.6%	15.1%	15.0%
Book value per share ($)	29.73	28.97	26.89	26.91	26.47	25.61	24.32	24.33
Investments								
Performance								
Market-based investment yield	3.9%	3.8%	4.2%	4.0%	4.1%	4.1%	4.4%	4.1%
Total investments	11,828	11,827	8,625	8,593	8,653	8,597	8,217	7,981
Portfolio mix (net of hedging positions)								
Short-term notes, including cash and cash equivalents	4%	2%	1%	4%	6%	5%	4%	2%
Fixed-income securities	73%	73%	66%	62%	61%	61%	63%	63%
Preferred shares	11%	12%	16%	16%	16%	18%	19%	19%
Common shares	9%	9%	13%	14%	13%	12%	11%	12%
Loans	3%	4%	4%	4%	4%	4%	3%	4%

1 Excluding MYA

Glossary

Actuarial gains (losses) Effect of changes in actuarial assumptions and experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred).

Adjusted earning per share (AEPS) Net income from continuing operations for a specific period less preferred share dividends, plus the after-tax impact of integration and restructuring costs, change in fair value of contingent consideration and amortization of intangible assets recognized in business combinations, divided by the weighted-average number of common shares for the same period.

Adjusted return on equity (AROE) Net income from continuing operations for a 12-month period less preferred share dividends, plus the after-tax impact of integration and restructuring costs, change in fair value of contingent consideration and amortization of intangible assets recognized in business combinations, divided by the average shareholders• equity (excluding preferred shares) over the same 12-month period. Net income from continuing operations and shareholders• equity are determined in accordance with IFRS. The average shareholders• equity is the mean of shareholders• equity at the beginning and end of the period, adjusted for significant capital transactions, if appropriate.

Asset-backed security A financial security whose value and income payments are derived from and collateralized (or backed) by a specified pool of underlying assets such as auto loans and credit card receivables.

Basis risk Basis risk is the risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other.

Book value per share Represents shareholders• equity (excluding preferred shares) at the end of the period divided by the number of outstanding common shares at the same date. Shareholders• equity is determined in accordance with IFRS.

Case reserves The liability established to reflect the estimated cost of unpaid claims that have been reported and claims expenses that the insurer will ultimately be required to pay.

Catastrophe A catastrophe is defined as a single event resulting in $5.0 million or more in aggregate claims.

Claims expenses The direct and indirect expenses of settling claims.

Claims liabilities Claims liabilities are technical accounting provisions comprised of the following: (a) case reserves (b) claims that are incurred but not reported (IBNR) and (c) provision for adverse development as required by accepted actuarial practice in Canada. Claims liabilities are discounted to take into account the time value of money.

Claims ratio Claims incurred, net of reinsurance, during a specific period and expressed as a percentage of net premiums earned for the same period.

Collateral Assets pledged as security for a loan or other obligation. Collateral can take many forms, such as cash, highly rated securities, receivables, etc.

Combined ratio The sum of the claims ratio and the expense ratio. A combined ratio below 100% indicates a profitable underwriting result. A combined ratio over 100% indicates unprofitable results.

Corridor method or approach Systematic method for recognizing in the statement of income the net cumulative unrecognized actuarial gains and losses. Under this method, the portion of actuarial gains and losses to be recognized for a specific pension plan is the excess of the greater of: (a) 10% of the present value of the defined benefit obligation and (b) 10% of the fair value of the plan assets, both established at the same date, divided by the expected average remaining working lives of the employees participating in the plan.

Counterparty A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation of the company.

Credit derivatives Credit derivatives, such as credit default swaps, are over-the-counter contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another.

Credit risk Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due.

Currency forwards and futures contracts Contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date.

Currency risk Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Debt-to-capital ratio Total debt outstanding divided by the sum of total shareholders• equity and total debt outstanding, at the same date.

Derivative A contract between two parties that requires little or no initial investment and where payments between the parties are dependent upon the movements in price of an underlying instrument, index or financial rate. The notional amount of the derivative is the contract amount used as a reference point to calculate the payments to be exchanged between the two parties, and the notional amount itself is generally not exchanged by the parties.

Derivative-related credit risk Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract•s notional amount.

Direct premiums written The total amount of premiums for new and renewal policies billed (written) during a specific reporting period from the primary insured.

Earnings per common share (EPS), basic Calculated as net income attributable to common shareholders divided by the weighted average number of common shares outstanding for the period.

Earnings per common share (EPS), diluted Calculated as net income attributable to common shareholders divided by the weighted average number of common shares outstanding for the period, adjusted for the dilutive effect of stock options and other convertible securities.

Equities sold short A transaction in which the seller sells equities and then borrows the equities in order to deliver them to the purchaser upon settlement. At a later date, the seller buys identical equities in the market to replace the borrowed securities.

Equity price risk Equity price risk is the risk of losses arising from movements in equity market prices.

Excess capital Excess capital in the P&C insurance subsidiaries at 170% minimum capital test (MCT) plus excess liquid assets in the holding company.

Expense ratio Underwriting expenses including commissions, premium taxes and all general and administrative expenses incurred in underwriting income during a specific period and expressed as a percentage of net premiums earned for the same period.

Facility Association The Facility Association is an entity established by the automobile insurance industry to ensure that automobile insurance is available to all owners and licensed drivers of motor vehicles where such owners or drivers are unable to obtain automobile insurance through the private insurance market. The Facility Association serves the following provinces and territories: Alberta, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island and Yukon.

Fair value The amount of consideration that would be agreed upon in an arm•s length transaction between knowledgeable, willing parties who are under no compulsion to act.

Forward derivatives Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market.

Frequency (of claims) Total number of claims reported in a specific period.

Futures derivatives Futures contracts are standardized contracts with respect to amounts and settlement dates and are traded on regular future exchanges.

Hedge A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal investing operations. The elimination or reduction of such exposure is accomplished by establishing offsetting or •hedging Ž positions.

Incurred but not reported (IBNR) claims reserves Reserves (accounting provisions) for estimated claims that have been incurred but not yet reported by policyholders including a reserve for future developments on claims which have been reported.

Industry pools Industry pools consist of the •residual market Ž as well as risk-sharing pools (RSP) in Alberta, Ontario, Québec, New Brunswick and Nova Scotia. These pools are managed by the Facility Association except for the Québec RSP.

Interest rate forwards and futures contracts Contractual obligations to buy or sell an interest-rate sensitive financial instrument at a predetermined future date at a specified price.

Interest rate risk Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Internal rate of return (IRR) The rate of return expected to be produced on the shareholders• capital deployed over the life of a project or acquisition.

International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The term •IFRS Ž includes IFRS standards and interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC).

Investments or investment portfolio Financial instrument assets owned by the company including debt and equity securities and loans.

Liquidity risk Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet obligations associated with financial liabilities.

Market-based yield The market-based yield is a non-IFRS financial measure defined as the annualized total pre-tax dividend and interest income (before expenses) divided by the average fair values of equity and fixed-income securities held during the reporting period.

Market yield adjustment (MYA) The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets.

Market yield effect (MYE) The difference between the MYA and the gains and losses on fair value through profit and loss (FVTPL) fixed-income securities (the objective is that these two items offset each other with a minimal overall impact to income).

Master netting agreement An agreement between the company and a counterparty designed to reduce the credit risk of derivative transactions through the creation of a legal right to offset the exposure in the event of a default.

Minimum capital test (MCT) Ratio of available capital to required capital. Federally regulated property and casualty insurers, including our Canadian insurance subsidiaries, must meet a minimum capital test (MCT) that assesses the insurer•s available capital in relation to its required capital and requires that available capital equal at least the minimum capital requirement. The Company has an internal operating target of 170%.

Net operating income (NOI) Net income from continuing operations for a specific period less preferred share dividends, plus the after-tax impact of integration and restructuring costs, change in fair value of contingent consideration, amortization of intangible assets recognized in business combinations, net investment gains (losses) excluding FVTPL fixed-income securities, and MYE.

Net operating income per share (NOIPS) Net operating income for a specific period less preferred share dividends, divided by the weighted-average number of common shares for the same period.

Net premiums earned Premiums written that are recognized for accounting purposes as revenue earned during a period.

Net premiums written Direct premiums written for a given period less premiums ceded to reinsurers and retrocessionaires during such period.

Net underwriting income Net premiums earned less net claims incurred, commissions, premium taxes and general expenses (excluding MYA).

Normal course issuer bid A program for the repurchase of the company•s own common shares for cancellation through a stock exchange that is subject to the various rules of the relevant stock exchange and securities commission.

Notional amount The contract amount used as a reference point to calculate cash payments for derivatives.

Operating return on equity (OROE) Net operating income for the last 12-months divided by the average shareholders• equity (excluding preferred shares and accumulated other comprehensive income) over the same 12-month period. The average shareholders• equity is the mean of shareholders• equity at the beginning and the end of the period, adjusted for significant capital transactions, if appropriate.

Options Contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) an asset (underlying asset) at a predetermined price, at or by a specified future date.

Prior-year claims development Prior-year claims development is the change in total prior-year claims liabilities in a given period. A reduction to claims liabilities is called favourable prior-year claims development. An increase in claims liabilities is called unfavourable prior-year claims development.

Provision for adverse deviation An amount added to undiscounted case reserves and IBNR to account for adverse deviation from claims reserve estimates.

Reinsurer An insurance company that agreed to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company, under one or more policies.

Return on equity (ROE) Net income for a 12-month period less preferred share dividends, divided by the average shareholders• equity (excluding preferred shares) over the same 12-month period. Net income and shareholders• equity are determined in accordance with IFRS. The average shareholders• equity is the mean of shareholders• equity at the beginning and end of the period, adjusted for significant capital transactions, if appropriate.

Securities lending Transactions in which the owner of a security agrees to lend it under the terms of a prearranged contract to a borrower for a fee. The borrower must collateralize the security loan at all times.

Severity (of claims) Average cost of a claim calculated by dividing the total cost of claims by the total number of claims.

Shareholders• equity Capital invested by the shareholders via share capital and contributed surplus, plus retained earnings and accumulated other comprehensive income (loss).

Structured settlements Periodic payments to an injured person or survivor for a determined number of years for life, typically in settlement for a claim under a liability policy, usually funded through the purchase of an annuity.

Swaps, including currency and total return swaps Over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates such as exchange rates or value of an equity index applied to a contract notional amount.

Written insured risks The number of vehicles in automobile insurance, the number of premises in personal property insurance and the number of policies in commercial insurance (excluding commercial auto insurance).

Board of directors

Charles Brindamour[4]
Chief Executive Officer

Yves Brouillette[1],[2]
Corporate Director and President, Placements Beluca Inc.

Paul Cantor[3],[4]
Senior Advisor, Bennett Jones LLP

Marcel Côté[2],[3]
Founding Partner, Secor Consulting Inc.

Robert W. Crispin[1],[4]
Corporate Director

Claude Dussault
Chairman of the Board

Eileen Mercier[1],[4]
Chair and Board Member, Ontario Teachers• Pension Plan

Timothy H. Penner[2],[3]
Corporate Director

Louise Roy[2],[3]
Chancellor and Chair of the Board of Université de Montréal and Invited Fellow, Center for Interuniversity Research and Analysis on Organizations

Stephen Snyder[1],[2]
Corporate Director

Carol Stephenson[2],[3]
Dean, Richard Ivey School of Business, University of Western Ontario

Notes:
(1) Denotes member of the Audit & Risk Review Committee
(2) Denotes member of the Conduct Review & Corporate Governance Committee
(3) Denotes member of the Human Resources Committee
(4) Denotes member of the Investment Committee

For complete biographies of the members of the Board of directors, please see the Management Proxy Circular which may be found online at www.sedar.com.

Executive management

Charles Brindamour
Chief Executive Officer

Martin Beaulieu
Senior Vice-President, Personal Lines

Alan Blair
Senior Vice-President, Atlantic Canada

Jean-François Blais
President, Intact Insurance

Debbie Coull-Cicchini
Senior Vice-President, Ontario

Claude Désilets
Senior Vice-President and Chief Risk Officer

Monika Federau
Senior Vice-President, Marketing

Louis Gagnon
President and Chief Operating Officer

Denis Garneau
Senior Vice-President, Québec

Françoise Guénette
Senior Vice-President, Corporate and Legal Services and Secretary

Byron Hindle
Senior Vice-President, International Business Development

Mathieu Lamy
Senior Vice-President, Claims

Alain Lessard
Senior Vice-President, Commercial Lines

Lucie Martel
Senior Vice-President and Chief Human Resources Officer

Jennie Moushos
Senior Vice-President, Western Canada

Jack Ott
Senior Vice-President and Chief Information Officer

Marc Pontbriand
President, Direct to Consumers Distribution

Marc Provost
Senior Vice-President, Managing Director and
Chief Investment Officer, Intact Investment Management Inc.

Mark Tullis
Senior Vice-President and Chief Financial Officer

Pete Weightman
President, BrokerLink

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Shareholder and corporate information

Credit rating

IFC•s long-term issuer rating and senior unsecured debt is rated A (low) by DBRS. The Company•s long-term issuer rating and senior unsecured debt are rated Baa1 by Moody•s Investors Service and the Company•s “ve principal operating insurance subsidiaries are rated A1 for insurance “nancial strength (IFS). IFC•s long-term issuer rating and senior unsecured debt are rated a- (under review with negative implication) by A.M. Best and its primary insurance subsidiaries are rated A+ (under review with negative implication) for “nancial strength rating (FSR), while AXA Canada•s “ve principal operating subsidiaries have an FSR rating of A (under review with developing implication).

DBRS has assigned a rating of Pfd-2(low) with a Stable trend for the Non-cumulative Rate Reset Class A Shares Series 1 (the •Series 1 Preferred SharesŽ) issued on July 12, 2011 and forthe Non-cumulative Rate Reset Class A Shares Series 3 (the •Series 3 Preferred SharesŽ) issued on August 18, 2011.

Toronto StockExchange(TSX)listings

Common Shares Ticker Symbol: IFC
Series 1 Preferred Shares Ticker Symbol: IFC.PR.A
Series 3 Preferred Shares Ticker Symbol: IFC.PR.C

Annual Meeting of Shareholders

Date: Wednesday May 2, 2012
Time: 2:00 pm ET
Montreal Museum of Fine Arts
Maxwell Cummings Auditorium
1379 Sherbrooke Street West
Montréal, Québec H3G 1J5

Version française

Il existe une version française du présent rapport annuel à la section Relations investisseurs de notre site Web intactcf.com. Les intéressés peuvent obtenir une version imprimée en appelant au 1 866 778 0774 ou en envoyant un courriel à ir@intact.net.

Transfer agent and registrar

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
1 800 564 6253

Auditors

Ernst & Young LLP

Earningsreleasedates

Q1 … Wednesday May 2, 2012
Q2 … Wednesday August 1, 2012
Q3 … Wednesday November 7, 2012
Q4 … Wednesday February 6, 2013

Investor inquiries

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Media inquiries

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Dividend reinvestment

Shareholders can reinvest their cash dividends in common shares of Intact Financial Corporation on a commission-free basis either through a broker, subject to eligibility as determined by the broker, or through Canadian ShareOwner Investments Inc. Full details can be obtained by visiting the Investor Relations section of the Company•s website at www.intactfc.com.

Eligible dividend designation

For purposes of the enhanced dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by Intact Financial Corporation to Canadian residents on our common and preferred shares after December 31, 2005, are designated as eligible dividends. Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as eligible dividends for the purposes of such rules.

Information for shareholders outside of Canada

Dividends paid to residents of countries with which Canada has bilateral tax treaties are generally subject to the 15% Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares (assuming ownership of less than 25%) or debt instruments of the Company owned by non-residents not carrying on business in Canada. No government in Canada levies estate taxes or succession duties.

Common share prices and volume

	High	Low	Close	Volume
Q1	$ 51.58	$ 46.49	$ 55.40	12,935,794
Q2	$ 55.57	$ 47.79	$ 50.25	19,966,321
Q3	$ 57.77	$ 51.41	$ 57.53	19,783,681
Q4	$ 59.82	$ 53.37	$ 58.53	18,098,968
Year 2011	$ 59.82	$ 46.49	$ 58.53	70,784,764
Q1	$ 44.90	$ 36.37	$ 44.81	24,228,119
Q2	$ 47.19	$ 42.98	$ 44.90	16,616,122
Q3	$ 48.05	$ 40.51	$ 45.61	13,796,808
Q4	$ 51.73	$ 44.54	$ 50.86	13,181,308
Year 2010	$ 51.73	$ 36.37	$ 50.86	67,822,357
Q1	$ 37.50	$ 26.17	$ 36.00	54,684,783
Q2	$ 37.63	$ 32.67	$ 34.05	24,407,951
Q3	$ 36.37	$ 31.28	$ 33.98	19,054,203
Q4	$ 37.82	$ 32.37	$ 37.15	16,313,412
Year 2009	$ 37.82	$ 26.17	$ 37.15	114,460,349

Source: Toronto Stock Exchange

intact

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Living our values

INTEGRITY

We behave with integrity

We demonstrate the highest ethical standards of personal conduct. We behave with honesty, integrity, openness and fairness when dealing with each other, customers, partners and governments.

RESPECT

We respect each other

We value the diversity of our people and their dreams. We foster an environment conducive to personal growth, development and new opportunities. We recognize and value the contribution that each of us and our teams are making to our success.

CUSTOMER DRIVEN

We are customer driven

We listen to customers, understand their needs, offer the best solutions and deliver on our promises. We make it easy for customers to deal with us. We go beyond expectations and always deliver an outstanding experience.

EXCELLENCE

We strive for excellence

We are disciplined in our approaches and our actions, which is why we excel in all aspects of our business. We embrace change and the opportunities it creates, encourage innovative thinking and always seek to improve. We value and reward high performance and success. We provide high value to our shareholders.

SOCIALLY RESPONSIBLE

We are socially responsible

We respect the environment and its finite resources. We believe in making the communities where we live and work safer, healthier and happier. We encourage the involvement and citizenship of all our employees.

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