[intact]

INTACT FINANCIAL CORPORATION

2014 ANNUAL REPORT

We are the largest provider of property and casualty ("P&C") insurance in Canada with $7.3 billion in annual direct premiums written ("DPW") and an estimated market share of 17%. 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, and directly to consumers through belairdirect. We internally manage our investments totalling approximately $13.4 billion.

FINANCIAL HIGHLIGHTS

(Excluding MYA, in millions of Canadian dollars, except as noted)

	2014	2013	2012	2011	2010
Consolidated Performance					
Written insured risks (thousands)	7,062	7,115	6,729	5,084	4,614
Direct premiums written	7,349	7,319	6,868	5,099	4,498
Net premiums earned	7,207	7,014	6,571	4,880	4,231
Combined ratio	92.8%	98.0%	93.1%	94.4%	95.4%
Underwriting income	519	142	451	273	193
Net investment income	427	406	389	326	294
Net operating income	767	500	675	460	402
Net investment gains (losses)	174	(83)	37	204	182
Net income	782	431	571	465	498
Net operating income per share ($)	5.67	3.62	5.00	3.91	3.49
Earnings per share ($)	5.79	3.10	4.20	3.96	4.32
Book value per share ($)	37.75	33.94	33.03	29.73	26.47
Operating return on equity	16.3%	11.2%	16.8%	15.3%	15.1%
Adjusted return on equity	16.8%	10.3%	16.1%	17.4%	17.1%

ONLINE ANNUAL REPORT

Please visit our online annual report to view videos, interactive features and additional information on how we stayed "in touch" with our stakeholders in 2014.

It can be accessed by scanning this QR code or visiting reports.intactfc.com/2014

IN TOUCH

At Intact Financial, we believe that insurance is not about things, it's about people. We are here to help people, businesses and society prosper in good times and be resilient in bad times. To do that, we keep in touch with developments in our changing world. We make it easy to get in touch with us, by phone, online or in person. Most importantly, we keep our promises and stay in touch with our stakeholders, so we can meet their needs.

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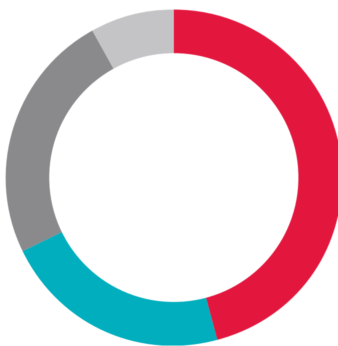
This annual report contains forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements as a number of factors could cause the Company's actual results, performance or achievements, or future events or developments to differ materially from those expressed or implied by the forward-looking statements. Additional information about our forward-looking statements and risk factors can be found under the Cautionary note regarding forward-looking statements and the Risk Management sections of our Management's Discussion and Analysis.

Financial highlights

Our superior operating performance and financial strength have translated into a total shareholder return of 274% in the past 10 years, while allowing us to increase our dividends per share each year since our IPO, on average by 11% per year.

2014 Direct premiums written by business line

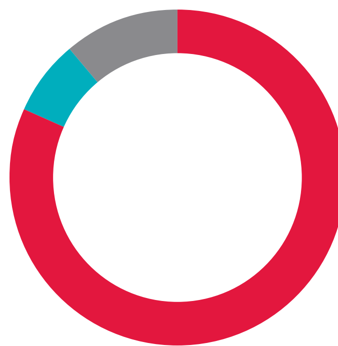
(excluding pools, %)



Personal auto	46%
Personal property	22%
Commercial P&C	24%
Commercial auto	8%

2014 Direct premiums written by distribution channel

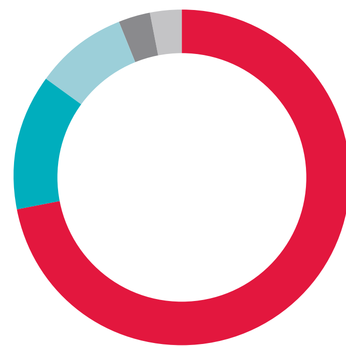
(excluding pools, %)



Intact Insurance	81%
BrokerLink	7%
Direct-to-consumer	12%

2014 Investment mix

(net of hedging positions and financial liabilities related to investments)



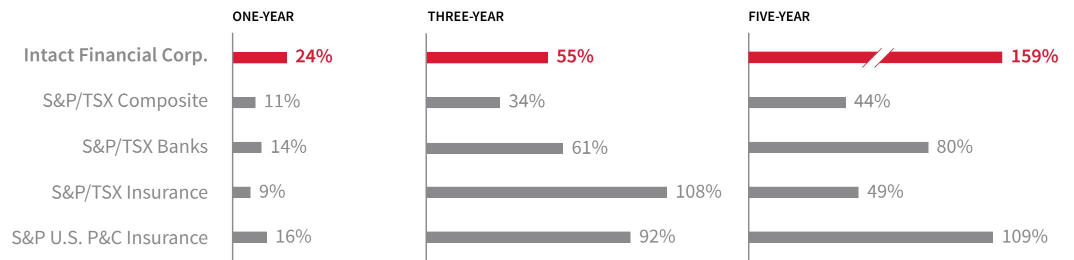
Fixed income	72%
Common shares	13%
Preferred shares	9%
Loans	3%
Cash and short-term notes	3%

Total shareholder return

21.0%

On a total shareholder return basis (including dividends), our 21.0% CAGR over the past five years was higher than most comparable indices, bolstered by our operating results.

Source: Bloomberg



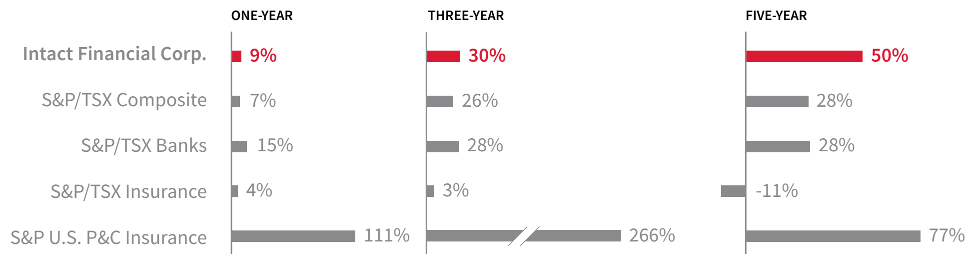
	ONE-YEAR	THREE-YEAR	FIVE-YEAR
Intact Financial Corp.	24%	55%	159%
S&P/TSX Composite	11%	34%	44%
S&P/TSX Banks	14%	61%	80%
S&P/TSX Insurance	9%	108%	49%
S&P U.S. P&C Insurance	16%	92%	109%

Dividends per share growth

8.4%

We are proud of our dividend growth track record, including a five-year CAGR of 8.4%, which compares favourably versus our peers.

Source: Bloomberg

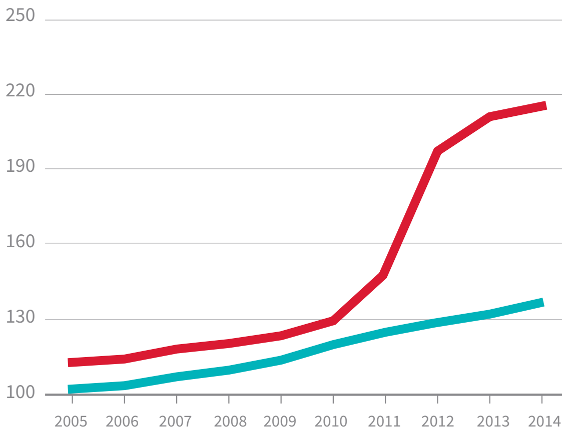


	ONE-YEAR	THREE-YEAR	FIVE-YEAR
Intact Financial Corp.	9%	30%	50%
S&P/TSX Composite	7%	26%	28%
S&P/TSX Banks	15%	28%	28%
S&P/TSX Insurance	4%	3%	-11%
S&P U.S. P&C Insurance	111%	266%	77%

Direct premiums written growth

(%) (Base 100 = 2004)

● IFC ● Industry

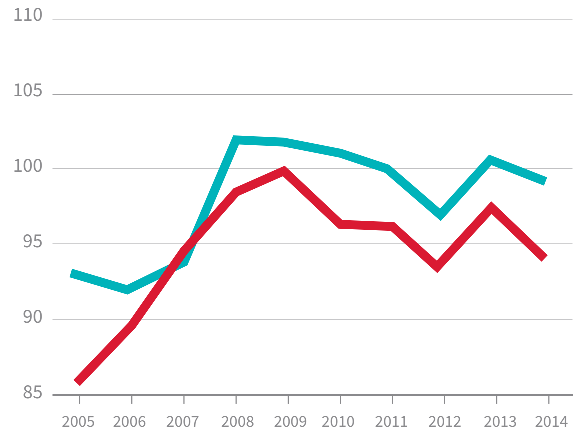


The combination of our organic growth and accretive acquisitions has led to a significant growth outperformance versus the industry.

Combined ratio[1]

(%)

● IFC ● Industry

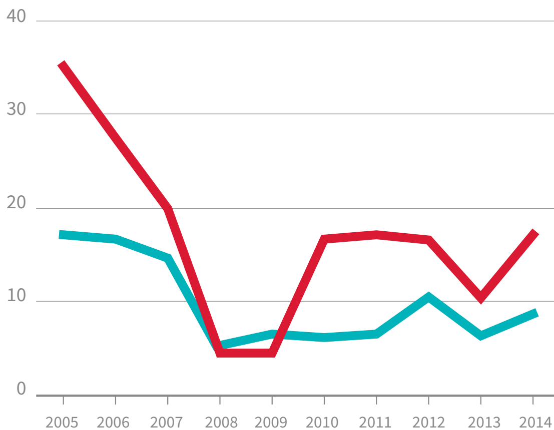


Our sophisticated pricing, underwriting discipline and in-house claims expertise have enabled us to consistently outperform the industry's combined ratio.

Return on equity[2]

(%)

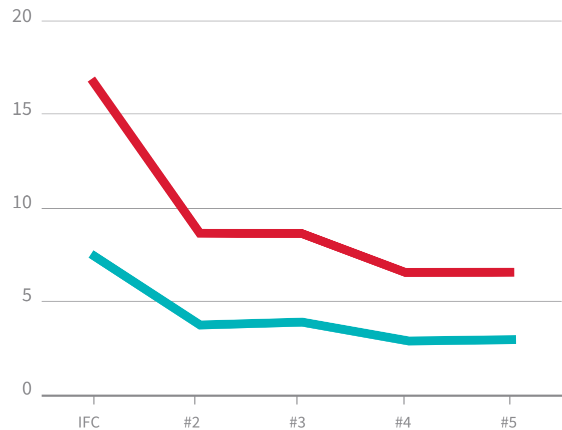
● IFC ● Industry



Our superior underwriting results, investment performance and capital management have led to a consistent ROE outperformance versus the industry.

Market share by company

● Market share (%) ● Direct premiums written ($ billions)



With an estimated market share of 17%, we are nearly twice the size of our next largest competitor and approximately 15 times the size of the average company in the industry.

Industry data: IFC estimate based on MSA Research Inc. data, excluding Lloyd's, ICBC, SGI, SAF, MPI, Genworth and IFC, as at Dec. 31, 2014

1 Combined ratio includes the market yield adjustment ("MYA").
2 ROEs reflect IFRS beginning in 2010. Since 2011, IFC's ROE is adjusted return on common shareholders' equity ("AROE"), as defined on page 135.

What does being "in touch" mean?

It means keeping in touch with developments in our changing world and responding effectively; making it easy to get in touch with us, by phone, online or in person; and, most importantly, staying in touch with our stakeholders so we can meet their needs.

In touch online

Please visit our online annual report (reports.intactfc.com/2014) to view videos, interactive features and additional information on how we stayed "in touch" with our stakeholders in 2014.

4 POINT improvement in employee engagement

People

We know that insurance is not about things, it's about people. Our employees live our values every day, enabling us to keep our promise to the people we serve. These values of integrity, respect, being customer driven, striving for excellence and being socially responsible allow us to deliver an experience for customers and brokers that is second to none. For customers, we go beyond a top-notch claims experience by helping them try to avoid having to endure a loss in the first place. For employees, when we asked them what they liked about working at Intact Financial Corporation ("IFC"), they named our values, career opportunities, inspiring teams and financial rewards as areas that are important to them. For brokers, surveys say that ease of doing business with us remains a key factor. We are listening to feedback, responding to needs and are ready to help people succeed in the years ahead.

Communities

Our core value of being socially responsible speaks to our commitment to make the communities in which we operate safer, happier and healthier, and encourages our employees to get involved. It also serves as the mandate of the Intact Foundation, which donates to organizations that are committed to climate change adaptation and the improvement of the lives of at-risk youth. Since 2010, Intact Financial has been a proud National Partner of Raising the Roof's annual Toque Campaign, aimed at finding long-term solutions to homelessness and providing shelter to youth at risk. Since 2012, we have helped support the Climate Change Adaptation Project ("CCAP") in its efforts to find meaningful and cost-effective solutions to help Canadians adapt to the impacts of climate change. Last year, employees and brokers participated in a number of projects from coast to coast aimed at reducing the impact of torrential precipitation, promoting measures to prevent basement flooding and deploying green infrastructure.

$3.7 MILLION invested in our communities

Strategy

We bring energy and passion to our work, we stay true to our values and we want our customers to know that what matters to them, matters to us. We therefore made it our objective to deliver an outstanding customer experience, have an engaged workforce, and be one of the most respected companies in Canada. In 2014, our customer satisfaction scores remained among the best in the industry, employee engagement improved by 4 points and we outperformed the industry return on equity by more than 8 points. But we are not standing still. Consumer expectations are evolving, the competitive environment is changing and we are responding. We are bolstering our manufacturing advantage by leveraging our scale in segmentation and claims, employing agile technology, and making the experience for customers and brokers even simpler and more enriched than it was before.

14% compound annual total return to shareholders over the last 10 years

CEO'S LETTER

In touch with a changing landscape

Across Intact Financial, we may have different jobs but we share the same goal. We are here to help people, businesses and society prosper in good times and be resilient in bad times. Making a difference is important to us; it is our purpose.

Charles Brindamour
Chief Executive Officer

WATCH THE CEO'S VIDEO MESSAGE ONLINE
reports.intactfc.com/2014

"We made a promise to our employees in 2014. We promise to hold true to our values of integrity and respect, because they matter as much as results. We also promise to support our employees in developing their careers, to surround them with inspiring teams and to offer a comprehensive financial rewards program that recognizes their success."

We bring energy and passion to our work, we stay true to our values and we want our customers to know that what matters to them, matters to us. To achieve this, we need to create an offer and service proposition that is second to none. We want our customers to become our advocates by exceeding their expectations and serving them in their times of need. Great progress was made in 2014 as our customer satisfaction scores were among the best in the industry and belairdirect is currently ranked "Highest in Customer Satisfaction among Auto Insurers in Ontario" by J.D. Power.[1]

We also know that in order to be truly customer driven, we need to continue to invest in our people. Our goal is to be recognized as one of the best employers in Canada. Employee engagement is the benchmark by which we measure our success – and our 4-point improvement in 2014 confirms we are on the right track.

Year in review

From an underwriting perspective, we ended 2014 with a full-year combined ratio of 92.8%, with balanced contributions from Personal Lines and Commercial Lines. 2014 was a productive year, where our hard work and, at times, difficult decisions began to pay off. Our profitability initiatives, particularly in personal property, proved successful, while we also benefited from catastrophe losses that were closer to our expected level – about half the level of 2013. Overall, we generated an operating return on equity ("OROE") of 16.3%, much improved from the 11.2% we reported a year ago.

The rebound in our earnings further strengthened our financial position. We entered 2015 with excess capital of $681 million and a debt-to-capital ratio below our target level of 20%. We remain optimistic about our prospects and earlier this year we announced a 10% dividend increase, marking the 10th consecutive year that the dividend has been raised.

16.3% operating return on equity in 2014

An industry leader is expected to provide an outstanding performance, coupled with strong values guiding our actions. Looking at our two primary financial objectives, 2014's significant rebound in net operating income per share ("NOIPS") returns us to our historical trend, with a 13% compound annual growth since 2010, above our target of 10% per year growth over time. From a return on equity ("ROE") perspective, we target to outperform the industry by at least 5 points every year. Our outperformance amounted to 8 points in 2014, in line with our average outperformance in the past five years.

Our financial results enabled us to deliver excellent value to shareholders with a total return of more than 24% in 2014. This is slightly above our 21% compound annual total return over the last five years, which was well in excess of the S&P/TSX and Canadian financial peers.

Industry outlook

In the near term, we foresee low single-digit growth in personal auto while we expect upper single-digit growth in personal property from continued hard market conditions. Commercial P&C has firmed in the past year. The low interest rate environment and minimal profits at the industry level give us comfort in projecting a mid single-digit level of growth for the industry in 2015 in Commercial Lines.

We expect the industry's combined ratio to continue to improve in 2015 from the recent peak above 100% in 2013, though the level of investment income is unlikely to improve. Overall, we expect the industry's ROE to trend back towards its long-term average of 10% in 2015. Looking specifically at IFC, we expect to outperform the industry's ROE by at least 500 basis points in 2015.

In touch with a changing landscape

Consumer expectations are changing and they are leading companies to adapt. Technology has also impacted shopping and buying behaviours and consumers therefore expect 24/7 service and accessibility. Companies must be able to identify how consumer needs are evolving and provide solutions to satisfy them. Our competitive environment is also changing. We anticipate new entrants could challenge the way insurance is currently distributed, new consolidators could enter the market and existing competition could move across channels.

To succeed in this changing landscape requires the right response. Here is where our focus will be in the coming years:

- Bolstering our manufacturing advantage – strengthening our profitability advantage by furthering our pricing and underwriting sophistication and by leveraging our scale in claims
- Creating customer advocates by improving their experience – accelerating concrete improvements and achieving leadership in digital and behavioural analytics
- Employing agile technology – investing in a renewal of our core technology platforms to enable us to be responsive to competitive threats and to be more agile in meeting evolving customer expectations
- Strengthening distribution – building strong brands, namely Intact Insurance and belairdirect, supporting broker consolidation, and doubling our direct capabilities and operated distribution

Early progress

Our announced acquisition of Canadian Direct Insurance ("CDI") in early 2015 achieves several objectives of our strategic plan. It will broaden our direct-to-consumer platform from coast to coast and facilitate our goal of doubling our direct capabilities in the coming years, all while providing immediate earnings accretion and surpassing our target of a 15% internal rate of return.

1 belairdirect received the highest numerical score among auto insurance providers in Ontario in the proprietary J.D. Power 2014 Canadian Auto Insurance Customer Satisfaction Study[SM]. Study based on 9,910 total responses measuring 18 providers in Ontario and measures consumer satisfaction with auto insurance providers. Proprietary study results are based on experiences and perceptions of consumers surveyed in January–February 2014. Your experiences may vary. Visit jdpower.com.

FACTORS OF INDUSTRY OUTPERFORMANCE

- SOPHISTICATED PRICING AND UNDERWRITING
- SCALE
- IN-HOUSE CLAIMS EXPERTISE
- BROKER RELATIONSHIPS
- MULTI-CHANNEL DISTRIBUTION
- PROVEN ACQUISITION STRATEGY
- SOLID INVESTMENT RETURNS

Supporting our broker partners

With the acquisitions of AXA Canada and Jevco, we have one of the broadest product offerings in the market. Our increased scale and financial strength make us an even stronger ally for our broker partners. As before, we stand ready to invest in brokers' businesses to help them grow and prosper. As always, we maintain our commitment to providing a customer and broker experience second to none.

A promise to our people

We made a promise to our employees in 2014. We promise to hold true to our values of integrity and respect, because they matter as much as results. We also promise to support our employees in developing their careers, to surround them with inspiring teams and to offer a comprehensive financial rewards program that recognizes their success.

Delivering on our promise requires building a strong group of leaders within the organization. Our leaders play an important role as they exemplify behaviours that engage their teams and contribute to the achievement of our purpose as a company. We ask that our leaders live our values, care for people, be open and honest, take accountability, and embrace change.

We will succeed as an organization only if our people are engaged and energized to contribute their very best every day. I want to thank them for their hard work and for making 2014 such a success, and I look forward to how far we can take the Company in 2015 and beyond.

In closing, I would like to thank our Board of Directors, whose insight and guidance have helped us to make decisions critical to the success of our organization. Finally, to our shareholders, thank you for your continued support. We will work to maintain your confidence and look forward to many successful years to come as we strive to maintain our track record of value creation.

Charles Brindamour
Chief Executive Officer

CHAIRMAN'S LETTER

Responsible governance

2014 has been most rewarding for your Company. Significant profitability improvements allowed it to pursue its growth ambitions and outperform its peers by a wide margin.

Claude Dussault
Chairman of the Board

"I am very proud of the achievements of your Company and its people over the past year and I would like to thank them. Together, they delivered a superb performance and created significant value for all our stakeholders."

Such achievements would not have been possible without the numerous initiatives the Company has launched in response to our changing climate and the unprecedented natural disasters of recent years.

As both consumers' expectations and the competitive environment of our industry continued to evolve, your Board devoted much of our time and energies to honing the strategic direction of your Company. Chief among our thoughts was the diversification of its distribution platforms, the strengthening of its brands and the digital experience it will offer consumers in the years to come.

We also pursued your Company's growth ambitions. The acquisition of Metro General last year and CDI this February will advance its development in the Atlantic and Western provinces while its investment in an online brokerage in Brazil will provide a window for an eventual international expansion.

Your Board also continued to review your Company's exposure to the various risks it may encounter in its activities. Special attention was devoted to the implementation of the recent ORSA requirements regarding the solvency of the Company. Attention was also devoted to the issue of cyber-risk.

We also reviewed governance best practices among Canadian companies and, as a result, adopted a new Statement of Corporate Governance Practices, which includes a new Board policy on diversity. This policy recognizes the benefits of promoting diversity both within the Company and among its Board and builds upon our signature of the Catalyst Accord in 2012.

We also adopted a new term of office and Board tenure policy, which will ensure ongoing director renewal and create an effective balance between the perspectives brought by new members and those of experienced directors.

I am very proud of the achievements of your Company and its people over the past year and I would like to thank them. Together, they delivered a superb performance and created significant value for all our stakeholders. In doing so, they made considerable progress in their efforts to make your Company one of the most respected and successful in Canada.

Claude Dussault
Chairman of the Board

MD&A and Financial Statements

Please note that the following “MD&A” and “Financial Statements” are provided as distinct sections with individual pagination: MD&A – pages 1 to 56 and Financial Statements – pages 1 to 62.

Intact Financial Corporation

Management's Discussion and Analysis

For the year ended December 31, 2014

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February 3, 2015

The following MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors (or "Board") for the year ended December 31, 2014. 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, 2014, compared to the corresponding periods in 2013. It should be read in conjunction with our Consolidated financial statements for our fiscal year ended December 31, 2014. All amounts herein are expressed in Canadian dollars.

We use both IFRS and 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 6 – *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, expense, loss and claims ratios, MCT, and debt-to-capital, as well as other non-IFRS financial measures, namely AEPS, NOIPS, ROE, AROE, OROE, NOI, Non-operating results, Underlying current year loss ratio, Cash flow available for investment activities, and Market-based yield. These measures and other insurance-related terms used in this MD&A are defined in the glossary available in the "Investor Relations" section of our web site at www.intactfc.com. Further information about Intact Financial Corporation, including the Annual Information Form, may be found online on SEDAR at www.sedar.com.

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; the Company's ability to achieve synergies arising from successful integration plans relating to acquisitions, as well as management's estimates and expectations in relation to resulting accretion, internal rate of return and debt-to-capital ratio; 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; access to debt financing and the Company's ability to compete for large commercial business; 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; changes in laws or regulations; 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 12 - *Risk management*, hereafter. 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.

Glossary of abbreviations

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

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

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 meaningful (nm) 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 underwriting results and related ratios exclude the MYA, but include our share of the results of jointly held insurance operations, unless otherwise noted.
- The expense and general expense ratios are presented herein net of other underwriting revenues. Therefore other underwriting revenues are also not included in total revenues.
- Net investment income includes our share of the results of jointly held insurance operations, unless otherwise noted.
- Catastrophe claims are any one claim, or group of claims, equal to or greater than $7.5 million, related to a single event.
- All references to "excess capital" in this MD&A include excess capital in the P&C subsidiaries at 170% MCT plus net liquid assets outside of the P&C insurance subsidiaries, unless otherwise noted.

Section 1 – Profile

1.1 Overview

We are the largest provider of P&C insurance in Canada with $7.3 billion in annual DPW and an estimated market share of 17%. 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, while our non-standard auto insurance in Ontario is distributed under the Jevco brand. We also distribute insurance directly to consumers through belairdirect and Grey Power. We internally manage our investments totalling approximately $13.4 billion.

Section 2 – Key performance indicators

Our most relevant KPI are defined in the tables below. NOI, NOIPS, ROE, AROE, OROE and AEPS are considered non-IFRS financial measures. See Section 6 – *Non-IFRS financial measures* for the reconciliation to the most comparable IFRS measures.

Growth indicators

DPW growth	Total amount of premiums written during a specified period compared to the same period last year (in percentage).
Written insured risks growth	Number of vehicles in automobile insurance, number of premises in personal property insurance and number of policies in commercial insurance (excluding commercial auto insurance) compared to the same period last year (in percentage).

Profitability indicators

NOI	As detailed in Table 3 – *Components of NOI*.
NOIPS	NOI for a specific period less preferred share dividends, divided by the weighted-average number of common shares outstanding during the same period.
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 the end of the period, adjusted for significant capital transactions, if appropriate.
AROE	Net income for a 12-month period less preferred share dividends, plus the after-tax impact of amortization of intangible assets recognized in business combinations, and integration and restructuring costs, 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.
OROE	NOI for a 12-month period less preferred share dividends, divided by the average shareholders' equity (excluding preferred shares and AOCI) 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.
EPS	As reported in the accompanying Consolidated statements of comprehensive income.
AEPS	Net income for a specific period less preferred share dividends plus the after-tax impact of amortization of intangible assets recognized in business combinations, and integration and restructuring costs, divided by the weighted-average number of common shares outstanding during the same period.
IRR	The rate of return expected to be produced on the shareholders' capital deployed over the life of a project or acquisition.

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 general expenses incurred in connection with underwriting activities 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.
Underlying current year loss ratio	Current year claims ratio excluding catastrophe losses and prior year claims development, calculated using net premiums earned before the impact of reinstatement premiums.

Financial strength indicators

Book value per share	Shareholders' equity (excluding preferred shares) divided by the number of common shares outstanding at the same date. Shareholders' equity is determined in accordance with IFRS.
MCT	Minimum capital test, as defined by OSFI and the AMF.
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 AROE as defined above, against those of our Canadian P&C insurance industry benchmark. See Section 7 – *Business developments and operating environment* for more details on our performance versus the industry.

Section 3 – Overview of our consolidated performance

3.1 Highlights

- Net operating income per share of $1.84 in Q4-2014
- Combined ratio of 88.2% in Q4-2014 driven by our profitability initiatives and favourable weather conditions
- Operating ROE of 16.3% with an 11% increase in book value per share over the past 12 months
- Quarterly dividend raised 10% to $0.53 per share

3.2 Consolidated financial results

Table 1 – Selected highlights

	Q4-2014	Q4-2013	Change	2014	2013	Change
DPW	**1,760**	1,702	3%	**7,349**	7,319	-
Underwriting income (Table 4)	**216**	67	222%	**519**	142	265%
Combined ratio	**88.2%**	96.3%	(8.1) pts	**92.8%**	98.0%	(5.2) pts
Net investment income (Table 8)	**111**	104	7%	**427**	406	5%
NOI (Table 3)[1]	**247**	143	73%	**767**	500	53%
Non-operating gains (losses) (Table 9)	**(55)**	(50)	nm	**10**	(95)	nm
Income before income taxes (Table 2)	**265**	130	104%	**957**	465	106%
Income tax expense	**60**	23	161%	**175**	34	415%
Effective income tax rate	**22.6%**	17.6%	5.0 pts	**18.3%**	7.3%	11.0 pts
Net income	**205**	107	92%	**782**	431	81%
Preferred share dividends	**(5)**	(5)	nm	**(21)**	(21)	nm
Net income attributable to common shareholders	**200**	102	96%	**761**	410	86%
Per share measures, basic and diluted (in dollars)						
NOIPS[1]	**1.84**	1.05	75%	**5.67**	3.62	57%
EPS	**1.52**	0.77	97%	**5.79**	3.10	87%
AEPS[1]	**1.58**	0.88	80%	**6.01**	3.44	75%
ROE for the last 12 months	**16.1%**	9.3%	6.8 pts			
AROE for the last 12 months[1]	**16.8%**	10.3%	6.5 pts			
OROE for the last 12 months[1]	**16.3%**	11.2%	5.1 pts			
Book value per share (in dollars)	**37.75**	33.94	11%			
MCT[2]	**209%**	203%	6.0 pts			
Debt-to-capital-ratio	**17.3%**	18.7%	(1.4) pts			

[1] Refer to Section 6 – *Non-IFRS financial measures*.
[2] Estimated aggregate MCT ratio of our P&C insurance subsidiaries.

Fourth quarter 2014

We reported an 88.2% combined ratio in Q4-2014 reflecting the success of our profitability initiatives across the company and favourable weather conditions. The 8.1 point combined ratio improvement versus Q4-2013 was primarily driven by a 5.6 point improvement in the underlying current year loss ratio, in addition to a $45 million reduction in catastrophe losses. Our Home Improvement Plan has now been fully rolled out, and contributed to the exceptional 73.6% combined ratio for personal property in the quarter. Our commercial P&C action plan was more recently initiated, and as such cannot receive full credit for the 87.1% combined ratio in Q4-2014, which also benefited from sharply lower claims frequency. Personal auto reported a combined ratio of 93.7% in the fourth quarter of 2014, 4.7 points better than the prior year despite government-mandated rate reductions in Ontario.

DPW grew by 3% year-over-year in Q4-2014, as mid-single-digit growth in commercial lines and personal property was offset in part by slower growth in personal auto. In personal property, we recently entered the second year of the two-year policy conversion. Although the impact was immaterial in Q4-2014, we expect the conversion to beneficially impact reported growth in 2015 by 1.6 points. Underlying growth will continue to be unaffected.

Net investment income of $111 million in the fourth quarter of 2014 was up 7% from Q4-2013. The unusually high level of income was the result of higher average investments and favourable timing of expenses, partly offset by the decline in yields. Investments amounted to $13.4 billion and were up $1.1 billion, or 10%, from a year ago and up $0.2 billion from Q3-2014.

Our financial position remained strong at the end of Q4-2014, with an estimated MCT of 209% and book value per share of $37.75, 11% higher than a year ago. Our debt-to-capital ratio at the end of the quarter was 17.3%, better than our internal target level of 20%. We reported an operating ROE of 16.3% in 2014, while maintaining significant levels of excess capital throughout the year ($681 million at year end).

Full year 2014

Underwriting income grew significantly from $142 million in 2013 to $519 million in 2014, driven by a $243 million decline in catastrophe losses and an improved underlying current year loss ratio, resulting in a combined ratio of 92.8% versus 98.0% in 2013.

We generated underlying DPW growth of 1.6% in 2014 despite corrective actions taken to improve profitability, reductions in our earthquake exposure and the impact of government-mandated rate reductions in Ontario personal auto.

Net investment income of $427 million in 2014 was up 5% from a year ago due to the growth in investments.

3.3 Income before income taxes

A summary of changes in income before income taxes is as follows:

Table 2 – Changes in income before income taxes (year-over-year)

	Q4-2014	2014
Income before income taxes, as reported in 2013	**130**	**465**
Operating results		
Changes in underwriting income:		
Change in current claims	**86**	**(56)**
Change in catastrophe losses	**45**	**243**
Change in favourable prior year claims development	**12**	**(10)**
Other changes in underwriting income	**6**	**200**
Total change in underwriting income	**149**	**377**
Change in net investment income	**7**	**21**
Change in other income, net	**(16)**	**(11)**
Total change in pre-tax operating income	**140**	**387**
Non-operating results		
Change in pre-tax non-operating gains (losses) (Table 9)	**(5)**	**105**
Income before income taxes, as reported in 2014	**265**	**957**

Section 4 – Operating results

4.1 Net operating income

The details of NOI and related indicators are as follows:

Table 3 – Components of NOI

	Q4-2014	Q4-2013	Change	2014	2013	Change
Underwriting income (Table 4)	**216**	67	149	**519**	142	377
Net investment income (Table 8)	**111**	104	7	**427**	406	21
Finance costs	**(16)**	(16)	-	**(64)**	(64)	-
Other income (expense), net[1]	**9**	25	(16)	**65**	76	(11)
Pre-tax operating income (Table 2)	**320**	180	140	**947**	560	387
Tax impact	**(73)**	(37)	(36)	**(180)**	(60)	(120)
NOI [2]	**247**	143	104	**767**	500	267
Preferred share dividends	**(5)**	(5)	-	**(21)**	(21)	-
NOI to common shareholders	**242**	138	104	**746**	479	267
Weighted-average number of common shares (in millions)	**131.5**	131.5	-	**131.5**	132.4	(0.9)
NOIPS, basic and diluted (in dollars)[2]	**1.84**	1.05	0.79	**5.67**	3.62	2.05

[1] Includes corporate expenses and distribution results.

[2] Refer to Section 6 – *Non-IFRS financial measures*.

The change in pre-tax operating income for the quarter was primarily driven by the $149 million increase in underwriting income (described in Sections 4.2 - 4.4 below). Other income of $9 million was $16 million lower year-over-year as profitability in our growing distribution operations was more than offset by the timing of accruals, which benefited Q4-2013, and higher corporate expenses. For the full year, the 10% growth in other income from the first nine months of 2014 was more than offset by the decline in the fourth quarter.

4.2 Underwriting results

Table 4 – Components of underwriting results

	Q4-2014	Q4-2013	Change	2014	2013	Change
Net premiums earned, before reinstatement premiums	**1,830**	1,805	25	**7,207**	7,058	149
Reinstatement premiums	**-**	(1)	1	**-**	(44)	44
Net premiums earned, as reported	**1,830**	1,804	26	**7,207**	7,014	193
Net claims:						
Current year claims (excluding catastrophe losses)	**1,134**	1,220	(86)	**4,636**	4,580	56
Underlying current year loss ratio[1]	***62.0%***	*67.6%*	*(5.6) pts*	***64.3%***	*64.9%*	*(0.6) pts*
Current year catastrophes losses	**10**	55	(45)	**243**	486	(243)
Favourable prior year claims development	**(78)**	(66)	(12)	**(364)**	(374)	10
Total net claims	**1,066**	1,209	(143)	**4,515**	4,692	(177)
Claims ratio	***58.3%***	*67.0%*	*(8.7) pts*	***62.6%***	*66.9%*	*(4.3) pts*
Commissions, premium taxes and general expenses	**548**	528	20	**2,173**	2,180	(7)
Expense ratio	***29.9%***	*29.3%*	*0.6 pts*	***30.2%***	*31.1%*	*(0.9) pts*
Underwriting income	**216**	67	149	**519**	142	377
Combined ratio	***88.2%***	*96.3%*	*(8.1) pts*	***92.8%***	*98.0%*	*(5.2) pts*

[1] Underlying current year loss ratio is calculated using the Net premiums earned, before reinstatement premiums. Refer to Section 6 – *Non IFRS financial measures*.

Fourth quarter 2014

Underwriting income of $216 million in Q4-2014 was up from $67 million in the same period of 2013. The increase was attributable to the combination of our successful profitability initiatives and favourable weather conditions, which led to lower claims frequency in all lines, resulting in a 5.6 point improvement in the underlying current year loss ratio. We also benefited from a $45 million decline in catastrophe losses as Q4-2013 was affected by a severe December ice storm in Ontario and Eastern Canada.

Favourable prior year claims development of $78 million, or 4.2% of opening reserves on an annualized basis, was above the 3.6% recorded in Q4-2013, but in line with our historical level.

The expense ratio of 29.9% was 0.6 points worse than last year, as higher variable commissions more than offset an improved general expense ratio.

Full year 2014

Underwriting income improved $377 million in 2014 to $519 million due to significantly lower losses from catastrophes and an improvement in the underlying current year loss ratio to 64.3%.

Favourable prior year claims development, at 4.9% of opening reserves on an annualized basis, was largely in line with the 5.1% recorded in 2013.

The expense ratio of 30.2% was 0.9 points better than 2013, driven by a reduction in general expenses.

Table 5 – Components of expense ratio

	Q4-2014	Q4-2013	Change	2014	2013	Change
Commissions	**16.2%**	15.0%	1.2 pts	**16.7%**	16.8%	(0.1) pts
Premium taxes	**3.4%**	3.5%	(0.1) pts	**3.4%**	3.6%	(0.2) pts
General expenses	**10.3%**	10.8%	(0.5) pts	**10.1%**	10.7%	(0.6) pts
Expense ratio	***29.9%***	*29.3%*	0.6 pts	***30.2%***	*31.1%*	(0.9) pts

4.3 Underwriting results by line of business – personal lines

Table 6 – Underwriting results for personal lines

	Q4-2014	Q4-2013	Change	2014	2013	Change
Personal auto						
DPW	**739**	734	1%	**3,376**	3,373	-
Written insured risks (in thousands)	**840**	836	-	**3,900**	3,902	-
Net premiums earned	**847**	861	(2)%	**3,387**	3,349	1%
Underwriting income	**53**	14	279%	**186**	228	(18)%
Underlying current year loss ratio[1]	**73.5%**	76.6%	(3.1) pts	**72.7%**	72.2%	0.5 pts
Catastrophe losses[2]	**(0.1)%**	0.4%	(0.5) pts	**1.2%**	1.4%	(0.2) pts
Favourable prior year claims development	**(4.5)%**	(1.7)%	nm	**(4.2)%**	(5.6)%	nm
Claims ratio	**68.9%**	75.3%	(6.4) pts	**69.7%**	68.0%	1.7 pts
Combined ratio	**93.7%**	98.4%	(4.7) pts	**94.5%**	93.2%	1.3 pts
Personal property						
DPW	**390**	374	4%	**1,597**	1,621	(1)%
Written insured risks (in thousands)	**514**	518	(1)%	**2,192**	2,221	(1)%
Net premiums earned	**415**	394	5%	**1,617**	1,519	6%
Underwriting income (loss)	**109**	54	102%	**177**	(66)	nm
Underlying current year loss ratio[1]	**40.3%**	45.7%	(5.4) pts	**51.0%**	54.7%	(3.7) pts
Catastrophe losses[2]	**0.9%**	11.0%	(10.1) pts	**8.6%**	18.6%	(10.0) pts
Favourable prior year claims development	**(1.2)%**	(4.2)%	nm	**(4.4)%**	(4.3)%	nm
Claims ratio	**40.0%**	52.5%	(12.5) pts	**55.2%**	69.0%	(13.8) pts
Combined ratio	**73.6%**	86.4%	(12.8) pts	**89.0%**	104.4%	(15.4) pts
Personal lines – total						
DPW	**1,129**	1,108	2%	**4,973**	4,994	-
Underwriting income	**162**	68	138%	**363**	162	124%
Combined ratio	**87.1%**	94.6%	(7.5) pts	**92.7%**	96.7%	(4.0) pts

[1] Underlying current year loss ratio is calculated using the Net premiums earned, before reinstatement premiums. Refer to Section 6 – *Non-IFRS financial measures*.

[2] Catastrophe losses include reinstatement premiums.

Fourth quarter 2014

Personal auto DPW increased by 0.8% from Q4-2013 on a 0.5% increase in units. Higher rates in Alberta and the beneficial timing of two-year policies in Québec were largely offset by the effect of government-mandated rate reductions in Ontario. The combined ratio was 4.7 points better than last year's 98.4% due to milder weather conditions and higher favourable prior year claims development, offset in part by a $13 million year-over-year negative net impact from industry pools. The underlying current year loss ratio improved 3.1 points versus Q4-2013, due in part to a lower frequency of claims.

Personal property DPW increased by 4.0%, as rate increases initiated in November of 2013 under our Home Improvement Plan more than compensated for a 0.8% decline in units. We expect rate increases to moderate somewhat now that we have completed one renewal cycle. Concurrently, the conversion of two-year policies to one-year policies in Québec entered its second year. We expect this will benefit reported growth in personal property by seven points in 2015. As outlined in prior quarters, this conversion does not affect underlying DPW growth nor net premiums earned. The combined ratio in the quarter was unusually strong at 73.6%, 12.8 points better than last year, resulting from our profitability initiatives and mild weather conditions. The underlying current year loss ratio improved 5.4 points year-over-year. We estimate that the benefits from our plan to generate 10 points of combined ratio improvement were approximately 70% earned in Q4-2014.

Full year 2014

Personal auto DPW was unchanged from 2013, as continued growth in our direct-to-consumer business was offset by the impact of government-mandated rate reductions in Ontario. Through both our own and government-facilitated cost reduction initiatives, we were able to protect our margins in Ontario, resulting in a personal auto combined ratio of 94.5% across all regions for the full year 2014. Compared to 2013, our combined ratio was 1.3 points worse, affected by difficult winter conditions in Q1-2014 and a $28 million year-over-year negative net impact from industry pools.

Personal property reported DPW declined 1.5%, negatively impacted by the conversion of two-year policies to one-year policies, while underlying growth was 4.9%. Underwriting results of 89.0% represent an impressive 15.4 point improvement from 2013, largely the result of significantly higher catastrophe losses in 2013 and the positive impact of our Home Improvement Plan on 2014 results.

4.4 Underwriting results by line of business – commercial lines

Table 7 – Underwriting results for commercial lines

	Q4-2014	Q4-2013	Change	2014	2013	Change
Commercial P&C						
DPW	**468**	444	5%	**1,744**	1,713	2%
Written insured risks (in thousands)	**113**	111	1%	**450**	466	(3)%
Net premiums earned	**409**	395	4%	**1,588**	1,543	3%
Underwriting income (loss)	**53**	-	nm	**92**	(60)	nm
Underlying current year loss ratio[1]	**52.7%**	66.1%	(13.4) pts	**60.2%**	59.4%	0.8 pts
Catastrophe losses[2]	**1.7%**	2.4%	(0.7) pts	**3.6%**	11.7%	(8.1) pts
Favourable prior year claims development	**(5.0)%**	(8.1)%	nm	**(8.2)%**	(7.5)%	nm
Claims ratio	**49.4%**	60.4%	(11.0) pts	**55.6%**	63.6%	(8.0) pts
Combined ratio	**87.1%**	100.0%	(12.9) pts	**94.2%**	103.9%	(9.7) pts
Commercial auto						
DPW	**163**	150	9%	**632**	612	3%
Written insured risks (in thousands)	**128**	124	3%	**520**	526	(1)%
Net premiums earned	**159**	154	3%	**615**	603	2%
Underwriting income (loss)	**1**	(1)	nm	**64**	40	60%
Underlying current year loss ratio[1]	**80.9%**	76.8%	4.1 pts	**64.1%**	64.4%	(0.3) pts
Catastrophe losses[2]	**-**	-	-	**0.8%**	0.7%	0.1 pts
Favourable prior year claims development	**(9.0)%**	(1.7)%	nm	**(3.6)%**	(0.9)%	nm
Claims ratio	**71.9%**	75.1%	(3.2) pts	**61.3%**	64.2%	(2.9) pts
Combined ratio	**99.5%**	100.4%	(0.9) pts	**89.6%**	93.3%	(3.7) pts
Commercial lines – total						
DPW	**631**	594	6%	**2,376**	2,325	2%
Underwriting income (loss)	**54**	(1)	nm	**156**	(20)	nm
Combined ratio	**90.5%**	100.1%	(9.6) pts	**92.9%**	100.9%	(8.0) pts

[1] Underlying current year loss ratio is calculated using the Net premiums earned, before reinstatement premiums. Refer to Section 6 – *Non-IFRS financial measures*.

[2] Catastrophe losses include reinstatement premiums.

Fourth quarter 2014

DPW in commercial P&C was higher by 5.3%, helped by rate increases and the tapering of our efforts to reduce earthquake exposure, which had held back growth for much of 2014. Units grew by 1.4% despite our rate and product changes in this line of business, supporting the view that the commercial lines market is firming. The combined ratio improved by 12.9 points to a strong 87.1%, driven by sharply lower claims frequency. With full year commercial P&C performance at 94.2%, we will complete our profitability initiatives with the objective of operating this business at a full year combined ratio in the low 90s.

Commercial auto DPW was up 8.8% from a year ago, despite competitive market conditions, as we benefited from strong growth in trucking fleets. The combined ratio of 99.5% was 0.9 points better than Q4-2013, as favourable weather conditions were offset by an increase in claims severity.

Full year 2014

Commercial P&C DPW grew by 2%, as continued rate increases more than offset the effect on growth from our actions to improve profitability. The combined ratio improved by 9.7 points in 2014 to 94.2%, primarily due to an 8.1 point reduction in catastrophe losses.

Despite competitive market conditions in commercial auto, DPW increased by 3% in 2014 versus 2013. We generated a combined ratio of 89.6% in 2014, nearly four points better than 2013, largely due to higher favourable prior year claims development. The underlying current year loss ratio was relatively unchanged at 64.1%, versus 64.4% in 2013.

4.5 Net investment income

As at December 31, 2014, all of our investments are managed internally by our subsidiary, Intact Investment Management Inc. ("IIM"). The asset mix is designed to generate interest and dividend income while ensuring an optimal mix of risk and total 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 generate dividend income, we also actively invest in common shares that pay dividends and in preferred shares.

Table 8 – Net investment income

	Q4-2014	Q4-2013	Change	2014	2013	Change
Interest income	**74**	70	6%	**288**	275	5%
Dividend income	**43**	43	-	**174**	168	4%
Investment income, before expenses	**117**	113	4%	**462**	443	4%
Expenses	**(6)**	(9)	nm	**(35)**	(37)	nm
Net investment income	**111**	104	7%	**427**	406	5%
Average net investments[1]	**12,882**	11,981	8%	**12,270**	11,746	4%
Market-based yield[2]	**3.61%**	3.70%	(0.09) pts	**3.65%**	3.68%	(0.03) pts

[1] Defined as the mid-month average fair value of net equity and fixed-income securities held during the reporting period.
[2] Refer to Section 6 – *Non-IFRS financial measures*.

Fourth quarter 2014

Net investment income of $111 million in the fourth quarter of 2014 was up 7% from a year ago. The unusually high level of income was the result of higher average investments and favourable timing of expenses, partly offset by a decline in yields. Our market-based yield of 3.61% in Q4-2014 was down 9 basis points from the prior year.

Full year 2014

For the full year 2014, net investment income of $427 million was up 5% from a year ago despite declining bond yields. The high level of investment income was boosted by operating cash flows resulting in a higher level of investments.

Section 5 – Non-operating results

Non-operating results, a non-IFRS financial measure, include elements that are not representative of our operating performance because they relate to special items, bear significant volatility from one period to another, or because they are not part of our normal activities. As a result, these elements are excluded from the calculation of NOI and related non-IFRS financial measures.

The details of non-operating results are as follows:

Table 9 – Non-operating results

	Q4-2014	Q4-2013	Change	2014	2013	Change
Net investment gains (losses) (Table 10)	**(3)**	(29)	26	**174**	(83)	257
Positive (negative) impact of MYA on underwriting (Section 5.2)	**(37)**	5	(42)	**(103)**	75	(178)
Integration and restructuring costs	**(1)**	(12)	11	**(9)**	(35)	26
Difference between expected return and discount rate on pension assets (Section 5.3)	**(6)**	(7)	1	**(22)**	(27)	5
Amortization of intangible assets recognized in business combinations	**(8)**	(7)	(1)	**(30)**	(25)	(5)
Non-operating gains (losses)	**(55)**	(50)	(5)	**10**	(95)	105

5.1 Net investment gains (losses)

Table 10 – Net investment gains (losses)

	Q4-2014	Q4-2013	Change	2014	2013	Change
Fixed-income strategies						
Gains on AFS securities, net of related derivatives	**13**	11	2	**21**	10	11
Gains (losses) on FVTPL fixed-income securities, net of related derivatives	**26**	(9)	35	**57**	(115)	172
Impairment recovery	**-**	7	(7)	**-**	7	(7)
Gains (losses) on other derivatives	**(1)**	(26)	25	**6**	(34)	40
Gains (losses) on fixed-income strategies and related derivatives	**38**	(17)	55	**84**	(132)	216
Equity strategies						
Gains on AFS securities, net of related derivatives	**16**	26	(10)	**180**	155	25
Losses on FVTPL securities, net of related derivatives	**(8)**	(3)	(5)	**(23)**	(19)	(4)
Gains (losses) on embedded derivatives and other	**2**	(8)	10	**10**	(8)	18
Impairment losses	**(51)**	(27)	(24)	**(77)**	(79)	2
Gains (losses) on equity strategies and related derivatives	**(41)**	(12)	(29)	**90**	49	41
Net investment gains (losses)	**(3)**	(29)	26	**174**	(83)	257
Net investment gains (losses) excluding FVTPL fixed-income securities	**(29)**	(20)	(9)	**117**	32	85

Fourth quarter 2014

Higher bond prices in Q4-2014 helped offset some losses from lower equity markets, resulting in a net investment loss of $3 million in Q4-2014. In contrast, Q4-2013 experienced rising interest rates and lower bond prices, resulting in a net investment loss of $29 million. Excluding FVTPL fixed-income securities, net investment losses were $29 million in Q4-2014, driven by lower equity prices and an impairment charge of $51 million.

Full year 2014

Net investment gains of $174 million in 2014 compared to losses of $83 million in 2013. Much of the variance from the prior year relates to the prevailing bond yield environment, which led to gains on FVTPL fixed-income securities in 2014 of $57 million, versus losses of $115 million in 2013. Excluding gains on FVTPL fixed-income securities, net investment gains were $117 million in 2014, compared to gains of $32 million in 2013.

5.2 Impact of MYA on underwriting

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 partly 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 net income.

5.3 Difference between expected return and discount rate on pension assets

We continue to manage our pension asset investment portfolio with a target asset return based on a target asset allocation. We continue to measure NOI using a pension expense based on the expected return on plan assets to better reflect our operating performance. Any difference between the expected return on pension assets and the return based on the discount rate determined at the beginning of the year is treated as a non-operating item.

Section 6 – Non-IFRS financial measures

Non-IFRS financial measures do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures used by other companies in our industry. These non-IFRS financial measures are used by management and financial analysts to assess our performance. Further, they provide users with an enhanced understanding of our results and related trends and increase transparency and clarity into the core results of the business.

- AEPS and AROE exclude the impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs, all on an after tax basis. We believe that these excluded items are not appropriate in assessing our underlying performance.
- NOI, NOIPS and OROE exclude the impact of net investment gains (losses), the positive (negative) effect of MYA on underwriting, the difference between expected return and discount rate on pension assets, the amortization of intangible assets recognized in business combinations, and integration and restructuring costs. Investment gains and losses as well as the effect of MYA on underwriting arise mostly from changes in market conditions, which can be volatile to earnings. We also exclude the difference between expected return and discount rate on pension assets, as we believe the gap in these measures is not reflective of our internal investment management expertise and management of our pension investment asset portfolio.
- The market-based yield represents the annualized total pre-tax investment income (before expenses), divided by the average fair values of net equity and fixed-income securities held during the reporting period. This calculation provides users with a consistent measure of our relative investment performance.
- The underlying current year loss ratio is our current year claims ratio excluding catastrophe losses, reinstatement premiums, and prior year claims development. Catastrophe events are beyond our control, and as such, excluding them provides clearer insight into our analysis of current year performance. See Section 4.2 – *Underwriting results* for a reconciliation of this non-IFRS financial measure.

Table 11 – Reconciliation of AEPS and AROE to net income

	Q4-2014	Q4-2013	2014	2013
Net income	**205**	107	**782**	431
Add amortization of intangible assets recognized in business combinations, net of tax	**7**	6	**23**	19
Add integration and restructuring costs, net of tax	**1**	8	**7**	26
Adjusted net income	**213**	121	**812**	476
Less preferred share dividends	**(5)**	(5)	**(21)**	(21)
Adjusted net income attributable to common shareholders	**208**	116	**791**	455
Divided by weighted-average number of common shares (in millions)	**131.5**	131.5	**131.5**	132.4
AEPS, basic and diluted (in dollars)	**1.58**	0.88	**6.01**	3.44
Average common shareholders' equity	**4,716**	4,435		
AROE for the last 12 months	**16.8%**	10.3%		

Table 12 – Reconciliation of NOIPS and OROE to net income

	Q4-2014	Q4-2013	2014	2013
Net income	**205**	107	**782**	431
Add (deduct) income tax expense (benefit)	**60**	23	**175**	34
Deduct net investment gains (losses) (Table 10)	**3**	29	**(174)**	83
Add negative (positive) impact of MYA on underwriting (Section 5.2)	**37**	(5)	**103**	(75)
Add difference between expected return and discount rate on pension assets (Section 5.3)	**6**	7	**22**	27
Add amortization of intangible assets recognized in business combinations	**8**	7	**30**	25
Add integration and restructuring costs	**1**	12	**9**	35
Pre-tax operating income	**320**	180	**947**	560
Tax impact	**(73)**	(37)	**(180)**	(60)
NOI	**247**	143	**767**	500
Less preferred share dividends	**(5)**	(5)	**(21)**	(21)
NOI to common shareholders	**242**	138	**746**	479
Divided by weighted-average number of common shares (in millions)	**131.5**	131.5	**131.5**	132.4
NOIPS, basic and diluted (in dollars)	**1.84**	1.05	**5.67**	3.62
Average common shareholders' equity, excluding AOCI	**4,587**	4,287		
OROE for the last 12 months	**16.3%**	11.2%		

Section 7 – Business developments and operating environment

7.1 Canadian P&C insurance industry results – YTD Q3-2014 comparison

The Canadian P&C insurance results for YTD Q3-2014 are available. Highlights are as follows:

Table 13 – Estimated Canadian P&C insurance results

	P&C industry[1]	Industry Benchmark[2]	IFC
DPW growth	4.3%	3.9%	1.3%
Combined ratio[3]	100.8%	102.0%	95.9%
Return on equity (annualized)[4]	7.8%	7.9%	16.8%

Industry data source: MSA Research Inc.

Note: AMF (Québec) chartered insurance companies are not required to report on Q1 and Q3 results. As such, we have included estimates for non-reporters in our Industry benchmark group, based on publicly available information. Actual results may vary.

[1] Excludes Lloyd's, ICBC, SGI, SAF, MPI, Genworth and IFC.

[2] Generally consists of the 20 largest companies, excluding Lloyd's, Genworth, FM Global and IFC.

[3] Combined ratio includes MYA.

[4] IFC's ROE corresponds to the AROE.

We outperformed our P&C insurance industry benchmark in the first nine months of 2014 from a bottom line perspective, although our growth trailed that of the industry. Our actions to reduce earthquake exposure and improve the profitability of our portfolio translated into growth of 1.3% in the first nine months of the year, 2.6 points below our industry benchmark and 3.0 points below the P&C industry. We estimate we delivered a combined ratio 6.1 points better than our industry benchmark and 4.9 points better than the P&C industry. The combination of superior underwriting and investment results led to an estimated ROE outperformance in the first nine months of 2014 of 8.9 points versus our industry benchmark and 9.0 points versus the P&C industry.

7.2 Ontario personal auto environment

In September 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, as those two factors were increasing costs, leading to higher premiums.

Our positive view of the effectiveness of the Ontario auto reforms has not changed. We continue to see the benefits of the reforms and of our actions; however, we remain prudent in our approach to the business, as uncertainty remains in the system.

An elevated number of files in arbitration results in a fair level of uncertainty with respect to the interpretation of regulations implemented through the 2010 reforms. Total FSCO pending arbitrations have increased since January 2013, but have stabilized since April 2014. FSCO has taken measures to increase arbitration capacity by outsourcing arbitration to private dispute resolution services firms. New cases being registered at FSCO dropped 10% in Q3-2014 versus Q2-2014, which should positively impact the backlog in the coming months.

Separately, in August 2013, the Ontario government introduced a rate and cost reduction mandate to lower personal auto insurance rates by 15% on average by August 2015, while also reducing costs to insurers. This process to date has resulted in an average rate reduction of approximately 6% for the industry as of Q4-2014. Government cost reduction measures to date include tightening of the Minor Injury Guideline back towards its original intent and licensing of health care clinics to reduce fraud. In addition, Ontario Bill 15, Fighting Fraud and Reducing Automobile Insurance Rates Act, 2014 was passed late in 2014 and is becoming effective as regulations are defined in 2015. Savings from Bill 15 include a reduction in pre-judgment interest to levels closer to current interest rates, a streamlining of the dispute resolution system and protection for consumers against untrustworthy towing and storage providers.

In response to the passing of Ontario Bill 15, we elected to take additional rate reductions in the latest filing for a cumulative average of 7.3% since August 2013. Thanks to government measures, in addition to our own cost reduction initiatives, we continue to believe we can protect our margins in the Ontario book of business. We believe the Ontario government fully understands that any further rate reductions need to be accompanied by further cost reductions.

According to industry results, the claims ratio in Ontario personal auto for the first nine months of 2014 was 77.7%, improved significantly from 2010, but still reflective of an industry combined ratio above 100%. This indicates that a number of industry players continue to be in an underwriting loss position, such that further rate reductions in the absence of reforms would likely lead to availability issues for drivers.

7.3 Home insurance

In the last few years, the impact from catastrophes has been higher than in the past, resulting in reported combined ratios that were higher than acceptable. We consequently initiated a Home Improvement Plan aimed at delivering a sustainable 10 point improvement in the personal property combined ratio by the end of 2015. This initiative has helped improve results in 2014, with remaining benefits to be generated over the next 6-12 months.

Table 14 – Composition of combined ratios - personal property

	2014	2013	2012	2011	2010	2009	2008
Combined ratio excluding catastrophe losses and PYD (defined below)	**84.8%**	90.8%	89.2%	93.1%	94.6%	101.2%	104.3%
Impact of catastrophe losses	**8.6%**	17.9%	10.3%	13.8%	5.9%	8.6%	8.7%
Impact of prior year claims development (PYD)	**(4.4)%**	(4.3)%	(6.0)%	(3.4)%	(4.0)%	(0.8)%	0.6%
Reported combined ratio	**89.0%**	104.4%	93.5%	103.5%	96.5%	109.0%	113.6%

We expect two thirds of the 10 point improvement in the combined ratio to come from rate increases, and the balance from product changes. In November, we completed one renewal cycle at higher rates and are continuing to renew with modest rate increases. We continue to transfer remaining two-year policies in personal property to one-year policies in Québec. Higher deductibles, sub-limits on sewer back-up coverage, and more transparent product pricing displaying premiums by type of peril have now been rolled out in all provinces and are being applied upon renewal. In Alberta, depreciated value on roofs is also being applied upon renewal for claims caused by wind and hail. Education and prevention campaigns will continue, with a focus on our "insuranceisevolving.com" website. Incentives tying prevention to pricing are also being offered in most provinces.

We are committed to operating our personal property business at a combined ratio of 95% or better, even if catastrophe losses remain elevated. Although our 89.0% combined ratio in 2014 was better than our target, we will finish carrying out planned initiatives in order to prepare for years with elevated catastrophe losses.

Our performance versus the industry has improved in recent years, reaching an outperformance in excess of five points of combined ratio in the first nine months of 2014.

7.4 Capital markets

The Canadian equity market dropped further in the fourth quarter of 2014, as the S&P/TSX Index declined 2.2%, with particular weakness in energy and materials, while the preferred share index edged 0.2% lower. Movements in our equity investment values are generally in line with the equity markets' performance, although our exposures to individual sectors may be different (see Table 20 for further details). Our pre-tax unrealized gain position increased $10 million in the quarter as higher bond prices more than offset the impact from weak equity markets. Tables 10, 24 and 25 provide detailed information on the net investment gains (losses) and unrealized gains (losses) of our investment portfolio.

7.5 Industry pools

Industry pools consist of the "residual market" (or Facility Association) as well as risk-sharing pools ("RSP") in Alberta, Ontario, Québec, New Brunswick and Nova Scotia. In the fourth quarter of 2014, the net impact of industry pools negatively impacted personal auto underwriting income by $13 million year-over-year, excluding MYA. Results for industry risk sharing pools tend to fluctuate between periods.

7.6 Weather conditions

Q4-2014 experienced warmer temperatures and lower precipitation compared to historical averages. The average daily temperatures in Canada's seven largest cities were approximately 1 degree Celsius warmer than historical levels and 3 degrees Celsius warmer than Q4-2013. The favourable weather benefited underlying results and led to a reduction in catastrophe losses from $55 million in Q4-2013 to $10 million in Q4-2014.

7.7 Seasonality of the business

The P&C insurance business is seasonal in nature. While net premiums earned are generally stable from quarter to quarter, underwriting results are driven mainly by weather conditions which may vary significantly between quarters. The underlying seasonality in our combined ratio is best illustrated by excluding the impact of catastrophe losses (see Table 16).

Table 15 – Seasonal indicator, including catastrophe losses

	2014	2013	2012	2011	2010	2009	2008	2007	Eight-year average
Q1	**1.05**	0.97	0.99	1.00	0.98	1.00	1.03	1.01	1.00
Q2	**1.00**	1.00	0.99	1.03	0.98	0.97	0.98	0.99	0.99
Q3	**1.00**	1.05	1.03	0.99	1.01	1.07	0.97	1.02	1.02
Q4	**0.95**	0.98	0.99	0.98	1.03	0.96	1.02	0.98	0.99

Table 16 – Seasonal indicator, excluding catastrophe losses

	2014	2013	2012	2011	2010	2009	2008	2007	Eight-year average
Q1	**1.04**	1.04	1.02	1.04	1.00	1.02	1.03	1.02	1.03
Q2	**1.02**	0.97	0.98	0.96	0.99	0.99	0.97	0.98	0.98
Q3	**0.96**	0.97	0.97	0.99	0.98	1.00	0.97	1.01	0.98
Q4	**0.98**	1.02	1.03	1.01	1.03	0.99	1.03	0.99	1.01

Section 8 – Strategy and outlook

8.1 Canadian P&C insurance industry 12-month outlook

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. 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.

	Canadian P&C insurance industry	Our strategy and outlook
Market environment (12-month outlook)	• Industry premiums are likely to increase at a low single digit rate, with low single digit growth in personal auto, mid single digit growth in commercial lines and upper single digit growth in personal property expected. • We expect future rate reductions in Ontario auto will be commensurate with government cost reduction measures. • We expect the current hard market conditions in personal property to continue as the magnitude of recent catastrophe losses negatively impacts industry results. • We believe continued low interest rates and the impact on commercial lines loss ratios from elevated catastrophe losses are translating into firmer conditions.	• We maintain our disciplined strategy while capitalizing on our strong position to grow organically in the prevailing market conditions. • We are comfortable with our margins in the Ontario auto market and will continue to pursue growth opportunities. • The vast majority of initiatives under our Home Improvement Plan have been implemented and are being applied upon renewal. We expect this will allow us to continue outperforming the industry in home insurance. • In commercial lines, we intend to return the performance to a low 90s combined ratio through better segmentation of rate increases and product changes.
Capital markets	• The Bank of Canada expects the large decline in oil prices will weigh significantly on the Canadian economy. As such, it recently cut the overnight lending rate by 25 basis points as insurance against a slowing economy. In the current interest rate environment, we estimate that the industry's pre-tax investment yield will decline slightly, given its asset mix and duration. • Capital markets remain volatile, as economic data suggest that more time is required for the global recovery to take hold. Industry capital levels could be negatively impacted if volatility results in continued downward pressure on market values. • Global capital requirements are continuing to influence the asset decisions of many companies.	• We maintain a strong financial position with $681 million in excess capital and a debt-to-capital ratio of 17.3% as at the end of 2014. • Our $13.4 billion investment portfolio is largely Canadian dollar-denominated. • We do not expect growth in our net investment income over the next 12 months. • We expect new MCT guidelines in 2015 to be positive to our regulatory capital levels, with benefits phasing in over three years.
Overall	• We expect the industry's combined ratio to continue to improve in 2015 from the recent peak above 100% in 2013, though the level of investment income is unlikely to improve. Overall, we expect the industry's ROE to trend back toward its long-term average of 10% in 2015.	• We believe we will outperform the industry's ROE by at least 500 basis points in the next 12 months.

8.2 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 an advantage over competitors and identify certain segments of the market that are more profitable than others. Our objective is to establish a model that will both attract new clients and maintain existing clients with profitable profiles.
In-house claims expertise	Substantially all of our claims are handled in-house. This translates to claims being settled faster and at a lower cost, and a more consistent service experience created for the customer.
Broker relationships	The broker channel represents approximately 87% 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 acquisition strategy	We are a proven industry consolidator with 14 successful acquisitions since 1988, the most recent being Jevco Insurance Company and Metro General Insurance Corporation Limited. Our primary 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 9 – Financial condition

9.1 Condensed balance sheets

The table below shows the significant Consolidated balance sheets captions.

Table 17 – Condensed balance sheets

As at	Reference	December 31, 2014	December 31, 2013
Assets			
Investments	Section 9.2	**13,440**	12,261
Premium receivables		**2,711**	2,764
Reinsurance assets		**335**	505
Deferred acquisition costs		**669**	693
Other assets		**1,121**	1,415
Intangible assets and goodwill		**2,304**	2,136
Total assets		**20,580**	19,774
Liabilities			
Claims liabilities	Section 9.3	**8,021**	7,996
Unearned premiums		**4,110**	4,125
Financial liabilities related to investments		**432**	234
Other liabilities		**1,419**	1,322
Debt outstanding	Section 10.1	**1,143**	1,143
Total liabilities		**15,125**	14,820
Shareholders' equity			
Common shares	Section 10.1	**2,090**	2,090
Preferred shares		**489**	489
Contributed surplus		**115**	116
Retained earnings		**2,616**	2,147
AOCI		**145**	112
Shareholders' equity	Section 15	**5,455**	4,954
Book value per share (in dollars)		**37.75**	33.94

9.2 Investments

As at December 31, 2014, our total investments grew to $13.4 billion from $12.3 billion a year ago. The increase is mainly attributable to the investment of cash generated from operating activities into our asset mix. Our investment portfolio is mainly comprised of Canadian securities and includes a mix of cash and short-term notes, fixed-income securities, preferred and common shares. Most of our investments are denominated in Canadian dollars and currency exposure on our fixed-income portfolio is economically 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 back 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 99% of our fixed-income portfolio is rated 'A-' or better. We have no exposure to leveraged securities. As at December 31, 2014, we have $215 million ($192 million as at December 31, 2013) in asset-backed securities mostly comprised of Canadian credit card and auto loan receivables ($192 million as at December 31, 2014, $151 million as at December 31, 2013) and mortgage-backed securities ($23 million as at December 31, 2014, $42 million as at December 31, 2013). All of these are rated 'AAA' as at December 31, 2014 and 2013.

Preferred shares
We invest in preferred shares to achieve our objective of generating 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, called, or sold to take advantage of market opportunities. The preferred share portfolio is comprised entirely of Canadian issuers with 87% of the portfolio invested in securities that are highly rated, with at least a 'P2L' credit rating.

Common shares
Common equity exposure is focused primarily on dividend-paying Canadian equities. In addition, our equity portfolios are also actively managed to enhance dividend income throughout the year.

Derivatives
We use derivative financial instruments for economic hedging purposes and for the purpose of modifying the risk profile of our 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 18 – Investment mix

As at	December 31, 2014	As a % of total	December 31, 2013	As a % of total
Short-term notes, including cash and cash equivalents	**213**	**2%**	141	1%
Fixed-income securities	**8,560**	**64%**	7,867	64%
Preferred shares	**1,268**	**9%**	1,190	10%
Common shares	**2,992**	**22%**	2,644	22%
	13,033	**97%**	11,842	97%
Loans	**407**	**3%**	419	3%
Total investments	**13,440**	**100%**	12,261	100%

As part of our investment strategies, from time to time we may take long/short equity positions in order to maximize the value added from active equity portfolio management, or to mitigate overall equity market volatility. We also use strategies where market risk from long equity positions is reduced through the use of swap agreements or other hedging instruments.

The following table illustrates our total investments and asset mix after reflecting the impact of hedging strategies and financial liabilities related to investments. This table represents our economic exposure by class of assets.

Table 19 – Investment mix net of hedging positions and financial liabilities related to investments

As at	December 31, 2014	December 31, 2013
Cash, cash equivalents, and short-term notes	**3%**	2%
Fixed-income strategies	**72%**	73%
Preferred shares	**9%**	10%
Common equity strategies	**13%**	12%
	97%	97%
Loans	**3%**	3%
Total investments net of hedging positions and financial liabilities related to investments	**100%**	100%

The investment mix as at December 31, 2014 is essentially unchanged compared to December 31, 2013.

Sector mix by asset class

The following table shows sector exposures by asset class, after reflecting the impact of hedging strategies and financial liabilities related to investments, as a percentage of total investments (excluding cash and cash equivalents and loans). This table represents our economic exposure by class sector as at December 31, 2014.

Table 20 – Sector mix by asset class (net of hedging positions and financial liabilities related to investments)

			Common shares		
	Short-term notes and fixed-income securities	Preferred shares	IFC	S&P/TSX Weighting	IFC Total
Government	54%	-	-	-	**41%**
Financials	35%	69%	13%	36%	**35%**
Energy	2%	19%	22%	22%	**6%**
Industrials	2%	-	10%	9%	**3%**
Consumer staples	2%	-	10%	4%	**3%**
Telecommunication	-	-	10%	5%	**2%**
Utilities	-	12%	5%	2%	**2%**
Consumer discretionary	1%	-	9%	6%	**2%**
Materials	1%	-	13%	11%	**2%**
Information technology	2%	-	4%	2%	**2%**
Health care	1%	-	4%	3%	**2%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Our fixed-income investment portfolio is concentrated mainly in the government and financial sectors in order to provide liquidity and stability to our balance sheet and our equity portfolio has a focus on dividend-paying Canadian companies.

Portfolio credit quality

The following table highlights the credit quality of our fixed-income securities portfolio.

Table 21 – Credit quality of the fixed-income securities

	December 31, 2014		December 31, 2013	
	Fair value	**As a % of total**	**Fair value**	**As a % of total**
Fixed-income securities[1]				
AAA	**4,219**	**49%**	3,705	47%
AA	**2,975**	**35%**	3,031	39%
A	**1,348**	**16%**	1,052	13%
BBB	**10**	**-**	70	1%
Non-rated	**8**	**-**	9	-
Total	**8,560**	**100%**	7,867	100%

[1] Source: S&P or DBRS.

As at December 31, 2014 the weighted-average rating of our fixed-income portfolio was 'AA+', unchanged since December 31, 2013. The average duration of our bond portfolio was 4.22 (4.06 including the impact of derivatives used to decrease overall interest rate exposure).

The following table shows the credit quality of our preferred share portfolio.

Table 22 – Credit quality of the preferred share portfolio

	December 31, 2014		December 31, 2013	
	Fair value	**As a % of total**	**Fair value**	**As a % of total**
Preferred shares[1]				
P1	**118**	**9%**	100	8%
P2	**991**	**78%**	1,042	88%
P3	**159**	**13%**	47	4%
Non-rated	**-**	**-**	1	-
Total	**1,268**	**100%**	1,190	100%

[1] Source: S&P or DBRS.

The weighted-average rating of our preferred share portfolio was 'P2' as at December 31, 2014, unchanged since December 31, 2013. The increase in the proportion of 'P3', relative to 'P2' preferred shares, is due to a reduction by DBRS of the credit rating of non-viable contingent capital ("NVCC") preferred shares issued by certain large financial institutions.

The following table provides our investment portfolio breakdown by region of issuer.

Table 23 – Portfolio breakdown by region of issuer

As at	**December 31, 2014**	**December 31, 2013**
Canada	**86%**	93%
U.S.	**10%**	3%
Europe	**3%**	3%
Other	**1%**	1%
Total	**100%**	100%

Our investment portfolio is mainly comprised of Canadian securities. In 2013 we also began to invest in high quality non-financial U.S. corporate bonds and U.S. equities as a means to provide geographic and sector diversification to our portfolio. Approximately 12% of our fixed-income portfolio (6% as at December 31, 2013) and 17% of our common share assets (nil as at December 31, 2013) are comprised of U.S. securities. Foreign currency exposure in the fixed-income portfolio is hedged using currency forwards. We do not invest in leveraged securities.

Net pre-tax unrealized gains 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 on AFS securities.

Table 24 – Net pre-tax unrealized gains on AFS securities

As at	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Fixed-income securities	**94**	62	68	47	10
Preferred shares	**66**	59	63	47	38
Common shares	**54**	83	185	144	120
Net pre-tax unrealized gain position	**214**	204	316	238	168

During Q4-2014, our pre-tax unrealized gain position increased by $10 million. The increase is mainly due to higher bond prices, which more than offset the impact from weak equity markets.

The $46 million increase year-over-year in our pre-tax unrealized gain position stems principally from the impact of lower rates on the prices of our fixed-income securities and preferred shares. Our pre-tax unrealized gains on common shares decreased by $66 million, year-over-year, mainly reflecting a decline in the equity markets.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions reflecting the investment 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, and/or if there has been a prolonged decline in the fair value below book value. Based on our assessment, we recorded impairment losses on AFS common shares amounting to $46 million and $68 million in Q4-2014 and full year 2014, respectively.

Table 25 – Aging of unrealized losses on AFS common shares

As at	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Less than 25% below book value	**36**	50	18	12	30
More than 25% below book value for less than 6 consecutive months	**57**	3	3	1	2
More than 25% below book value for 6 consecutive months or more	**2**	3	-	4	1
Unrealized losses on AFS common shares	**95**	56	21	17	33

9.3 Claims liabilities

Claims liabilities amounted to $8.0 billion as at December 31, 2014, essentially unchanged since December 31, 2013.

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 claims 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 claims 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 5.2 – *Impact of MYA on underwriting*). The discount is applied to the total claims reserve and adjusted on a regular basis for changes in market yields. If market yields rise, the discount would increase and reduce total claims liabilities and, therefore, positively impact underwriting income in that period, all else being equal. If market yields decline, it would have the opposite effect. IBNR and PfAD are reviewed and adjusted at least quarterly.

Prior year claims development

The following table shows the development of claims liabilities for the nine most recent accident years and earlier. 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% to 5% per year over the long term.

Table 26 – Prior year claims development by accident year

	Total	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004 & earlier
Original reserve		2,598	2,472	2,412	2,121	1,836	1,653	1,459	1,300	1,190	3,733
Favourable development during Q4-2014	**(78)**	(6)	(20)	(16)	(19)	(7)	(8)	(1)	(1)	2	(2)
Favourable development during 2014	**(364)**	(119)	(81)	(83)	(24)	(29)	(17)	(6)	(10)	4	1
Cumulative development as a % of original reserve		(4.6)%	(7.7)%	(13.5)%	(11.4)%	(10.0)%	(9.3)%	(7.9)%	(10.4)%	(16.3)%	(18.4)%

Table 27 – Historical annualized rate of favourable prior year claims development by calendar year[1]

Q4-2014	Q4-2013	2014	2013	2012	2011	2010	2009	2008	2007
4.2%	3.6%	**4.9%**	5.1%	5.7%	4.9%	4.8%	3.2%	4.0%	2.9%

[1] As a % of opening reserves

Favourable prior year claims development for the quarter, at 4.2% of opening reserves on an annualized basis, was above the 3.6% recorded in Q4-2013, but in line with our historical level. The favourable development, amounting to $78 million, was composed of $38 million in personal auto, $21 million in commercial P&C, $14 million in commercial auto and $5 million in our personal property line of business.

Favourable prior year claims development for the year, at 4.9%, was slightly below 2013 and in line with our historical level. The favourable development, amounting to $364 million, was composed of $141 million in personal auto, $130 million in commercial P&C, $71 million in personal property and $22 million in commercial auto.

9.4 Employee future benefit programs

Pension plans

We sponsor a number of funded (registered) and unfunded defined benefit pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life based on final average earnings and contingent upon certain age and service requirements. Beginning in 2014, all employees have a choice between a defined benefit or a defined contribution pension plan.

Because of the long-term nature of our pension obligations, movements in discount rates and investment returns could bring volatility in our balance sheet. In recent years, we have taken a multi-faceted approach to ensure the sustainability of our pension plans and gradually reduce the risk and volatility that stems from our pension liabilities and assets, including:

- increasing the target allocation of fixed-income securities to reduce our exposure to market volatility;
- improving our pension asset-liability matching to reduce our interest-rate exposure;
- making voluntary contributions to improve the funding status of our pension plans; and
- amending pension plan benefits and conditions.

Our actions to reduce interest rate exposure in previous years significantly mitigated the impact of declining interest rates in 2014. We regularly monitor the risks inherent in our defined benefit pension plans on an asset-liability basis. We continue to evaluate various alternatives to better manage the risk related to these plans.

As at December 31, 2014 and 2013, 62% of our pension plan assets were invested in debt securities. Our hedge ratio stood at 68% as at December 31, 2014 compared to 73% as at December 31, 2013. We calculate the hedge ratio of our pension plans by dividing the dollar-duration of the pension asset portfolio by the dollar-duration of the funded pension plans’ obligation. Our objective is to remain in a modest range around our policy target of 70%. The decline in the funded status contributed to a lower interest rate hedge ratio.

Plan assets are highly dependent on the level of contributions and on the pension fund’s asset performance. In 2013 and 2014, we contributed close to $170 million in our pension plans. As at December 31, 2014, the fair value of our pension plan assets amounted to $1.7 billion. Based on the latest projections, our total cash contributions to the funded pension plans are expected to be approximately $54 million in 2015. The level of contributions will vary depending on funding relief measures, if any, and decisions taken to use or not letters of credit as permitted by legislation.

The following table presents the movement in the accounting funding status of our funded pension plans during the 2014 year.

Table 28 – Change in surplus (deficit) – funded pension plans

Surplus, as at January 1, 2014[1]	**88**
Return on plan assets[2]	**283**
Impact of change in discount rates[3]	**(224)**
Interest expense on defined benefit obligation	**(66)**
Employer contributions	**50**
Current service cost	**(46)**
Impact of change in experience[3]	**(19)**
Impact of change in mortality assumptions[3]	**(6)**
Other	**5**
Surplus, as at December 31, 2014[1]	**65**

[1] Excludes the unfunded pension plans’ obligation amounting to $79 million as at December 31, 2014 ($60 million as at December 31, 2013).

[2] Comprised of the interest income credited on pension assets ($69 million) recognized in income and of re-measurement (return on plan assets) recognized in OCI (positive $214 million).

[3] Recognized in OCI.

As at December 31, 2014, we have a net surplus of $65 million, or 104%, for funded pension plans, compared to a net surplus of $88 million, or 107%, as at December 31, 2013. We realized a good return on plan assets in 2014. The deterioration in the funded status is mainly driven by the impact of the discount rates.

Other post-retirement and post-employment plans

We also offer employer-paid post-retirement life insurance and health care benefit plans to a limited number of active employees and retirees that are now closed to new entrants, as well as post-employment benefit plans that provide health and dental coverage to employees on disability for the duration of their leave. As at December 31, 2014 our net benefit liability in respect of those plans amounted to $30 million (December 31, 2013 - $32 million). The post-retirement and post-employment benefit plans are unfunded.

Benefit obligations arising from our defined benefit plans are dependent on assumptions, such as the discount rate, life expectancy of pensioners, inflation and rate of compensation increase.

Table 29 – Impact of changes in key assumptions

As at December 31, 2014	Impact on net benefit liability
Discount rate:	
1% increase	**(266)**
1% decrease	**351**
Rate of compensation increase:	
1% increase	**71**
1% decrease	**(68)**
Rate of inflation:	
1% increase	**64**
1% decrease	**(61)**
Life expectancy of pensioners:	
One-year increase	**40**

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 1% increase in the discount rate would decrease our pension expense by approximately $23 million; a corresponding decrease would increase it by approximately $25 million.

Mortality rates as at December 31, 2014 have been established in accordance with the final table and improvement scale published in February 2014 by the Canadian Institute of Actuaries.

Refer to Note 20 – *Employee future benefits* to the accompanying Consolidated financial statements for more details on our pension plans, post-retirement and post-employment benefit plans.

Section 10 – Liquidity and capital resources

10.1 Financing and capital structure

We do not generally require financing to support our ongoing operations. We use financing instruments, with a preference for long tenures, to optimize our balance sheet or to support growth initiatives. We believe our optimal capital structure is one where the debt-to-capital ratio is up to 20% and we intend to operate at this level on an ongoing basis. We may exceed this level from time to time to capture market opportunities, but with a goal to return to our target within a reasonable time frame.

As at December 31, 2014, we had a debt-to-capital ratio of 17.3%, compared to 18.7% as at December 31, 2013.

Sale and repurchase agreements

We may, from time to time, enter into sale and repurchase agreements consisting of the sale of securities together with an agreement to repurchase them in the short term, at a price and date, up to a maximum of 1.5% of invested assets. We do not have any securities sold under repurchase agreements as at December 31, 2014 and 2013.

Credit facilities

We have a $300-million five-year unsecured revolving term credit facility. On December 5, 2014, we extended the term from October 26, 2016 to December 5, 2019. This credit facility may be drawn as prime loans or base rate (Canada) advances at the prime rate or base rate plus a margin or as bankers' acceptances or Libor advances at the bankers' acceptance or Libor rate plus a margin. This facility was undrawn as at December 31, 2014 and 2013.

As part of the covenants of the loans under the credit facilities, we are required to maintain certain financial ratios, which were fully met as at December 31, 2014 and 2013.

10.2 Credit ratings

On October 20, 2014, Moody's reaffirmed the senior debt rating of Intact Financial Corporation and the insurance financial strength ratings of its principal P&C subsidiaries. The outlook remained stable.

On December 16, 2014, DBRS reaffirmed its long-term issuer credit rating for Intact Financial Corporation. The outlook remained stable.

A.M. Best has maintained its financial strength ratings and issuer credit ratings of Intact Financial Corporation and its principal P&C subsidiaries.

Table 30 – Credit ratings

	A. M. Best	Moody's	DBRS
Long-term issuer credit ratings of IFC	**a-**	**Baa1**	**A (low)**
Financial strength ratings of IFC's principal insurance subsidiaries	**A+**	**A1**	**n/a**

10.3 Cash flows

Table 31 – Selected cash inflows (outflows)

	Q4-2014	Q4-2013	Change	2014	2013	Change
Operating activities						
Net cash flows provided by (used in) operating activities	**442**	(27)	469	**1,378**	185	1,193
Financing activities						
Dividends paid on common shares and preferred shares	**(70)**	(63)	(7)	**(276)**	(254)	(22)
Common shares repurchased for cancellation	**-**	-	-	**-**	(106)	106
Common shares repurchased for share-based payments	**-**	(6)	6	**(23)**	(37)	14
Other activities						
Business combinations	**-**	-	-	**(13)**	-	(13)
Purchases of brokerages, books of business, intangibles, property and equipment, net of sales	**(43)**	(62)	19	**(275)**	(159)	(116)
Cash flow available for investment activities[1]	**329**	(158)	487	**791**	(371)	1,162
Purchase of investments, net of proceeds from sales	**(292)**	50	(342)	**(801)**	298	(1,099)
Net increase (decrease) in cash and cash equivalents	**37**	(108)	145	**(10)**	(73)	63

[1] A non-IFRS financial measure which includes net cash flows from cash and cash equivalents and the investment portfolio.

Fourth quarter 2014

Cash flow available for investment activities improved by $487 million versus Q4-2013. This is mainly due to improved profitability in the current year and unusually low operating cash flows in the prior year from the settlement of catastrophe loss claims.

Full year 2014

The Cash flow available for investment activities improved by $1.2 billion over last year. The improvement reflects income taxes received of $287 million in 2014, versus income taxes paid of $309 million in 2013. In addition, it also reflects a reduction in pension plan contributions of $180 million versus 2013, which included a voluntary cash contribution of $114 million.

10.4 Contractual obligations

Table 32 – Contractual obligations

		Payments due by period			
	Total	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**Thereafter**
Debt outstanding[1]	**1,143**	-	-	249	894
Interest payments on debt	**1,182**	63	125	121	873
Claims liabilities[2]	**4,657**	1,863	1,145	694	955
Operating leases on premises and equipment	**776**	128	213	161	274
Pension obligations[3]	**32**	3	7	6	16
Total contractual obligations	**7,790**	2,057	1,490	1,231	3,012

[1] Principal only.

[2] Reported claims case reserves.

[3] These amounts represent the annual mandatory funding required by OSFI, based on the latest 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.

Section 11 – Capital management

11.1 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 our strong position in the Canadian P&C insurance industry.

Our capital is managed on an aggregate 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 and the *Insurance Companies Act*. Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the *Act respecting insurance*. OSFI and the AMF have established MCT guidelines, which set out 100% as the minimum. OSFI has also set out 150% as the supervisory target MCT standard for Canadian P&C insurance companies. To ensure that there is minimal risk of breaching the supervisory target MCT, we have established a minimum internal threshold of 170%, in our principal insurance subsidiaries, in excess of which, under normal circumstances, we will maintain our capital.

Our goal is to maintain adequate excess capital levels to ensure the probability of breaching the regulatory minimum requirements is very low. Such levels may vary over time depending on our evaluation of risks and the potential impact on capital. For example, during periods of high volatility in capital markets, we intend to maintain capital levels well above our minimum internal threshold to absorb fluctuations in equity markets or interest rates. Our intent is also to keep higher levels of excess capital if we foresee growth or actionable opportunities in the near term. Finally, we intend to return excess capital to shareholders first through annual dividend increases and then through share buy-backs when excess capital levels permit. For further details on the recent NCIB program, please refer to section 15.4 – *NCIB program* hereafter.

2015 MCT Guidelines

MCT guidelines change from time to time and may impact our capital levels. We carefully monitor all changes, actual or proposed. On September 24, 2014, OSFI released the final MCT guidelines outlining changes to the MCT framework beginning in 2015. Based on our assessment of the final proposals, the impact to our regulatory capital ratios will be positive with the benefits phasing in over three years.

11.2 Capital position

The following table presents the estimated aggregate capital position of our P&C insurance subsidiaries.

Table 33 – Aggregate MCT

As at	December 31, 2014	December 31, 2013
Total capital available	**3,933**	3,750
Total capital required	**1,878**	1,849
MCT %	**209%**	203%
Excess capital at 100%	**2,055**	1,901
Excess capital at 150%	**1,116**	977
Excess capital at 170%	**740**	607

Total capital available and total capital required represent amounts applicable to our P&C insurance subsidiaries and are determined in accordance with prescribed OSFI and AMF 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. As at December 31, 2014, our P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements, as well as above internal thresholds.

Our aggregate MCT level as at December 31, 2014 was strong at an estimated 209%.

Including net liquid assets outside of the P&C insurance subsidiaries, we had an estimated total of $681 million in excess capital at an MCT of 170% as at December 31, 2014, compared to total excess capital of $550 million as at December 31, 2013. The change in capital levels reflects our profitability less additional investments in our distribution network, as well as additional capital required due to growth and composition changes in our investment portfolio. The improvement since September 30th mainly reflects our operating profit.

11.3 MCT sensitivity

The MCT is impacted by many factors including changes in equity market performance, interest rates and underwriting profitability. Based on our estimated aggregate MCT of 209% as at December 31, 2014, 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 markets. Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 34 – Sensitivity to interest rates and equity markets

	Interest rates 1% increase[1]	Equity markets decline[2]
MCT[3]	**(3) pts**	**(4) pts**

[1] The yield curve experiences an instantaneous parallel shift.

[2] A shock of 10% is applied to all common shareholdings, 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 2014 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 tests and scenario analysis to ensure its adequacy.

Section 12 – Risk management

12.1 Introduction

We have 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 material risks we are exposed to in the course of our 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 our management has put appropriate risk management programs in place. The Board of Directors, directly and in particular through its Risk Management Committee oversees our 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 our 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 Consolidated financial statements, 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 we employ 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.

12.2 Risk management structure

The Board of Directors is responsible for the oversight of risk management to ensure that risks are properly measured, monitored and reported. In this regard, the Board is supported by its Risk Management Committee that covers enterprise wide risks. In addition, we have an internal Enterprise Risk Committee composed of senior executives.

The Board and Committee structures are reviewed periodically to be aligned with best practices, the applicable laws and regulatory guidelines on corporate governance. The following structure is in place and remains unchanged from 2013:

- **Board of Directors**: The main responsibility of the Board is to oversee our management of business and affairs, including our pension funds. In this regard, the Board establishes policies, reporting mechanisms and procedures in view of safeguarding our assets and ensuring our long-term viability, profitability and development.
- **Audit Committee**: The Audit Committee is a committee that is responsible for reviewing our Financial Statements and financial information including our pension funds. The Audit Committee is responsible for overseeing our accounting and financial reporting process and, in this regard, reviews, evaluates and oversees such processes; it is also responsible for evaluating the integrity of our financial statements and for overseeing the quality and integrity of internal controls.
- **Human Resources and Compensation Committee**: The Human Resources and Compensation Committee is a committee of the Board of the Company the primary function of which is to assist the Board in fulfilling its supervisory responsibilities for strategic oversight of our human capital, including organization effectiveness, succession planning and compensation, and the alignment of compensation with our philosophy and programs.
- **Compliance Review and Corporate Governance Committee**: The Compliance Review and Corporate Governance Committee ("CRCG Committee") is responsible for ensuring a high standard of governance, compliance and ethics in our company, including our pension funds. In this regard, the CRCG Committee is responsible for overseeing our governance framework, it is also responsible for overseeing our compliance framework as well as our compliance programs including related party transactions ("RPT"), our market conduct programs and policies, as well as the governance framework of our pension plans and the implementation of corporate compliance initiatives.
- **Risk Management Committee**: The Risk Management Committee is a committee of the Board of Directors whose primary function is to assist the Board with its oversight role with respect to our management in order to build a sustainable competitive advantage, by fully integrating the Enterprise Risk Management Strategy into all our business activities and strategic planning and our subsidiaries and operations, including our pension funds.
- **Enterprise Risk Committee** (refer to figure 1): This committee is composed of senior officers and is chaired by the Chief Risk Officer designated by the Board of Directors. It meets regularly and oversees 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 Risk Management Committee. The Enterprise Risk Committee evaluates our overall risk profile, aiming for a balance between risk, return, and capital, and approves risk policies. The Enterprise Risk 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) manages risk in accordance with the risk tolerance level determined by the 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 Enterprise Risk Committee to access the expertise throughout our company and to operate more efficiently in addressing key risks.

In addition, we have 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 follow on how these committees operate, ensure compliance with laws and regulations and report to the Enterprise Risk Committee.

Figure 1: Committees involved in risk management

12.3 Corporate governance ensuring compliance with laws and regulatory requirements

We believe that sound corporate governance and compliance monitoring related to legal and regulatory requirements are paramount for maintaining the confidence of different stakeholders including our investors. Legal and regulatory compliance risk arises from non-compliance with the laws, regulations or guidelines applicable to us as well as the risk of loss resulting from non-fulfilment of a contract. We are subject to strict regulatory requirements and detailed monitoring of our operations in all provinces and territories where we conduct business, either directly or through our subsidiaries. Our 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 our operations to enable them to effectively oversee our management, business objectives and risks. The Board of Directors and the Audit 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.
- 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 we meet our 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. We have 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.
- To manage the risks associated with compliance, regulatory, legal and litigation issues, we have specialized resources reporting to the Chief Legal Officer that remain independent of operations. The Chief Legal Officer reports to the Executive Vice President, Governance and Capital Management and to the Board of Directors and its committees on such matters, including with respect to privacy and Ombudsman complaints. We also use third party legal experts and take provisions when deemed necessary or appropriate.

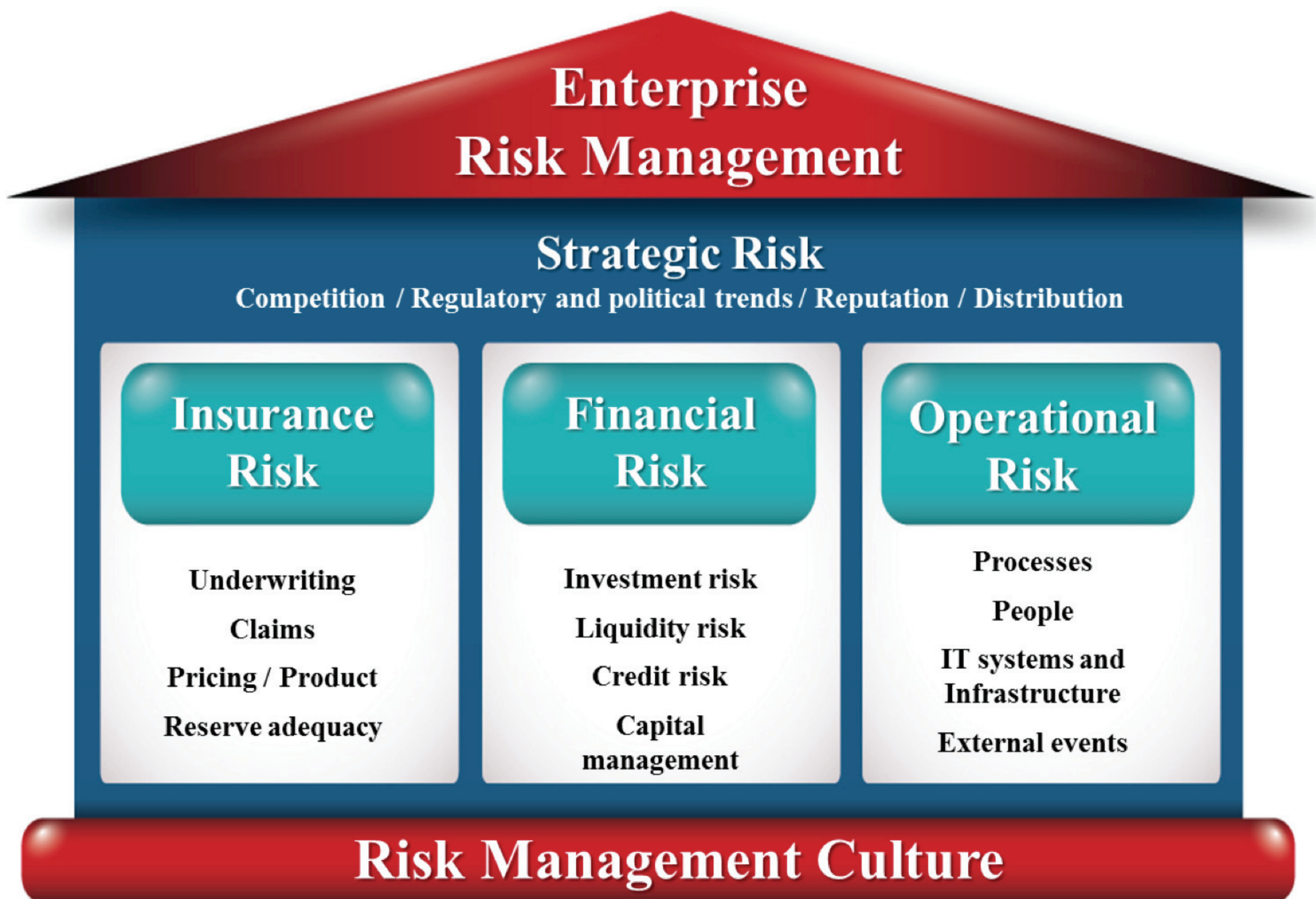
While senior management has ultimate responsibility for compliance, it is a responsibility that each individual employee shares. This is clearly set out in our core Business Values and Code of Conduct and employees sign a confirmation that they have reviewed and complied with them annually.

12.4 Mandate of Enterprise Risk Management

Our business strategies and capital management decisions are tied to the risks we are prepared to accept, manage, mitigate or avoid. The Enterprise Risk Management function reports to the Board on capital level sufficiency to support planned business operations in line with our risk appetite. Based on the alignment and governance provided by the development of our own expertise in risk management, and by best practices and governance models, we develop risk management policies and processes to manage and minimize systemic risks in the organization and receive early warnings of high-risk incidents.

The Enterprise Risk Management strategy is designed to provide an overview of our risks and ensure that appropriate actions are taken to protect our clients, employees, shareholders and other stakeholders. Our risk model is based on four main categories: Strategic Risk, Insurance Risk, Financial Risk and Operational Risk (see Figure 2).

Figure 2: Risk Management Model



Our Enterprise Risk Management objectives consist of:
- overseeing and objectively challenging the execution of risk management activities;
- identifying, as completely as possible, the most important risks and issues that may affect us;
- monitoring identified risks, major incidents and control weaknesses and reviewing adopted strategies;
- allocating risk ownership and responsibilities;
- gathering early warning information;
- escalating risk management issues and vetoing high risk business activities;
- enforcing compliance with the risk policies;
- disclosing key risks completely and transparently; and
- supporting management in raising risk awareness and insight.

A shared responsibility:
- Heads of departments have primary responsibility and accountability for effective control of risks/challenges affecting their business. They are responsible for the execution of risk management policies set by Enterprise Risk Management related functions (see Figure 3).
- Enterprise Risk Management functions partner with and support heads of departments in the execution of risk management activities. Risk management functions are "independent" of the management that can be affected by the risk exposures.
- Corporate Audit Services as well as external auditors play an independent role in ensuring objective assurance on the effectiveness of the risk management program and of the internal control framework.

Figure 3: Risk Management functions – the 3 lines of defence

We have an integrated risk-based approach to significantly increase the effectiveness of the program, ensuring that delegated authorities actions are consistent with the overall strategy and risk appetite. Overall, the risk profile and communication must be transparent with the objective of minimizing "surprises" to internal and external stakeholders on risk management and value creation.

12.5 Risk Appetite

How do we manage corporate risk?

From a risk management perspective, our objective is to protect the sustainability of our activities while delivering on our promises to our stakeholders. To do so, we strive to maintain our financial strength, even in unpredictable environments or under extreme stress. We take a prudent approach to managing risk, and the following principles help us establish the nature and scope of risks we are willing to assume:
- we focus on our core competencies;
- we keep our overall risk profile in check;
- we protect ourselves against extreme events;
- we promote a strong risk management culture; and
- we maintain our ability to access capital markets at reasonable costs.

Please consult our website for a more detailed discussion on our Risk Appetite under the Corporate Governance section.

12.6 Main risk factors and mitigating actions

Our main risk factors together with our risk management practices used to mitigate these risks are explained below. Our practice is to regularly identify our top risks, assess the likelihood of occurrence and evaluate the potential impacts should they materialize both in terms of financial resources and reputation. We also consider potential emerging risks that are newly developing or changing risks which are inherently more difficult to quantify. We then determine mitigation plans and assign accountability for each risk if deemed appropriate given our overall assessment, our risk appetite, and our business objectives.

Insurance risk

Catastrophic events risk

The occurrence and severity of natural disasters may be affected by climate change and may take different forms, including but not limited to hurricanes, wind storms, earthquakes, hailstorms, rainstorms, ice storms, floods, severe winter weather and fires. Unnatural catastrophe events include but are not limited to hostilities, terrorist acts, riots, explosions, crashes and derailments. Despite the use of sophisticated models, the incidence and severity of catastrophe events are inherently unpredictable. The extent of losses from a catastrophic event 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 catastrophic events are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophic events 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 Alberta Flood in June 2013 caused P&C insurance losses in several lines of business, including business interruption, personal property, automobile and commercial property. Although we have significantly reduced our earthquake exposure in Western Canada, the occurrence of a major earthquake in Canada could have a significant impact on our profitability and financial condition and that of the entire property and casualty insurance industry in Canada. Depending on the magnitude of the earthquake, its epicentre, and on the extent of the damages, the losses could be substantial even after significant reinsurance recoveries. There could also be significant additional costs to find the required reinsurance capacity upon further renewals. In addition, we could be subject to increased assessments from the Property and Casualty Insurance Compensation Corporation (PACCIC) leading to further costs.

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

Our risk management strategy involves monitoring insured value accumulation and concentration of risks, catastrophe scenario modeling, and the use of reinsurance. Consequently, the diversification of risk among an appropriate number of reinsurers is vital for us. See Section 12.7 – *Reinsurance* for more details on our reinsurance program.

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:

- amounts of claims payments;
- expenses that we incur in resolving claims;
- legislative and judicial developments; and
- changes in economic variables such as interest rates and/or inflation.

To the extent that actual losses and loss adjustment expenses exceed our expectations and the reserves reflected in our 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 income before income taxes 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. See Section 9.3 – *Claims liabilities* for more details on the claims reserve and prior year claims development.

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 catastrophe events or terrorists' 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; and
- 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.

Climate change risk

Climate change is a challenge faced by the entire P&C insurance industry. In particular, our 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 our home insurance claims.

Over the last few years, we have witnessed a continued increase in the number and severity of weather events. Heavy wind, hail, and rain in various parts of the country during 2013 and 2014 resulted in significant claims, particularly in our property insurance portfolio. The trend in climate change poses a meaningful risk to our ability to meet our business objectives.

To address this issue, we have launched several initiatives including pricing and product changes to reflect new climate realities, a Home Improvement Plan, a review of claims processes and a greater focus on consumer loss prevention and education. Many initiatives were implemented in 2014 and are continuing in 2015. For example, the expanded use of deductibles and sub-limits in personal property insurance across Canada should help mitigate, to some extent, P&C insurance losses resulting from water damage. However, these initiatives may not be sufficient to mitigate this risk and maintain adequate profitability in the exposed lines of business.

Reinsurance risk

We use reinsurance to help manage our exposure to insurance risk. The availability and cost of reinsurance is subject to prevailing market conditions, both in terms of price and available capacity, which can affect our premium volume and profitability. 2011 was particularly difficult for reinsurers, who faced many catastrophe losses around the world. It began with two earthquakes in New Zealand and another one in Japan followed by a tsunami, but they were also heavily impacted by other events such as wind storms in the U.S. and floods in Thailand. Consequently, there was an upward shift in reinsurance market conditions for earthquake exposure in Canada in 2012. This clearly shows the impact worldwide catastrophe events can have on the reinsurers' situation and, therefore, on the conditions and support provided to us. Although worldwide catastrophe losses were lower in 2013 than in the previous year, Canada has experienced an exceptionally high number of catastrophe events. Thus, the cost of catastrophe reinsurance protection in Canada increased in 2014 as a result of this experience. In 2014, we witnessed a decrease in the overall level of catastrophe losses in Canada. In addition, the demand for reinsurance capital has remained stable. Consequently, our reinsurance rates are expected to be lower in 2015.

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 the insurance and reinsurance terms and conditions as closely as possible to minimize these gaps. Other details regarding reinsurance are also included at Section 12.7 – *Reinsurance*.

Underwriting ability risk

Our performance depends on our ability to reduce financial losses 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. We have adopted policies which specify our retention limits and risk tolerance and our application depends on training and the discipline of our underwriting teams. Once the retention limits have been reached, we use 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 several automobile insurance markets including Ontario, Alberta, and the Maritimes.

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 our 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 and approved by Senior Management and the risk is primarily managed by analyzing the pricing adequacy of our 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.

Financial risk

Market risk

Movements in interest rates, credit spreads, foreign exchange rates and equity prices cause changes in realized and unrealized gains and losses. Generally, our interest and dividend income will be reduced during sustained periods of lower interest rates and will likely result in unrealized gains in the value of fixed-income securities we continue to hold, as well as realized gains to the extent the relevant securities are sold. During periods of rising interest rates, the fair value of our existing fixed-income securities will generally decrease and our realized gains on fixed-income securities will likely be reduced or result in realized losses. Changes in credit spreads would have similar impacts as those described above for changes in interest rates. Currently, interest rates are at the low end of the range over the last half century. In this context, purchases of fixed-income securities will likely be at lower yields than several years ago putting downward pressure on investment income. In 2014, interest rates declined further putting additional pressure on reinvestment rates. The recent significant decline in oil prices may have an impact on the value of some of our securities or on the level of investment income we are able to generate given that our investment portfolio contains securities issued by companies in the energy sector.

General economic conditions, political conditions and many other factors can also adversely affect the equity markets and, consequently, the fair value of the equity securities we own and ultimately affect the timing and level of realized gains or losses. The financial crisis of 2008 provides an example of an event with a significant adverse impact on our financial condition. During the crisis, several financial institutions failed or received government assistance and many others experienced significant distress. Most equity investments and some corporate fixed-income securities declined significantly in value while sovereign government bond yields fell. Some of our investments were negatively impacted by these events resulting in losses.

While our strategy is long-term in nature, it is reviewed periodically to adapt to the investment environment when necessary, especially in times of turbulence and increased volatility. Periodically, we employ several risk mitigation measures such as changes to its strategic asset mix, hedging of interest rate, foreign exchange, or equity risk and increased holdings in cash. These actions serve to reduce exposures in the investment portfolio and decrease the sensitivity of the MCT ratio to financial market volatility.

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

For example, a 100 basis point variation in interest rates would normally impact Net income and OCI as follows:

Table 35 - Sensitivity analysis for interest rate risk

For the years ended December 31,	2014		2013	
	Net income	**OCI**	**Net income**	**OCI**
100 basis-point increase	**18**	**(172)**	(21)	(127)
100 basis-point decrease	**(18)**	**172**	21	127

Gains and losses resulting from changes in interest rates vary depending on the position we have taken on the interest rate risk.

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

- The securities in our portfolio are not impaired.
- Interest rates and equity prices move independently.
- Shifts in the yield curve are parallel.
- Credit, liquidity and basis risks have not been considered.
- Impact on our pension plans is not included.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- For our FVTPL fixed-income securities, the estimated impact on net income is assumed to be offset by the MYA.
- AFS fixed-income securities in an unrealized loss position, as reflected in AOCI may, at some point in the future, be realized through a sale or impairment.

Shocks of 10% and 25% applied to the price of all common shares, net of any equity hedges, combined respectively with shocks of 5% and 10% applied to the price of all preferred shares and related embedded derivatives, including the impact of any impairment, would impact Net income and OCI as follows:

Table 36 - Sensitivity analysis for equity price risk

For the years ended December 31,	**2014**		**2013**	
	Net income	**OCI**	**Net income**	**OCI**
Price of all common shares:				
10% increase	**(12)**	**168**	(16)	152
10% decrease	**10**	**(166)**	3	(140)
25% increase	**(29)**	**397**	(42)	361
25% decrease	**2**	**(371)**	10	(329)

A decline in the price of AFS perpetual preferred shares is recorded in OCI and would normally lead to a lower valuation for associated embedded derivative liabilities which are recorded as gains in Net income. Conversely, an increase in the price of these preferred shares is also recorded in OCI and would normally lead to a higher valuation for associated embedded derivative liabilities which are recorded as losses in Net income.

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

- Interest rates and equity prices move independently.
- Credit and liquidity risks have not been considered.
- Impact on our pension plans is not included.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- AFS equities in an unrealized loss position, as reflected in AOCI may, at some point in the future, be realized through a sale.

We also use stress tests to determine the impact of various market scenarios on our financial and capital position. See MCT monitoring discussion in Section 11 – *Capital management*.

To mitigate these risks, our investment policies set forth limits for each type of investment and compliance with the policies is closely monitored by the Investment Risk Management Committee. We manage market risk through asset class and economic sector diversification and, in some cases, the use of derivatives. We also monitor and review the duration of our fixed-income securities and our 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. We are exposed to some foreign exchange risks arising from fixed-income and equity securities denominated in U.S. dollars. Our general policy is to hedge foreign currency exposure for our fixed-income securities but not our equity securities. We mitigate foreign exchange price risk or cash flow risk using foreign currency derivatives. In addition, we have minor unhedged exposure to other currencies (i.e. $16 million exposure to the Brazilian Real).

The below sensitivity analysis reflects the impact of a 5% change in the value of the Canadian dollar compared to the U.S. dollar on Net income and OCI after giving effect to forward foreign-exchange contracts. The analysis was prepared using the following assumptions:

- Foreign currency rates and interest move independently.
- Credit, liquidity and basis risks have not been considered.
- Impact on our pension plan is not included.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- AFS debt or equities in an unrealized gain or loss position, as reflected in AOCI may, at some point in the future, be realized through a sale.

Table 37 - Sensitivity analysis to currency risk

For the years ended December 31,	2014		2013	
	Net income	OCI	Net income	OCI
5% increase	**1**	**(19)**	-	-
5% decrease	**(1)**	**19**	-	-

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. Our credit risk exposure is concentrated primarily in our debt portfolios, preferred share portfolios, over the counter derivatives and, to a lesser extent, in our premium receivables, reinsurance recoverables and structured settlement agreements entered into with various life insurance companies.

Our 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. See Tables 21 and 22 for more details on the breakdown of credit quality of fixed-income securities and preferred shares. In addition, we set limits on the total credit exposure across all asset 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. Our investments could be sensitive to changing conditions in specific geographic regions or specific industries. We have a significant concentration of investments in the financial sector and in Canada, although we are diversifying our corporate bond exposure into the U.S. We closely monitor this risk concentration and we hedge some of the risk as we deem necessary. See Table 20 for more details on the breakdown of investments by economic sector. See Table 23 for more details on the breakdown of investments by geographic region. As a mitigation measure, we have been decreasing our exposure as a percentage of total invested assets to specific issuers in Canada while we increased investments in the U.S.

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 us. 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, we 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.

We subject our derivative-related credit risk to the same credit approval, limit and monitoring standards that we use 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 monthly review by the Operational 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 our financial obligations toward the counterparty to such an agreement can be set off against obligations such counterparty has toward us. We use 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 our agreements with some counterparties provide us 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.

We enter into annuity agreements with various Canadian life insurance companies, which have credit ratings of at least 'A-', to provide for fixed and recurring payments to claimants. Under such arrangements, we no longer record the liability in our Consolidated balance sheet as the liability to the claimants is substantially discharged, although we remain exposed to the credit risk that life insurers may fail to fulfill their obligations.

Use of derivatives

We use derivatives principally to mitigate certain of the above mentioned risks. Our use of derivatives exposes us to a number of risks, including credit risk, as well as interest rate, equity market and currency 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. We monitor the effectiveness of our hedges on a regular basis.

Credit downgrade risk

Independent third party rating agencies assess our ability to honour our financial obligations (the "issuer credit rating") and our insurance subsidiaries' ability to meet their ongoing policyholder obligations (the "financial strength rating").

The rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us.

We may not be in a position to maintain either the issuer credit ratings or the financial strength ratings we have received from the rating agencies. An issuer credit rating downgrade could result in materially higher borrowing costs. A financial strength rating downgrade could result in a reduction in the number of insurance contracts we write and in a significant loss of business; as such business could move to other competitors with higher ratings, thus causing premiums and earnings to decrease.

Credit downgrades may affect our ability to raise capital or may result in an increase in the cost of raising capital with negative implications for shareholders and other stakeholders.

Liquidity risk

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

Our 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 our operational requirements. A large portion of the investments are held in highly liquid unencumbered federal and provincial government debt to protect against any unanticipated large cash requirements. In some circumstances requiring significant cash outflows such as a large natural catastrophe, our reinsurance program is expected to provide an additional source of liquidity subject to the aforementioned credit risk on reinsurance recoverables. We also have an unsecured committed credit facility as an additional potential source of liquidity (see Section 10.1 – *Financing and capital structure* for further details on this facility).

We have issued term notes to finance acquisitions and for general corporate purposes. To manage liquidity risk, we have issued longer term maturities and have 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. While no regulatory approval is required for dividend payments from the regulated insurance companies, OSFI notice is required together with pro forma capital calculations showing internal target capital levels are maintained both before and after such dividends are paid out. In addition, for competitive reasons, our insurance subsidiaries maintain financial strength ratings which require us maintain minimum capital levels in our insurance subsidiaries. These regulations and ratings targets limit the ability of our insurance subsidiaries to pay unlimited dividends or invest all of their capital in other ways. In certain stressed scenarios these limitations on our subsidiaries' ability to pay dividends to IFC could have a material adverse effect on our business and financial condition, our ability to pay shareholder dividends and the price of securities we have issued.

Strategic risk

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 several Canadian banks that are selling insurance products. These firms may use business models different than ours and sell products through various distribution channels, including aggregators, 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.

The entrance of a new player in the market or a shift in methods to purchase insurance could challenge our distribution model. The use of information technology in the distribution and pricing of insurance products (e.g. Usage Based Insurance) increased steadily in 2014 and this trend is expected to continue in the near future. We launched our own Usage Based Insurance (UBI) product in 2014 to better meet customer needs and to mitigate competition risk. However, this new initiative may not produce the expected benefits and could lead to negative reputational consequences.

Our multi-channel distribution strategy including the broker channel, direct to consumer brands and web platforms, enhances our ability to adapt to evolving conditions in the insurance market. To secure strong relationships with our brokers, we provide them with advanced technology and support their growth with innovative financing. We invest significantly in promoting our brands with an increasing focus on using web and mobile technology to reach consumers.

Consolidation in the Canadian P&C industry continued in 2014. As competitors gain scale, it may erode our competitive advantage.

Distribution risk

Distribution risk is the risk related to the distribution of our 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 our 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 and web aggregators, as well as our ability to maintain our business relationships with them while developing our distribution network strategy. The evolution of customer preferences for different distribution channels could lead to a material decline in our market share.

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 we issue loans or take equity participation in certain brokers and consequently, we expose ourselves 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 we generally receive guarantees and use standard agreements which contain general security and oversight clauses. The Board of Directors participates in this oversight process by reviewing these activities periodically. For various reasons, the broker 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.

We have established close relationships with our independent distributors by providing technology and training to help strengthen their market position. We closely monitor pricing gaps between our various channels and manage the different channels under different brand names including BrokerLink, our 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;
- maintenance of adequate reserves for unearned premiums and unpaid claims;
- examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- 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 us. 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 our 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, our profitability can be significantly affected by many factors, including:

- regulatory regimes which limit our 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.

As a mitigation action, we regularly monitor trends and make adjustments to our strategy and products, when deemed appropriate, to ensure the sustainability of insurance products and to avoid the potential for additional regulation that may negatively impact our profitability and financial condition.

General economic, financial market and political conditions

Our businesses and profitability may be materially adversely affected from time to time by general economic, financial market and political conditions. In periods of economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, individuals and businesses may choose not to purchase insurance products, may allow existing policies to lapse, or may choose to reduce the amount of coverage purchased. In addition to the demand for our insurance products being adversely affected, frequency or severity of claims could increase, resulting in lower earnings. General inflationary pressures may affect the costs of medical care, automobile parts and repair, construction and other items, and may increase the costs of paying claims.

In addition to the risk related to investments discussed previously, an economic downturn could have a significant impact on the financial condition of our defined benefit pension plans. Consequently, this could impact our financial condition.

Solvency risk

Regulatory authorities closely monitor the solvency of insurance companies by requiring them to comply with strict solvency standards based on the risk assumed by each company with respect to asset composition, liability composition, and the matching between these two components. We are required to submit regular reports to the regulatory authorities regarding our solvency, and publish our solvency ratio every quarter. The minimum capital test (MCT) ratio that we target for our regulated subsidiaries is 170%, which is higher than the regulatory requirement of 150%. The appointed actuary must present an annual report to the Risk Management Committee and the Enterprise Risk Committee on our current and future solvency and mitigating measures. In 2014, we revised our capital management policy. The policy contains guidelines to help ensure that we maintain adequate capital to withstand adverse event scenarios and has documented procedures to take corrective actions should any unanticipated conditions arise. In addition, we conducted a full internal solvency assessment as described below in Section 12.8 – *Own Risk and Solvency Assessment*.

Effective January 2015, the impact of revised MCT guidelines will be positive for our insurance subsidiaries and, all else being equal, will reduce solvency risk from a regulatory perspective. Any future strategic or capital management decisions may have a material impact on our solvency risk.

Reputation risk

Our insurance products and services are ultimately distributed to individual consumers and businesses. From time to time, consumer advocacy groups or the media may focus attention on our products and services, thereby subjecting us or our subsidiaries to periodic negative publicity. We also may be negatively impacted in relation to our information systems, security and technology, or if one of our subsidiaries engages in practices resulting in increased public attention to our businesses. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the P&C insurance industry as well as increased litigation. Such increase may further increase our costs of doing business and adversely affect our profitability by impeding our ability to market our products and services, requiring us to change our products or services or increasing the regulatory burdens under which we operate. The periodic negative publicity of insurance and related businesses may negatively impact our financial results and financial condition.

To mitigate these risks the Board of Directors has created the Disclosure Committee which is composed of senior officers and chaired by the Chief Legal Officer. This committee oversees our disclosure practices and procedures, its role includes maintaining awareness and understanding of corporate disclosure rules and guidelines, educating and informing employees about our disclosure practices, determining whether corporate developments constitute material information and reviewing and approving all our material disclosure releases or statements. In addition, the Enterprise Risk Committee monitors our operations to identify situations that can negatively affect our reputation. If necessary, the Enterprise Risk Committee approves policies and implements procedures to mitigate reputation risk.

Operational risk

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 our 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, we follow a specific framework that is composed of different steps including identification, assessment, response, and monitoring.

For early detection of and clear insight into our 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 assessments of our critical functions. It also monitors and measures our risks on an ongoing basis through key risk indicators which enable management to proactively initiate effective actions. We have 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. Our Operational Risk Committee supports the Enterprise Risk Committee in the oversight and management of operational risk.

Information technology risk

The use of information technology enables us to increase our productivity, to offer attractive products and interfaces to existing and potential customers, and to distinguish ourselves from the competition by benefiting from a competitive advantage. However, our dependency on technology, network, telephony and critical applications makes our ability to operate and our profitability vulnerable to service interruption, third party agreement failure and security breaches. Massive denial of service attacks and system intrusion attempts could compromise our ability to operate and we could be unable to safeguard confidential information from public disclosure. To maintain our performance levels we are required to periodically modernize our systems and to constantly seek to renew. Time required for accomplishing projects, unplanned delay or cost, or not being successful in executing such projects could lead to a significant decline in service levels, impact retention negatively and jeopardize our competitive advantage.

Information security risks for financial institutions have increased in recent years. Criminal organizations, hackers, and other external actors have become more active and better equipped to attack even robust systems and networks. We and the third parties that provide services to us may be the subject of information security breaches. Such incidents could result in financial loss, government and regulatory action, and reputational damage. In 2014, we witnessed a number of high profile information security breaches in well-established and sophisticated organizations. News of technology vulnerabilities such as the Heartbleed bug caused many firms to react quickly to mitigate the risk of information leakage.

To ensure the security and the resilience of our systems, the safeguard of our confidential information and the integrity of our information and databases, various dedicated teams plan, test and execute our continuity and security plans, including threat and vulnerability assessments and appropriate mitigation actions. Their efforts are supported by teams constantly monitoring our systems and ready to intervene if an incident occurs. To ensure the expected levels of service are delivered by our critical third-party service providers, service level agreements are signed and added to relevant contracts. We continue to upgrade our applications to better protect our systems and information and monitor trends in cyber risk to ensure we rapidly mitigate known vulnerabilities. Despite these efforts, this remains a material risk and we may suffer a loss of confidential information leading to financial loss, regulatory action, and reputational harm.

Business interruption risk

We may also experience an abrupt interruption of activities caused by unforeseeable and/or catastrophe events, an example of which being a global pandemic (e.g. the Ebola virus). 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.

We continuously monitor world events, such as the recent escalation in the Ebola virus outbreak, to enable us to pro-actively adapt our response plan. In order to maintain the integrity and continuity of our 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 organization and to the type of events we may have to manage.

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.

We have 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. We also have a comprehensive succession planning program at various levels within the organization to ensure we are prepared for unplanned departures and retirements.

12.7 Reinsurance

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

Our objectives related to ceded reinsurance are:
- capital protection;
- reduction in the volatility of results;
- increase in underwriting capacity; and
- 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 typical practice 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 risks 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.

We assess the financial soundness of the reinsurers before signing any reinsurance treaties and monitor their situation on a regular basis. We have minimum rating requirements for our reinsurers. Substantially all reinsurers are required to have a minimum credit rating of 'A-' at inception of the contract. We also require that our contracts include a special termination and security review clause allowing us to replace a reinsurer during the contract treaty period should the reinsurer's credit rating fall below an acceptable level or for other reasons that might jeopardize our ability to continue doing business with such reinsurers as intended at the time of entering into the reinsurance arrangement. 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 catastrophe event such as an earthquake could financially weaken a reinsurer, so distribution of risk is an important reinsurance strategy for us.

In line with industry practice, our reinsurance recoverable with licensed Canadian reinsurers ($241 million as at December 31, 2014, $357 million as at December 31, 2013) are 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 reinsurer's subordinated creditors. Reinsurance recoverable with unregistered reinsurers ($91 million as at December 31, 2014, $149 million as at December 31, 2013) are secured with cash, letters of credit and/or assets held in trust accounts or under security agreements of $166 million as at December 31, 2014 ($238 million as at December 31, 2013).

Annually, we review and adjust accordingly our reinsurance coverage as well as our net retention of risks in order to reflect our current exposures and our capital base. The following table shows our reinsurance net retention and coverage limits by nature of risk.

Table 38 - Reinsurance net retention and coverage limits by nature of risk

	January 1, 2015	**December 31, 2014**
Single risk events		
Retentions:		
On property policies	**7.5**	7.5
On liability policies	**2 - 10**	2 - 10
Multi-risk events and catastrophes		
Retention	**100**	100
Coverage limits	**3,100**	3,100

For certain special classes of business or types of risks, the retention may be lower through specific treaties or the use of facultative reinsurance. Also, we retain participations averaging 6% as at January 1, 2015 (December 31, 2014 – 8%) on reinsurance layers between the retention and coverage limits. The 2015 multi-risk events and catastrophes retention and coverage limits exclude an aggregate reinsurance treaty to protect for frequency of events below $150 million.

12.8 Own Risk and Solvency Assessment

In 2014, we conducted our Own Risk and Solvency Assessment ("ORSA"). ORSA encompasses processes to identify, assess, monitor, and manage the risks we take in conducting our business. ORSA also covers the determination of our capital needs and solvency position. ORSA is an integral part of the implementation of our Enterprise Risk Management strategy. This exercise was conducted over and above the Dynamic Capital Adequacy Testing performed annually by the Appointed Actuary.

Our ORSA revealed that our financial resources are sufficient to meet policyholder obligations after adverse situations at a confidence level of 99% conditional tail expectation (CTE) over a one-year time horizon. We considered all our material risk exposures in making this determination.

We concluded that our overall risk is well balanced primarily between insurance risk and financial risk while operational risk contributes a modest additional amount. Diversification and other adjustments modestly reduce our overall risk assessment.

We also compared our assessment of our own capital requirements with that of regulatory bodies. Our overall assessment is materially lower than current regulatory requirements given the same confidence level and time horizon. The revisions to the MCT Guidelines in 2015 converge directionally with our assessment for the main categories of risk. We believe this reflects a convergence of the regulatory views of risk with our own risk assessment and is a positive development for IFC and the Canadian P&C industry.

Section 13 – Off-balance sheet arrangements

13.1 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. We loaned securities, which are reported as Investments in the accompanying Consolidated financial statements, with a fair value of $1.6 billion as at December 31, 2014 ($1.6 billion as at December 31, 2013). 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 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 loaned securities and amounts to $1.7 billion as at December 31, 2014 ($1.7 billion as at December 31, 2013).

Section 14 – Accounting and disclosure matters

14.1 New accounting standards effective January 1, 2014

There were no new accounting standards, applicable to us, effective January 1, 2014. Please refer to Note 2 – *Summary of significant accounting policies* in the Consolidated financial statements.

14.2 Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to use judgments, estimates and assumptions that can have a significant impact on reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from these estimates.

The key estimates and assumptions that have a risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next financial year are as follows:

Valuation of claims liabilities

We establish claims liabilities to cover the estimated liability for the payment of all losses, including loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claims liabilities do not represent an exact calculation of the liability. 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 (severity) and number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analyzed by accident years, by geographical area, as well as by significant business line and claim type. Large catastrophic events are usually separately addressed, either by being reserved at the face value of loss adjuster estimates in the case of very large losses or separately projected in order to reflect their future development, which might differ from historical data in the case of catastrophic events. In most cases, no explicit assumptions are made regarding future rates of claims inflation. 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 the future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all the uncertainties involved.

Details of the key assumptions and sensitivity analysis can be found in Note 9 – *Insurance risk* to the accompanying Consolidated financial statements.

Valuation of defined benefit obligation

The cost of the defined benefit plans and the defined benefit obligation are calculated by our independent actuaries using assumptions determined by management. The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trend. If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years.

Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. Details of the key assumptions and sensitivity analysis can be found in Note 20 – *Employee future benefits* to the accompanying Consolidated financial statements.

Business combinations

Upon initial recognition, the acquiree's assets and liabilities have been included in the 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 recognized in income.

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.

The carrying value of these intangibles is allocated to a single cash generating unit (or "CGU"), which is our sole operating segment, P&C insurance operations. It is the lowest level at which there are separately identifiable cash flows. Impairment testing of these intangibles requires an estimation of the recoverable amount.

The most recent test was performed as at June 30, 2014. As at this date, the P&C insurance operations CGU was tested for impairment, calculating both the fair value less costs to sell and the value in use. The value-in-use calculation was based on the following key estimates and assumptions:

- Cash flow projections for the next three years are based on financial budgets approved by management and determined using budgeted margins based on past performance and management expectations for the Company and the industry.
- Cash flows beyond the three-year period are extrapolated using estimated growth rates of 3% as at June 30, 2014 and 2013, which do not exceed the industry long-term average past growth rate in which the Company operates.
- A Company specific risk adjusted discount rate of 12.5% as at June 30, 2014 (June 30, 2013 – 13%) is used.

The test results indicate that the recoverable amount of the P&C insurance operations CGU exceeds its carrying value. No impairment loss for goodwill or intangible assets has been recognized for the year ended December 31, 2014 or prior.

We are 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.

Financial assets

We determine, at each balance sheet date, whether there is objective evidence that financial assets, other than those classified or designated as at FVTPL, are impaired. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value, a loss event that has occurred which has impaired the expected cash flows, as well as other considerations such as liquidity and credit risk.

Details on objective evidence of impairment can be found in Note 2.4 – *Financial instruments* to the accompanying Consolidated financial statements.

Measurement of income taxes

Management exercises judgment in estimating the provision for income taxes. We are subject to federal income tax law and provincial income tax laws in the various 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 of tax laws differ from those of tax authorities or that the timing of the realization of deferred tax assets is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

14.3 Financial instruments

An important portion of our Consolidated balance sheets 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 used for risk management purposes and are generally held for non-trading purposes to mitigate foreign exchange and market risks (see Section 12.6 – *Main risk factors and mitigating actions*). They consist mostly of forwards, futures, swaps and options.

- Forwards are used to mitigate the risk arising from foreign currency fluctuations and futures are used to modify exposure to interest rate fluctuations.
- Swaps are primarily used for risk management purposes, mainly in conjunction with other financial instruments to synthetically alter the cash flows of certain investments and credit exposure to specific bond issuers.
- Options are used to modify our exposure to interest rate risk.
- Inflation caps, which are a type of option, are used to manage inflation risk.

Financial instruments are required to be recognized at their fair value on initial recognition. Subsequent measurement is at fair value or amortized cost depending on the classification 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 value of financial instruments is determined based on available information and categorized according to a three-level fair value hierarchy. The distribution of our financial instruments between each of the fair value hierarchy levels is described in Note 6 – *Fair value measurement* to the accompanying Consolidated financial statements.

Where the fair values of financial assets and financial liabilities reported on the 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.

Refer to Note 2 – *Summary of significant accounting policies*, Note 5 – *Derivative financial instruments* and Note 6 – *Fair value measurement* to the accompanying Consolidated financial statements for details on the classification and measurement of financial instruments.

14.4 Standards issued but not yet effective

Please refer to Note 26 - *Standards issued but not yet effective* to the accompanying Consolidated financial statements.

14.5 Related-party transactions

We enter into transactions with associates and joint ventures in the normal course of business. Most of these related-party transactions are with entities associated with our distribution channel. These transactions mostly comprise of commissions for insurance policies, as well as interest and principal payments on loans. These transactions are measured at the amount of the 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 certain members of the Executive Committee. Key management personnel can purchase our insurance products offered in the normal course of business. The terms and conditions of such transactions are essentially the same as those available to our clients and employees. Transactions with post-employment plans comprise the contributions paid to these plans.

Note 22 – *Related-party transactions* to the accompanying Consolidated financial statements provides additional information on related-party transactions.

14.6 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, 2014. 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.

14.7 Internal controls over financial reporting

Management has designed and is responsible for maintaining adequate internal control over financial reporting ("ICFR") 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 evaluated the design and operating effectiveness of its ICFR (as defined in Regulation 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*). The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2014.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

No significant changes were made to our ongoing internal controls over financial reporting during 2014 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Section 15 – Investor information

15.1 Authorized share capital

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

15.2 Outstanding share data

The following table presents the outstanding share data as at February 3, 2015.

Table 39 – Outstanding share data

(number of shares)	
Common shares	**131,543,134**
Class A	
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 shareholders and to Note 15 – *Common shares and preferred shares* to the accompanying Consolidated financial statements for additional information.

15.3 Dividends declared on common shares and on preferred shares

The following table presents the total dividends declared on each class of shares for the year ended December 31, 2014.

Table 40 – Dividends declared per share

(in dollars)	
Common shares	**1.92**
Class A	
Series 1 Preferred shares	**1.05**
Series 3 Preferred shares	**1.05**

On February 3, 2015, the Board of Directors increased the quarterly dividend by 10%, or 5 cents, to 53 cents per common share on our outstanding common shares. The decision reflected the strength of our financial position, the quality of our ongoing operating earnings, and our objective to continue to create value for shareholders. This is the tenth consecutive year we have increased our dividend.

15.4 NCIB program

The recent NCIB program expired on May 12, 2014 and was not renewed. No common shares were repurchased for cancellation in 2014 under the NCIB program. As at December 31, 2013, 1.8 million common shares had been repurchased for cancellation under the NCIB at an average price of $59.37 per common share for a total consideration of $106 million. For further details, please see Note 15 – *Common shares and preferred shares* of the accompanying Consolidated financial statements.

Shareholders may obtain a copy of the notice submitted to the Toronto Stock Exchange (TSX) with respect to the NCIB, at no cost, by contacting the Investor Relations Department of the Company by telephone toll-free at 1-866-778-0774 ((416) 941-5336 outside North America) or by email at ir@intact.net.

15.5 Long-term incentive plans

The following table shows the outstanding units and fair value for each of the performance cycles as at December 31, 2014.

Table 41 – Outstanding units and fair value by performance cycle

Performance cycles	Number of units	Weighted-average fair value at grant date (in $)	Amount (in millions of $)
2012-2014	**255,080**	**57.45**	**15**
2013-2015	**230,447**	**62.08**	**14**
2014-2016	**240,928**	**66.25**	**16**
Total	**726,455**	**61.84**	**45**

Refer to Note 21 – *Share-based payments* to the accompanying Consolidated financial statements for additional details.

15.6 Expected issuance dates of our financial results

The expected issuance dates of our financial results for the next 12 months are as follows:

First quarter results, for the period ending March 31, 2015	**May 6, 2015**
Second quarter results, for the period ending June 30, 2015	**July 29, 2015**
Third quarter results, for the period ending September 30, 2015	**November 4, 2015**
Year-end results, for the period ending December 31, 2015	**February 3, 2016**

Section 16 – Selected annual and quarterly information

16.1 Selected annual information

The following table presents selected annual information for the years ended December 31.

Table 42 – Selected annual information

	2014	2013	2012
Total revenues	**7,915**	7,434	7,127
Underwriting income	**519**	142	451
Net income attributable to shareholders	**782**	431	571
EPS, basic and diluted (in dollars)	**5.79**	3.10	4.20
Cash dividends declared per share (in dollars)			
Common shares	**1.92**	1.76	1.60
Class A			
Series 1 Preferred Shares	**1.05**	1.05	1.05
Series 3 Preferred Shares	**1.05**	1.05	1.05

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

Table 43 – Selected annual information

As at December 31	2014	2013	2012
Investments	**13,440**	12,261	12,959
Total assets	**20,580**	19,774	19,813
Debt outstanding	**1,143**	1,143	1,143
Shareholders' equity	**5,455**	4,954	4,893

16.2 Selected quarterly information

Table 44 – Selected quarterly information

				2014				2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Written insured risks (in thousands)	**1,595**	**1,881**	**2,142**	**1,444**	1,589	1,899	2,165	1,462
DPW	**1,760**	**1,913**	**2,173**	**1,503**	1,702	1,911	2,182	1,524
Total revenues	**1,964**	**1,989**	**1,984**	**1,978**	1,897	1,908	1,769	1,860
Net premiums earned	**1,830**	**1,826**	**1,801**	**1,750**	1,804	1,784	1,723	1,703
Current year catastrophe losses	**10**	**125**	**33**	**75**	55	270	143	18
Favourable prior year claims development	**(78)**	**(80)**	**(65)**	**(141)**	(66)	(103)	(95)	(110)
Underwriting income (loss)	**216**	**124**	**128**	**51**	67	(50)	42	83
Combined ratio	**88.2%**	**93.2%**	**92.9%**	**97.1%**	96.3%	102.8%	97.5%	95.1%
Net investment income	**111**	**106**	**105**	**105**	104	104	102	96
NOI	**247**	**185**	**206**	**129**	143	59	123	175
Net income attributable to shareholders	**205**	**202**	**215**	**160**	107	47	103	174
Per share measures, basic and diluted (in dollars)								
NOIPS	**1.84**	**1.37**	**1.53**	**0.94**	1.05	0.41	0.89	1.27
EPS	**1.52**	**1.49**	**1.60**	**1.17**	0.77	0.32	0.73	1.27

See also the discussion on seasonality of the business in Section 7 – *Business developments and operating environment*.

Intact Financial Corporation

Consolidated financial statements

For the year ended December 31, 2014

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 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, as well as the preparation and presentation of financial information.

The Audit 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 Committee, with and without the presence of management.

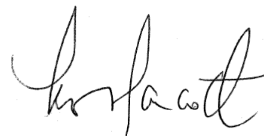
Pursuant to the Insurance Companies Act of Canada or to the Insurance Act (Québec) ("the Acts"), the Actuary, who is a member of management, is appointed by the Board of Directors. The Actuary is responsible for discharging the various actuarial responsibilities required by the Acts and conducts a valuation of policy liabilities, in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit 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 subsidiaries make such examinations and inquiries into the affairs of the P&C subsidiaries as deemed necessary.

The Company's external auditors, Ernst & Young LLP, 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 Committee to discuss the results of their audit, financial reporting and related matters. The Independent Auditors' Report to shareholders appears on the following page.

February 3, 2015

Charles Brindamour
Chief Executive Officer



Louis Marcotte
Senior Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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, 2014 and 2013, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
February 3, 2015

[1] CPA auditor, CA, public accountancy permit no. A114960

INTACT FINANCIAL CORPORATION

Consolidated financial statements
For the year ended December 31, 2014

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INTACT FINANCIAL CORPORATION

Consolidated balance sheets

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

As at December 31,	Note	2014	2013
Assets			
Investments	4		
Cash and cash equivalents		**$ 89**	$ 99
Debt securities		**8,684**	7,909
Preferred shares		**1,268**	1,190
Common shares		**2,992**	2,644
Loans		**407**	419
Investments		**13,440**	12,261
Accrued investment income		**65**	64
Premium receivables		**2,711**	2,764
Reinsurance assets	8	**335**	505
Income taxes receivable		**5**	343
Deferred tax assets	19	**57**	62
Deferred acquisition costs		**669**	693
Other assets	10	**571**	581
Investments in associates and joint ventures	11	**313**	255
Property and equipment	12	**110**	110
Intangible assets	13	**1,202**	1,164
Goodwill	13	**1,102**	972
Total assets		**$ 20,580**	$ 19,774
Liabilities			
Claims liabilities	8	**$ 8,021**	$ 7,996
Unearned premiums	8	**4,110**	4,125
Financial liabilities related to investments	4	**432**	234
Income taxes payable		**105**	8
Deferred tax liabilities	19	**93**	60
Other liabilities	10	**1,221**	1,254
Debt outstanding	14	**1,143**	1,143
		15,125	14,820
Shareholders' equity			
Common shares	15	**2,090**	2,090
Preferred shares	15	**489**	489
Contributed surplus		**115**	116
Retained earnings		**2,616**	2,147
Accumulated other comprehensive income		**145**	112
		5,455	4,954
Total liabilities and shareholders' equity		**$ 20,580**	$ 19,774

See accompanying notes to the Consolidated financial statements.

On behalf of the Board:

Charles Brindamour
Director

Eileen Mercier
Director

INTACT FINANCIAL CORPORATION

Consolidated statements of comprehensive income

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

For the years ended December 31,	Note		2014		2013
Direct premiums written	18	**$**	**7,329**	$	7,305
Net premiums earned	18		**7,164**		6,972
Other underwriting revenues	18		**100**		79
Total underwriting revenues			**7,264**		7,051
Net claims incurred	8		**(4,600)**		(4,604)
Underwriting expenses			**(2,271)**		(2,262)
Underwriting results			**393**		185
Net investment income	4		**426**		405
Net investment gains (losses)	4		**173**		(83)
Share of profit from investments in associates and joint ventures	11		**19**		26
Other revenues	18		**98**		77
Other expenses			**(88)**		(81)
Finance costs			**(64)**		(64)
Income before income taxes			**957**		465
Income tax expense	19		**(175)**		(34)
Net income attributable to shareholders		**$**	**782**	$	431
Weighted-average number of common shares outstanding (in millions)	17		**131.5**		132.4
Earnings per common share, basic and diluted (in dollars)	17	**$**	**5.79**	$	3.10
Dividends paid per common share (in dollars)		**$**	**1.92**	$	1.76
Net income attributable to shareholders		**$**	**782**	$	431
Other comprehensive income (loss)					
Available-for-sale securities:					
Net changes in unrealized gains (losses)			**170**		(13)
Reclassification to income of net gains			**(125)**		(85)
Derivatives designated as cash flow hedges:					
Net changes in unrealized gains			**1**		1
Income tax benefit (expense)	19		**(12)**		27
Share of other comprehensive loss from investments in associates and joint ventures	11		**(1)**		(1)
Items that may be reclassified subsequently to net income attributable to shareholders			**33**		(71)
Net actuarial gains (losses) on employee future benefits	20		**(41)**		104
Income tax benefit (expense)	19		**11**		(28)
Items that will not be reclassified subsequently to net income attributable to shareholders			**(30)**		76
Other comprehensive income			**3**		5
Total comprehensive income attributable to shareholders		**$**	**785**	$	436

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

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, 2014		**$ 2,090**	**$ 489**	**$ 116**	**$ 2,147**	**$ 112**	**$ 4,954**
Net income attributable to shareholders		**-**	**-**	**-**	**782**	**-**	**782**
Other comprehensive income (loss)		**-**	**-**	**-**	**(30)**	**33**	**3**
Total comprehensive income (loss)		**-**	**-**	**-**	**752**	**33**	**785**
Dividends declared on common shares	15	**-**	**-**	**-**	**(255)**	**-**	**(255)**
Dividends declared on preferred shares	15	**-**	**-**	**-**	**(21)**	**-**	**(21)**
Share-based payments	21	**-**	**-**	**(1)**	**(7)**	**-**	**(8)**
Balance as at December 31, 2014		**$ 2,090**	**$ 489**	**$ 115**	**$ 2,616**	**$ 145**	**$ 5,455**
Balance as at January 1, 2013		$ 2,118	$ 489	$ 121	$ 1,982	$ 183	$ 4,893
Net income attributable to shareholders		-	-	-	431	-	431
Other comprehensive income (loss)		-	-	-	76	(71)	5
Total comprehensive income (loss)		-	-	-	507	(71)	436
Common shares repurchased for cancellation	15	(28)	-	-	(78)	-	(106)
Dividends declared on common shares	15	-	-	-	(233)	-	(233)
Dividends declared on preferred shares	15	-	-	-	(21)	-	(21)
Share-based payments	21	-	-	(5)	(10)	-	(15)
Balance as at December 31, 2013		$ 2,090	$ 489	$ 116	$ 2,147	$ 112	$ 4,954

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Consolidated statements of cash flows

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

For the years ended December 31,	Note	2014	2013
Operating activities			
Income before income taxes		**$ 957**	$ 465
Income taxes received (paid), net		**287**	(309)
Contributions to the pension plans		**(55)**	(235)
Net investment losses (gains)	4	**(173)**	83
Adjustments for non-cash items	23	**152**	145
Changes in other operating assets and liabilities	23	**31**	(117)
Changes in net claims liabilities	8	**179**	153
Net cash flows provided by operating activities		**1,378**	185
Investing activities			
Proceeds from sale of investments		**9,908**	11,260
Purchases of investments		**(10,709)**	(10,962)
Business combination		**(13)**	-
Purchases of brokerages and books of business, net of sales		**(178)**	(61)
Purchases of intangibles and property and equipment, net		**(97)**	(98)
Net cash flows provided by (used in) investing activities		**(1,089)**	139
Financing activities			
Common shares repurchased for share-based payments	21	**(23)**	(37)
Common shares repurchased for cancellation	15	**-**	(106)
Dividends paid on common shares	15	**(255)**	(233)
Dividends paid on preferred shares	15	**(21)**	(21)
Net cash flows used in financing activities		**(299)**	(397)
Net decrease in cash and cash equivalents		**(10)**	(73)
Cash and cash equivalents, beginning of year		**99**	172
Cash and cash equivalents, end of year	23	**$ 89**	$ 99

See accompanying notes to the Consolidated financial statements.

Note 1 – Status of the Company

Intact Financial Corporation (the "Company"), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange (TSX: IFC). The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian property and casualty ("P&C") insurance market. The Company principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses.

These consolidated Financial Statements include the accounts of the Company and its subsidiaries. The Company's significant operating 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., Grey Power Insurance Brokers Inc., Intact Farm Insurance Inc., Jevco Insurance Company and IB Reinsurance Inc.

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

Note 2 – Summary of significant accounting policies

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2.1 Basis of presentation

These Consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 3, 2015.

The key accounting policies applied in the preparation of these Consolidated Financial Statements are described below. These policies have been applied consistently to all periods presented. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2.2 Basis of consolidation

These consolidated Financial Statements include the accounts of the Company and its subsidiaries.

Table 2.1 – *Basis of consolidation*

Investment category	Generally a shareholding of:	Accounting policies
Subsidiaries Entities over which the Company: 1. has the power over the relevant activities of the investee; 2. is exposed, or has rights to variable returns from its involvement with the investee; and 3. has the ability to affect those returns through its power over the investee.	more than 50% of voting rights	All subsidiaries are fully consolidated from the date control is transferred to the Company. They are deconsolidated from the date control ceases and any gain or loss is recognized in Net investment gains (losses).
Associates Entities over which the Company: 1. has the power to participate in the decisions over the relevant activities of the investee, but 2. does not have control.	20% to 50% of voting rights	Equity method ***Refer to Note 2.7 for details***
Joint ventures Joint arrangements whereby the parties have: 1. joint control of the arrangements, requiring unanimous consent of the parties sharing control for strategic and operating decision making; and 2. rights to the net assets of the arrangements.	equal percentage of voting rights from each party to the joint arrangement	Equity method ***Refer to Note 2.7 for details***

In some cases, voting rights in themselves are not sufficient to assess power or significant influence over the relevant activities of the investee or the sharing of control in a joint arrangement. In such cases, judgment is applied through the analysis of management agreements, the effectiveness of voting rights, the significance of the benefits to which the Company is exposed and the degree to which the Company can use its power to affect its returns from investees.

Acquisitions or disposals of equity interests that do not result in the Corporation obtaining or losing control are treated as equity transactions.

All balances, transactions, income and expenses and profits and losses resulting from intercompany transactions and dividends are eliminated on consolidation.

2.3 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.

a) Revenue recognition

Premiums written are reported net of cancellations, promotional returns and sale taxes. Premiums written are recognized on the date coverage begins. They are deferred as Unearned premiums and recognized in Underwriting results as premiums earned, net of reinsurance, on a pro rata basis over the terms of the underlying policies, usually 12 months.

Fees collected from policyholders in accordance with the Company's billing plans are recognized over the terms of the underlying policies and are reported in Other underwriting revenues.

Commission revenues are recognized on an accrual basis and included in Other revenues.

b) Claims liabilities

Claims liabilities represent the amounts required to provide for the estimated ultimate expected cost of settling claims related to insured events, both reported and unreported, that have occurred on or before the balance sheet date. They also include a provision for adjustment expenses representing the estimated ultimate expected costs of investigating, resolving and processing these claims.

Claims liabilities are first determined on a case-by-case basis as insurance claims are reported. They are reassessed as additional information becomes known. Also 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 required by the Canadian Institute of Actuaries ("CIA").

Claims liabilities are estimated by the appointed actuary using generally accepted Canadian actuarial standard techniques and are based on assumptions that represent best estimates of possible outcomes, such as historical loss development factors and payment patterns, 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.

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 at the reporting date. Anticipated payment patterns are revised from time to time to reflect the most recent trends and claims environment. This ensures getting the most accurate and representative market yield-based discount rate.

The ultimate amount of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to facts and circumstances of the insurance claims incurred. To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the CIA relating to claims development, reinsurance recoveries and investment income variables. The aggregate of these margins is referred to as the provision for adverse deviations (PfAD).

On the Consolidated balance sheets, claims liabilities are reported gross of the reinsurers' share, which is included in Reinsurance assets. Changes in claims liabilities, net of reinsurance, are reported in Net claims incurred. Claims liabilities are considered to be settled when the contract expires, is discharged or cancelled.

c) Reinsurance assets

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums. The Company reports third party reinsurance balances on the 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.

d) Deferred acquisition costs

Policy acquisition costs incurred in acquiring insurance premiums include commissions and premium taxes directly related to the writing or renewal of insurance policies. These acquisition costs are deferred and amortized on the same basis as the unearned premiums and are reported in Underwriting expenses. Deferred acquisition costs are no longer recorded when the corresponding contracts are settled or cancelled.

e) Liability adequacy test

At the end of each reporting period, a liability adequacy test is performed 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 for 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.

f) 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 the FA administered risk sharing pools (“RSP”). The related risks associated with FA insurance policies and policies ceded 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 policies issued by the Company directly to policyholders. In accordance with the Office of the Superintendent of Financial Institutions Canada (“OSFI”) guidelines, assumed and ceded RSP premiums are reported in Direct premiums written.

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, which are reported in Other underwriting revenues. Policy issuance fees are earned immediately while claims handling fees are deferred and earned over the servicing life of the claims.

g) Structured settlements

The Company enters into annuity agreements with various Canadian life insurance companies to provide for fixed and recurring payments to claimants. When the annuity agreements are non-commutable, non-assignable and non-transferable, the Company is released by the claimant for the settlement of the claim amount. As a result, the liability to its claimants is substantially discharged and the Company removes that liability from its Consolidated balance sheet. However, the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations. When the annuity agreements are commutable, assignable or transferable, the Company keeps the liability and the corresponding asset on its financial statements.

2.4 Financial instruments

a) Classification and measurement of financial assets and financial liabilities

For the purpose of initial and subsequent measurement, the Company has classified or designated its financial assets and financial liabilities in the following categories:

- Available for sale (“AFS”);
- Financial assets and financial 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 classification of the Company’s most significant financial assets and financial liabilities.

Table 2.2 – *Classification of financial assets and financial liabilities*

Category	Financial instruments	Description
AFS	Debt securities	Intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market conditions.
	Common shares and preferred shares	Neither classified or designated as FVTPL.
FVTPL		
Classified as FVTPL	Common shares	Purchased with the intention of generating profits in the near term.
Financial assets purchased and financial liabilities incurred with the intention of generating profits in the near term.	Derivative financial instruments	Used for economic hedging purposes and for the purpose of modifying the risk profile of the Company’s investment portfolio as long as the resulting exposures are within the investment policy guidelines.
	Embedded derivatives	Related to the Company’s perpetual preferred shares. Treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument.
	Long and short positions	Objective of the market neutral investment strategy 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.
	Investments in mutual funds	Third party investment funds (mainly in equities). When the Company is deemed to control such vehicles, they are consolidated and the third party units are recorded as a liability at fair value and disclosed as Net asset value attributable to third party unit holders.
Designated as FVTPL	Debt securities and common shares backing the Company’s claims liabilities	A portion of the Company’s investments backing its claims liabilities has been voluntarily designated as FVTPL to reduce the volatility caused by 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 debt securities designated as FVTPL is approximately equal to the weighted-dollar duration of claims liabilities.
Cash and cash equivalents, loans and receivables	Cash and cash equivalents	Consist of 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	Financial assets with fixed or determinable payments not quoted in an active market.
Other financial liabilities	Debt outstanding	The Company’s medium-term notes net of associated issuance costs.

The table below summarizes the Company's initial and subsequent measurement basis of financial assets and financial liabilities based on their respective classification. It also indicates when and where their related changes in fair value are recognized in the Consolidated Statements of comprehensive income.

Table 2.3 – *Measurement of financial assets and financial liabilities and recognition of related changes in fair value*

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 end of period	Reported in OCI 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 end of period	Reported 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 in Net investment gains (losses) when realized or impaired
Financial liabilities			
FVTPL	**Fair value** using ask prices at the trade date	**Fair value** using ask prices at end of period	Reported in Net investment gains (losses)
Other financial liabilities	**Fair value** at the issuance date	**Amortized cost** using the effective interest method	Reported in Net investment gains (losses) when the liability is extinguished

b) 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 table below summarizes the three-level fair value hierarchy and the Company's financial instruments normally classified in each category.

Table 2.4 – *Three-level fair value hierarchy*

Levels	Description	Type of financial instruments normally classified as such
Level 1	Quoted prices in active markets for identical assets or liabilities	– Most Government bonds[1] – Most common shares and preferred shares – Investments in mutual funds – Short-term notes – Most exchange-traded derivatives
Level 2	Valuation techniques for which all inputs that have a significant effect on the fair value are observable (either directly or indirectly)	– Most Corporate bonds[1] – Unsecured medium-term notes[2] – Most asset-backed securities – Over-the-counter derivatives
Level 3	Valuation techniques for which inputs that have a significant effect on the fair value are not based on observable market data	– Loans[2] – Gross-up component of the Company's perpetual preferred shares and related embedded derivatives

[1] Categorized as Level 1 or Level 2 instruments depending on the market trading statistics of the last month for each reporting period.
[2] Measured at amortized cost with fair value disclosed.

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.

Where the fair values of financial assets and financial liabilities reported on the 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. Inputs used in their valuation include:

- prevailing market rates for bonds with similar characteristics and risk profiles;
- closing prices of the most recent trade date subject to liquidity adjustments; or
- average brokers' quotes when trades are too sparse to constitute an active market.

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.

In limited circumstances, the Company uses input parameters that are not based on observable market data. Non-market observable inputs use fair values determined in whole or in part using a valuation technique or model based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values.

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

c) Revenue and expense recognition

Dividends are recognized when the shareholders' right to receive payment is established, which is the ex-dividend date. Interest income from debt securities and loans are recognized on an accrual basis. Premiums and discounts on debt securities classified as AFS are amortized using the effective interest method. Premiums earned or discounts incurred for loans and AFS securities are also amortized using the effective interest method. Dividend income and interest income are reported in Net investment income.

Transaction costs associated with the acquisition of financial instruments classified or designated as FVTPL are recognized in income as incurred and included in Net investment gains (losses); otherwise, transaction costs are capitalized on initial recognition and amortized using the effective interest method. Transaction costs incurred at the time of disposition of a financial instrument are included in Net investment gains (losses).

Gains and losses on the sale of AFS debt and equity securities are calculated on a first in, first out basis and on an average cost basis, respectively.

d) Impairment of financial assets

The Company determines, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets, other than those classified or designated as FVTPL, are impaired. In order to do so, the Company considers the impact of one or more events on the estimated future cash flows of the financial asset or group of financial assets.

AFS debt securities

An AFS debt security is impaired 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.

AFS equity securities

When there is objective evidence that impairment exists, the equity security is written down, regardless of the unrealized loss, for an amount equal to the unrealized loss. For equity securities classified as AFS, a significant, a prolonged, or a significant and prolonged decline of the fair value below the cost constitutes an evidence of impairment.

Table 2.5 – *Objective evidence of impairment for AFS equity securities*

Unrealized loss position	Common shares	Perpetual preferred shares
Significant	Unrealized loss of 50% or more	Unrealized loss of 50% or more
Prolonged	Unrealized loss for 15 consecutive months or more	Unrealized loss for 18 consecutive months or more
Significant and prolonged	Unrealized loss of 25% or more for nine consecutive months or more	Unrealized loss of 25% or more for 12 consecutive months or more

Loans and receivables

Loans and receivables 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 a financial asset in that category is determined to be impaired, its carrying amount is reduced to the higher of its estimated realizable value, which is obtained by discounting estimated future cash flows from the financial asset concerned using the effective interest rate, or the fair value of collateral when applicable. Loans and receivables which have not been individually impaired are grouped by similar characteristics to be tested for impairment.

The following table summarizes the measurement and recognition of impairment losses for each type of financial asset, other than those classified or designated as FVTPL.

Table 2.6 – *Measurement and recognition of financial asset impairment*

Category	Loss measurement	Reported loss	Subsequent fair value increases
AFS debt securities	Difference between amortized cost and current fair value less any unrealized loss on that security previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses)	Recognized in Net investment gains (losses) when there is observable positive development on the original impairment loss event. Otherwise, recognized in OCI.
AFS equity securities	Difference between acquisition cost and current fair value less any impairment loss on that security previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses)	Recognized directly in OCI. Impairment losses are not reversed.
Loans and receivables	Difference between amortized cost and the present value of the estimated future cash flows	Impairment loss recognized in Net investment gains (losses)	Provision can be reversed when the event that gave rise to its recognition subsequently disappears. Recognized in Net investment gains (losses) when there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

e) Classification as investment grade

The Company uses data from various rating agencies to rate debt securities and preferred shares. When there are two ratings for the same instrument, the Company uses the lower of the two. When there are three ratings for the same instrument, the Company uses the median. Debt securities with a rating equal to or above 'BBB-' are classified as investment grade. Preferred shares with a rating equal to or above 'P3L' are classified as investment grade.

f) Recognition and offsetting of financial assets and financial liabilities

Financial assets are no longer recorded 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 liabilities are no longer recorded when they have expired or have been cancelled. Financial assets lent by the Company in the course of securities lending operations remain on the balance sheet because the Company has not substantially transferred the risks and rewards related to the lent assets.

Financial assets and financial liabilities are offset and the net amount is reported on the 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.

2.5 Business combinations

Business combinations are accounted for using the acquisition method. The purchase consideration is measured at fair value at acquisition date. At that date, the identifiable assets acquired and liabilities assumed are estimated at their fair value. Acquisition-related costs are expensed as incurred.

When the Company acquires a business, it assesses financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and relevant conditions at the acquisition date.

If a business combination is achieved in stages, any previously held equity interest is remeasured as at its acquisition date fair value and any resulting gain or loss is recognized in Net investment gains (losses).

2.6 Goodwill and intangible assets

a) Goodwill

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 in a business combination.

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 is allocated to the cash generating unit ("CGU") of the Company. Gains and losses calculated on the disposal of a business include the carrying value of goodwill relating to the business sold.

b) Intangible assets

The Company’s intangible assets consist of distribution networks, customer relationships and internally developed software.

Intangible assets are initially measured at cost, except for intangible assets acquired in a business combination which 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. For each distribution network acquired, that assessment depends on the nature of the distribution network. When the related cash flows are expected to continue indefinitely, the distribution network acquired is assessed as having an indefinite useful life.

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 intangible assets that are under development, are not subject to amortization, but are tested for impairment on an annual basis.

The amortization methods and terms of intangible assets assessed as having finite useful lives are shown below.

Table 2.7 – *Amortization methods and terms of intangible assets – finite useful life*

Intangible assets	Method	Term
Distribution network	Straight-line	25 years
Customer relationships	Straight-line	10 years
Internally developed software	Straight-line	3 to 7 years

2.7 Investments in associates and joint ventures

The Company's 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, plus post-acquisition changes in the Company's share of their net assets. They are subsequently measured using the equity method.

The Company's profit or loss from such investments is shown in Share of profit from investments in associates and joint ventures and reflects the after-tax share of the results of operations of the associates and joint ventures. The Company determines at each reporting date whether there is any objective evidence that investments in associates and joint ventures are impaired.

2.8 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 as well as rates or terms are shown below.

Table 2.8 – *Depreciation methods and rates/terms of property and equipment*

Property and equipment	Method	Rate or term
Computer equipment	Straight-line	2 to 3 years
Furniture and equipment	Declining balance and straight-line	20% and 5 years, respectively
Leasehold improvements	Straight-line	Over the terms of related leases

2.9 Leases

Leases which do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Payments made under operating leases are recognized on a straight-line basis over the lease term and reported in Underwriting expenses.

2.10 Income taxes

Income tax expense (benefit) comprises current and deferred tax. Income tax is recognized in Net income, except to the extent that it relates to items recognized in OCI or directly in equity where it is recognized in OCI or equity.

Current income tax is based on current year's results of operations, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantively enacted as at the balance sheet date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized. For each legal entity consolidated, current tax assets and liabilities are offset when they relate to the same taxation authority, which allows the legal entity to receive or make one single net payment, and when it intends to settle the outstanding balances on a net basis. Upon consolidation, a current tax asset of one entity is offset against a current tax liability of another entity if, and only if, entities concerned have a legally enforceable right to make or receive a single net payment and entities intend to make or receive such net payment or to recover the asset or settle the liability simultaneously.

2.11 Employee future benefits

a) Pension and post-retirement benefits

The defined benefit obligation, net of the fair value of plan assets, is recognized on the balance sheets as an asset, when the plan is in a surplus position, or as a liability, when the plan is in a deficit position. This classification is determined on a plan-by-plan basis. The actuarial determination of the defined benefit obligation uses the projected unit credit method and management's best estimate assumptions.

Cost recognized in Net income in the current period includes:

- service costs, which represent benefit costs provided in exchange for employees' services rendered during the year or prior years;
- net interest expense, which represents the change in the defined benefit obligation and the plan assets as a result of the passage of time, determined by multiplying the net defined benefit liability (asset) by the discount rate reference to market yields on high quality corporate bonds determined at the beginning of the year;
- interest on the asset ceiling; and
- administrative expenses paid from the pension assets.

Re-measurements recognized directly in OCI in the period in which they occur include:

- return on plan assets, which represents the difference between the actual return on plan assets and the return based on the discount rate determined using high quality corporate bonds;
- actuarial gains and losses arising from experience adjustments;
- changes in actuarial assumptions, such as discount rate; and
- effect of the asset ceiling.

Such re-measurements are also immediately reclassified to Retained earnings as they will not be reclassified to Net income in subsequent periods.

b) 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 recognized in Net income in the period the absence begins.

2.12 Share-based payments

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

a) Long-term incentive plan

Certain key employees are entitled to a long-term incentive plan ("LTIP"). Under this 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 adjusted 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 the Company's performance.

The awards are estimated and valued at fair value at grant date, which corresponds to the average share price of the Company over the last quarter of the preceding year. The value of each award is not revalued subsequently, but the Company re-estimates the number of awards that are expected to vest at each reporting period. The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to Contributed surplus.

At the time of the payout, with respect to the units to be settled in shares of the Company, the plan administrator purchases in the market the amount of common shares based upon the performance targets achieved with respect to the vested PSUs and the amount of common shares equal to the amount of vested RSUs. The difference between the market price of the shares purchased and the cumulative cost for the Company of these vested units is recorded in Retained earnings.

b) 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 in 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 12 months. The Company's contributions under the ESPP are cash-settled awards which are accrued and expensed over the vesting period.

c) Deferred share unit plan

Non-employee directors of the Company are eligible to participate in the Company's deferred share unit ("DSU") Plan. A portion of the remuneration of non-employee directors of the Company must be received in DSUs or shares of the Company. For the remainder of their compensation, the directors are given the choice of cash, shares of the Company, DSUs or a combination of the three.

Both DSUs and shares vest at the time of the grant. The DSUs are redeemed upon director retirement or termination and are settled for cash or shares at that time. The DSUs are cash-settled awards which are expensed 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. When directors elect to receive shares, the Company makes instalments to the plan administrator for the purchase of shares of the Company on behalf of the directors.

2.13 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated using the exchange rates in effect on the transaction dates. Revenues and expenses are translated using the exchange rates in effect on the transaction dates. Exchange differences on translation are included in Net investment gains (losses) or OCI.

2.14 Current vs 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. Most of the Company's assets and liabilities are considered current given they are expected to be realized or settled within the Company's normal operating cycle. All other assets and liabilities are considered as non-current and generally include: Investments in associates and joint ventures, Deferred tax assets, Property and equipment, Intangible assets, Goodwill, Deferred tax liabilities and Debt outstanding.

2.15 Operating segments

The Company's business activities are directed towards 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.

Note 3 – Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to use judgments, estimates and assumptions that can have a significant impact on the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from these estimates.

The key estimates and assumptions that have a risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next financial year are as follows:

3.1 Valuation of claims liabilities

The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claims liabilities do not represent an exact calculation of the liability. 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 (severity) and number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analyzed by accident years, by geographical area, as well as by significant business line and claim type. Large catastrophic events are usually separately addressed, either by being reserved at the face value of loss adjuster estimates in the case of very large losses or separately projected in order to reflect their future development which might differ from historical data in the case of catastrophic events. In most cases, no explicit assumptions are made regarding future rates of claims inflation. 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 into account all the uncertainties involved.

Details on key assumptions and sensitivity analysis can be found in Note 9.

3.2 Valuation of defined benefit obligation

The cost of the defined benefit plans and the defined benefit obligation are calculated by the Company's independent actuaries using assumptions determined by management. The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends. If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years.

Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date.

Details on key assumptions and sensitivity analysis can be found in Note 20.6.

3.3 Business combination

Upon initial recognition, acquiree's assets and liabilities have been included in the 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 recognized in income.

3.4 Impairment of 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.

The carrying value of these intangibles is allocated to a single CGU, which is the Company's sole operating segment, P&C insurance operations. It is the lowest level at which there are separately identifiable cash flows. Impairment testing of these intangibles requires an estimation of the recoverable amount.

The most recent test was performed as at June 30, 2014. As at this date, the P&C insurance operations CGU was tested for impairment, calculating both the fair value less costs to sell and the value in use. The value-in-use calculation was based on the following key estimates and assumptions:

- Cash flow projections for the next three years are based on financial budgets approved by management and determined using budgeted margins based on past performance and management expectations for the Company and the industry.
- Cash flows beyond the three-year period are extrapolated using estimated growth rates of 3% as at June 30, 2014 and 2013, which do not exceed the industry long-term average past growth rate in which the Company operates.
- A Company specific risk adjusted discount rate of 12.5% as at June 30, 2014 (June 30, 2013 – 13% was used).

The test results indicate that the recoverable amount of the P&C insurance operations CGU exceeds its carrying value. No impairment loss for goodwill or intangible assets has been recognized for the year ended December 31, 2014 or prior.

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.

3.5 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. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value, a loss event that has occurred which has impaired the expected cash flows, as well as other considerations such as liquidity and credit risk.

Details on objective evidence of impairment can be found in Note 2.4.

3.6 Measurement of income taxes

Management exercises judgment in estimating the provision for income taxes. The Company is subject to federal income tax law and provincial income tax laws in the various 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 of tax laws differ from those of tax authorities or that the timing of realization of deferred tax assets is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Note 4 – Financial instruments

4.1 Investments

The following tables summarize the Company's investments.

Table 4.1 – *Investments by classification*

	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, loans and receivables	Total
As at December 31, 2014					
Cash and cash equivalents	**-**	**-**	**-**	**89**	**89**
Short-term notes	**124**	**-**	**-**	**-**	**124**
Fixed income					
Investment grade					
Government	**2,043**	**-**	**2,942**	**-**	**4,985**
Corporate	**1,627**	**-**	**1,725**	**-**	**3,352**
Asset-backed	**172**	**-**	**43**	**-**	**215**
Non-rated	**7**	**-**	**1**	**-**	**8**
Debt securities	**3,973**	**-**	**4,711**	**-**	**8,684**
Investment grade					
Retractable	**90**	**-**	**-**	**-**	**90**
Fixed-rate perpetual	**314**	**-**	**-**	**-**	**314**
Other perpetual	**864**	**-**	**-**	**-**	**864**
Preferred shares	**1,268**	**-**	**-**	**-**	**1,268**
Common shares	**1,867**	**325**	**800**	**-**	**2,992**
Loans	**-**	**-**	**-**	**407**	**407**
	7,108	**325**	**5,511**	**496**	**13,440**
As at December 31, 2013					
Cash and cash equivalents	-	-	-	99	99
Short-term notes	42	-	-	-	42
Fixed income					
Investment grade					
Government	1,690	-	3,172	-	4,862
Corporate	1,229	-	1,575	-	2,804
Asset-backed	154	-	38	-	192
Non-rated	8	-	1	-	9
Debt securities	3,123	-	4,786	-	7,909
Investment grade					
Retractable	102	-	-	-	102
Fixed-rate perpetual	285	-	-	-	285
Other perpetual	802	-	-	-	802
Non-rated	1	-	-	-	1
Preferred shares	1,190	-	-	-	1,190
Common shares	1,588	153	903	-	2,644
Loans	-	-	-	419	419
	5,901	153	5,689	518	12,261

Table 4.2 – *Carrying value of investments*

	FVTPL instruments	Other investments				Total investments
	At fair value	Amortized cost	Unrealized gains	Unrealized losses	Net unrealized gains (losses)	At carrying value
As at December 31, 2014						
Cash and cash equivalents	**-**	**89**	**-**	**-**	**-**	**89**
Short-term notes	**-**	**124**	**-**	**-**	**-**	**124**
Fixed income						
Investment grade						
Government	**2,942**	**1,965**	**78**	**-**	**78**	**4,985**
Corporate	**1,725**	**1,614**	**14**	**(1)**	**13**	**3,352**
Asset-backed	**43**	**169**	**3**	**-**	**3**	**215**
Non-rated	**1**	**7**	**-**	**-**	**-**	**8**
Debt securities	**4,711**	**3,879**	**95**	**(1)**	**94**	**8,684**
Investment grade						
Retractable	**-**	**88**	**2**	**-**	**2**	**90**
Fixed-rate perpetual	**-**	**271**	**43**	**-**	**43**	**314**
Other perpetual	**-**	**843**	**29**	**(8)**	**21**	**864**
Non-rated	**-**	**-**	**-**	**-**	**-**	**-**
Preferred shares	**-**	**1,202**	**74**	**(8)**	**66**	**1,268**
Common shares	**1,125**	**1,813**	**149**	**(95)**	**54**	**2,992**
Loans	**-**	**407**	**-**	**-**	**-**	**407**
	5,836	**7,390**	**318**	**(104)**	**214**	**13,440**
As at December 31, 2013						
Cash and cash equivalents	-	99	-	-	-	99
Short-term notes	-	42	-	-	-	42
Fixed income						
Investment grade						
Government	3,172	1,694	21	(25)	(4)	4,862
Corporate	1,575	1,218	12	(1)	11	2,804
Asset-backed	38	151	3	-	3	192
Non-rated	1	8	-	-	-	9
Debt securities	4,786	3,113	36	(26)	10	7,909
Investment grade						
Retractable	-	100	2	-	2	102
Fixed-rate perpetual	-	250	38	(3)	35	285
Other perpetual	-	801	21	(20)	1	802
Non-rated	-	1	-	-	-	1
Preferred shares	-	1,152	61	(23)	38	1,190
Common shares	1,056	1,468	153	(33)	120	2,644
Loans	-	419	-	-	-	419
	5,842	6,251	250	(82)	168	12,261

Asset-backed securities consist of mortgage-backed securities, auto loan receivables and credit card receivables.

The fair value of loans was $413 million as at December 31, 2014 (December 31, 2013 - $418 million). The fair value is determined using a valuation technique based on the income approach. Future inflows of principal and interest are discounted using a pre-tax risk-free rate from the Government of Canada bonds curve plus a risk premium that is based on the credit risk to which the Company would be exposed from the borrowers. The Company ensures that the discount rate is consistent with borrowing rates on similar loans issued by financial institutions. The Company receives guarantees for loans.

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

Table 4.3 – *Maturity of investments*

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2014					
Cash and cash equivalents	**89**	**-**	**-**	**-**	**89**
Short-term notes	**124**	**-**	**-**	**-**	**124**
Fixed-income securities	**739**	**4,224**	**3,597**	**-**	**8,560**
Preferred shares	**41**	**46**	**3**	**1,178**	**1,268**
Common shares	**-**	**-**	**-**	**2,992**	**2,992**
Loans	**4**	**79**	**319**	**5**	**407**
	997	**4,349**	**3,919**	**4,175**	**13,440**
As at December 31, 2013					
Cash and cash equivalents	99	-	-	-	99
Short-term notes	42	-	-	-	42
Fixed-income securities	782	4,128	2,957	-	7,867
Preferred shares	14	70	19	1,087	1,190
Common shares	-	-	-	2,644	2,644
Loans	5	77	332	5	419
	942	4,275	3,308	3,736	12,261

4.2 Equities sold short

Among the Company's various investment strategies is a market neutral equity investment strategy, which consists of having both long and short equity positions. The objective of this strategy 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. The Company has secured its short positions by pledging government debt securities as collateral.

Table 4.4 – *Long and short positions*

	2014		2013	
As at December 31,	**Fair value**	**Debt securities pledged as collateral**	**Fair value**	**Debt securities pledged as collateral**
Long positions	**150**	**-**	-	-
Short positions	**(151)**	**157**	-	-

4.3 Financial liabilities related to investments

Table 4.5 – *Financial liabilities related to investments*

As at December 31,	**2014**	**2013**
Net asset value attributable to third party unit holders	**175**	151
Equities sold short positions ***(Table 4.4)***	**151**	-
Embedded derivatives ***(Note 5.3)***	**58**	48
Accounts payable to investment brokers on unsettled trades	**45**	18
Derivative financial liabilities ***(Table 5.2)***	**3**	17
	432	234

4.4 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. The Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. The Company has loaned securities with a fair value of $1.6 billion as at December 31, 2014 and 2013 that are reported in Investments.

Collateral, mainly consisting of government securities, is provided by the counterparty and 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 underlying loaned securities fluctuates. The collateral amounted to $1.7 billion, approximately 105% of the securities loaned fair value, as at December 31, 2014 and 2013.

4.5 Net investment income

The following table provides additional details on items reported in Net investment income.

Table 4.6 – *Net investment income*

For the years ended December 31,	2014	2013
Interest income from:		
Financial instruments as FVTPL	**168**	158
AFS financial instruments	**92**	94
Loans and others	**27**	22
Interest income	**287**	274
Dividend income (expense) from:		
AFS financial instruments	**124**	120
Financial instruments as FVTPL, net	**53**	54
Equities sold short	**(4)**	(9)
Long-term investments, at cost	**1**	3
Dividend income	**174**	168
Expenses	**(35)**	(37)
	426	405

4.6 Net investment gains (losses)

The following table provides additional details on items reported in Net investment gains (losses).

Table 4.7 – *Net investment gains (losses)*

For the years ended December 31,	2014	2013
Net realized gains (losses) from:		
Derivative financial instruments	**(20)**	(211)
AFS financial instruments	**234**	164
Financial instruments designated as FVTPL	**14**	11
Financial instruments classified as FVTPL	**4**	11
Embedded derivatives	**(3)**	13
Impairment losses from:		
Common shares	**(68)**	(57)
Preferred shares	**(9)**	(22)
Impairment reversal – debt securities	**-**	7
Net gains on investments in associates and joint ventures related to a change of control	**21**	1
	173	(83)

4.7 Sale and repurchase agreements

The Company may from time to time enter into sale and repurchase agreements consisting of the sale of securities together with an agreement to repurchase them in the short term, at a set price and date, up to a maximum of 1.5% of invested assets. The Company did not have any securities sold under repurchase agreements as at December 31, 2014 and 2013.

Note 5 – Derivative financial instruments

5.1 Types of derivatives used

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

Derivative financial instruments are used for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investments, as long as the resulting exposures are within the investment policy guidelines.

Table 5.1 – *Types of derivatives used*

Derivatives used	Description	Objective
Forwards	**Contractual obligations to exchange:**	**Mitigate risk arising from:**
Currency	one currency for another on a predetermined future date	foreign currency fluctuations on the U.S. debt portfolio
Futures	**Contractual obligations to buy or sell:**	**Modify exposure to:**
Interest rate	an interest rate sensitive financial instrument on a predetermined future date at a specified price	interest rate fluctuations
Equity	a specified amount of stocks, a basket of stocks or an equity index at an agreed price on a specified date	Canadian equity market
Swaps	**Over-the-counter contracts:**	**Modify exposure to:**
Swap agreements	in which two counterparties exchange a series of cash flows based on a basket of stocks, applied to a notional amount	equity market fluctuations
Credit default	that transfer credit risk related to an underlying financial instrument from one counterparty to another	credit
Interest rate	in which two counterparties exchange a stream of future interest payments based on a specified notional amount	interest rate fluctuations, by exchanging fixed rates for variable rates
Options	**Contractual agreements under which the seller grants to the buyer the right, but not the obligation either to buy (call option) or sell (put option):**	**Reduce exposure to:**
Inflation caps	an index at a predetermined price, at or by a specified future date.	inflation risk

5.2 Fair value and notional amounts of derivatives

The following table presents the fair value and notional amount of derivatives by term to maturity and nature of risk.

Table 5.2 – *Fair value and notional amount of derivatives by term to maturity and nature of risk (held for other than trading purposes)*

	Fair value		Notional amount			
	Positive (Asset)	Negative (Liability)	Less than 1 year	From 1 to 5 years	Over 5 years	Total
As at December 31, 2014						
Foreign currency contracts						
Forwards	**-**	**2**	**1,055**	**-**	**-**	**1,055**
Interest rate contracts						
Futures	**-**	**-**	**1,020**	**-**	**-**	**1,020**
Swaps	**1**	**-**	**130**	**-**	**-**	**130**
Equity contracts						
Swap agreements	**40**	**1**	**803**	**-**	**-**	**803**
Futures	**-**	**-**	**149**	**-**	**-**	**149**
Options	**-**	**-**	**2**	**-**	**-**	**2**
Inflation contracts						
Options	**-**	**-**	**51**	**122**	**-**	**173**
	41	**3**				
As at December 31, 2013						
Foreign currency contracts						
Forwards	-	-	508	-	-	508
Interest rate contracts						
Futures	-	-	1,370	-	-	1,370
Swaps	1	-	-	130	-	130
Equity contracts						
Swap agreements	-	17	617	286	-	903
Futures	-	-	150	-	-	150
Options	-	-	4	4	-	8
Inflation contracts						
Options	-	-	69	144	24	237
	1	17				

5.3 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 embedded derivatives amounted to $58 million as at December 31, 2014 (December 31, 2013 – $48 million) 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 fair value of these perpetual preferred shares which amounted to $1,119 million as at December 31, 2014 (December 31, 2013 – $1,040 million). Embedded derivatives are reported in Financial liabilities related to investments.

Note 6 – Fair value measurement

6.1 Categorization of fair values

The Company categorizes its fair value measurements according to a three-level fair value hierarchy. ***Refer to Note 2.4b) for details.***

The following table presents the distribution of the Company's financial instruments between levels.

Table 6.1 – *Fair value hierarchy of financial assets and financial liabilities*

	Level 1	**Level 2**	**Level 3**	**Total**
	Valued using quoted (unadjusted) market prices	**Valued using models (with observable inputs)**	**Valued using models (without observable inputs)**	
As at December 31, 2014				
Short-term notes	**124**	**-**	**-**	**124**
Fixed income				
Investment grade				
Government	**3,467**	**1,518**	**-**	**4,985**
Corporate	**1,346**	**2,006**	**-**	**3,352**
Asset-backed	**-**	**215**	**-**	**215**
Non-rated	**-**	**8**	**-**	**8**
Debt securities	**4,937**	**3,747**	**-**	**8,684**
Preferred shares	**1,210**	**-**	**58**	**1,268**
Common shares	**2,992**	**-**	**-**	**2,992**
Derivative financial assets	**-**	**41**	**-**	**41**
Financial assets measured at fair value	**9,139**	**3,788**	**58**	**12,985**
Financial liabilities measured at fair value	**326**	**3**	**58**	**387**
As at December 31, 2013				
Short-term notes	42	-	-	42
Fixed income				
Investment grade				
Government	3,472	1,390	-	4,862
Corporate	710	2,094	-	2,804
Asset-backed	-	192	-	192
Non-rated	-	9	-	9
Debt securities	4,224	3,685	-	7,909
Preferred shares	1,142	-	48	1,190
Common shares	2,644	-	-	2,644
Derivative financial assets	-	1	-	1
Financial assets measured at fair value	8,010	3,686	48	11,744
Financial liabilities measured at fair value	151	17	48	216

6.2 Reclassifications between Level 1 and Level 2

As at the end of each reporting period, the Company determines if reclassifications have occurred between levels in the hierarchy based on the application of the classification criteria.

Table 6.2 – *Reclassifications between Level 1 and Level 2*

As at December 31, 2014	
Reclassifications of debt securities from Level 1 to Level 2	**222**
Reclassifications of debt securities from Level 2 to Level 1	**207**

6.3 Level 3 instruments

Level 3 instruments include the Company's perpetual preferred shares with call options which give the issuer the right to redeem the shares at a particular price. The value of the option liability has to be measured separately from the preferred shares and accounted for as an embedded derivative. To determine the fair value of embedded derivatives, the Company uses a valuation technique based on the implied volatility of the underlying preferred shares. The implied volatility is an unobservable parameter that is calculated using an internally developed valuation model, which can be significantly affected by market conditions. Judgment is also required to determine the time period over which the volatility is measured.

Note 7 – 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 manage 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 material 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 Risk Management 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 and internal auditors.

The Company's exposure to financial risk arising from its financial instruments together with the Company's risk management policies and practices used to mitigate it are explained hereafter.

The majority of the investment portfolio is invested in well established, active and liquid markets.

Table 7.1 – *Financial risk*

	Market risk	**Basis risk**	**Credit risk**	**Liquidity risk**
Risk definition	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity market prices, interest rates or spreads, or foreign exchange rates.	Risk that offsetting investments in an economic hedging strategy using derivative financial instruments will not experience price changes in entirely opposite directions from each other.	Possibility that counterparties may not be able to meet payment obligations when they become due.	Risk that the Company will encounter difficulty in raising funds to meet obligations associated with financial liabilities.
Reference	*Note 7.1*	*Note 7.2*	*Note 7.3*	*Note 7.5*

7.1 Market risk

The Company's exposure to market risk together with the Company's risk management policy and practices used to mitigate it are explained below.

Table 7.2 – *Market risk*

	Equity price risk	Interest rate risk	Currency risk
Risk definition	Risk of losses arising from changes in equity market prices.	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates or spreads.	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
Risk exposure	Significant exposure to price changes for common shares and preferred shares.	Significant exposure to changes in interest rates from debt securities and preferred shares.	Some exposure to foreign exchange risks arising from investments denominated in foreign currency, mainly U.S. dollars.
Risk management investment policy	Set forth limits in terms of equity exposure.	Set forth limits in terms of interest rate duration.	Set forth limits in terms of currency exposure.
Risk mitigation	Through asset class and economic sector diversification and, in some cases, the use of derivatives.	Through the use of derivatives. Changes in the discount rate applied to the Company's claims liabilities offers a partial offset to the interest-rate risk on invested assets.	Foreign currency exposure in the U.S. debt portfolio is mitigated through the use of foreign-currency forward contracts.

The Operational Investment Committee regularly monitors compliance with the Company's investment policies. The Compliance Review and Corporate Governance Committee reviews on a quarterly basis reports on the compliance of the Company regarding its investment policies. Sensitivity analysis is one risk management technique that assists management in ensuring that risks assumed remain within the Company's risk tolerance level. Sensitivity analysis involves varying a single factor to assess the impact that this would have on the Company's results and financial condition.

a) Exposure to equity price risk

Sensitivity analysis

The sensitivity analysis reflects the impact of a 10% variation applied to the price of all common shares, net of any equity hedges, combined with a 5% variation applied to the price of all preferred shares and related embedded derivatives, including the impact of any impairment, on Net income and OCI. The analysis was prepared using the following assumptions:

- Interest rates and equity prices move independently.
- Credit and liquidity risks have not been considered.
- Impact on the Company's pension plans is not included.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- AFS equities in an unrealized loss position, as reflected in Accumulated other comprehensive income ("AOCI") may, at some point in the future, be realized through a sale.

Table 7.3 – *Sensitivity analysis to equity price risk*

For the years ended December 31,	**2014**		**2013**	
	Net income	**OCI**	**Net income**	**OCI**
10% increase	**(12)**	**168**	(16)	152
10% decrease	**10**	**(166)**	3	(140)

Decline in the price of AFS perpetual preferred shares is recorded in OCI and would normally lead to a lower valuation for associated embedded derivative liabilities which are recorded as gains in Net income. Conversely, an increase in the price of these preferred shares is also recorded in OCI and would normally lead to a higher valuation for associated embedded derivative liabilities which are recorded as losses in Net income.

b) Exposure to interest rate risk

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

Table 7.4 – *Contractual repricing and maturity schedule*

		Fixed rates				
	Floating rates	Less than 1 year	From 1 to 5 years	Over 5 years	Non-rate sensitive	Total
As at December 31, 2014						
Assets						
Cash and cash equivalents	**88**	**1**	**-**	**-**	**-**	**89**
Effective interest rate		***0.88%***				
Short-term notes	**-**	**124**	**-**	**-**	**-**	**124**
Effective interest rate		***0.61%***				
Fixed-income securities	**3**	**739**	**4,222**	**3,596**	**-**	**8,560**
Effective interest rate		***1.44%***	***1.63%***	***2.12%***		
Preferred shares	**73**	**41**	**837**	**317**	**-**	**1,268**
Effective interest rate		***4.77%***	***4.07%***	***5.05%***		
Common shares	**-**	**-**	**-**	**-**	**2,992**	**2,992**
Loans	**95**	**2**	**61**	**249**	**-**	**407**
Effective interest rate	-	***3.30%***	***5.62%***	***5.26%***		
Reinsurance assets	**-**	**134**	**132**	**69**	**-**	**335**
Effective interest rate		***2.01%***	***2.01%***	***2.01%***		
Other assets	**41**	**-**	**-**	**-**	**6,764**	**6,805**
	300	**1,041**	**5,252**	**4,231**	**9,756**	**20,580**
Liabilities and shareholders' equity						
Claims liabilities	**-**	**3,209**	**3,168**	**1,644**	**-**	**8,021**
Effective interest rate		***2.01%***	***2.01%***	***2.01%***		
Debt outstanding	**-**	**-**	**249**	**894**	**-**	**1,143**
Effective interest rate			***5.41%***	***5.47%***		
Financial liabilities related to investments	**7**	**3**	**33**	**18**	**371**	**432**
Effective interest rate			***4.03%***	***5.06%***		
Other liabilities	**-**	**-**	**-**	**-**	**5,529**	**5,529**
Shareholders' equity	**-**	**-**	**-**	**-**	**5,455**	**5,455**
	7	**3,212**	**3,450**	**2,556**	**11,355**	**20,580**
Net long (short) exposure	**293**	**(2,171)**	**1,802**	**1,675**	**(1,599)**	**-**
As at December 31, 2013						
Assets						
Cash and cash equivalents	98	1	-	-	-	99
Effective interest rate		*0.91%*				
Short-term notes	-	42	-	-	-	42
Effective interest rate		*0.41%*				
Fixed-income securities	14	780	4,116	2,957	-	7,867
Effective interest rate		*1.42%*	*1.82%*	*2.87%*		
Preferred shares	65	14	807	304	-	1,190
Effective interest rate		*5.14%*	*5.07%*	*5.23%*		
Common shares	-	-	-	-	2,644	2,644
Loans	69	5	58	287	-	419
Effective interest rate		*4.04%*	*5.71%*	*5.41%*		
Reinsurance assets	-	202	201	102	-	505
Effective interest rate		*2.57%*	*2.57%*	*2.57%*		
Other assets	1	-	-	-	7,007	7,008
	247	1,044	5,182	3,650	9,651	19,774
Liabilities and shareholders' equity						
Claims liabilities	-	3,207	3,182	1,607	-	7,996
Effective interest rate		*2.57%*	*2.57%*	*2.57%*		
Debt outstanding	-	-	-	1,143	-	1,143
Effective interest rate				*5.45%*		
Financial liabilities related to investments	24	-	25	16	169	234
Effective interest rate			*5.09%*	*5.27%*		
Other liabilities	-	-	-	-	5,447	5,447
Shareholders' equity	-	-	-	-	4,954	4,954
	24	3,207	3,207	2,766	10,570	19,774
Net long (short) exposure	223	(2,163)	1,975	884	(919)	-

Movements in short-term and long-term interest rates, including changes in credit spreads, cause changes in realized and unrealized gains and losses. Interest rate risk exposures are reported based on the earlier of the financial instruments contractual repricing date or maturity date. The effective rates shown in Table 7.4 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 table above does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates.

Sensitivity analysis

The sensitivity analysis reflects the impact of a 100 basis-point variation in interest rates on Net income and OCI. The analysis was prepared using the following 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, liquidity and basis risks have not been considered.
- Impact on the Company's pension plans is not included.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- For the Company's FVTPL debt securities, the estimated impact on Net income is assumed to be offset by the market-yield adjustment.
- AFS debt securities in an unrealized loss position, as reflected in AOCI may, at some point in the future, be realized either through a sale or impairment.

Table 7.5 – *Sensitivity analysis to interest rate risk*

For the years ended December 31,	**2014**		**2013**	
	Net income	**OCI**	**Net income**	**OCI**
100 basis-point increase	**18**	**(172)**	(21)	(127)
100 basis-point decrease	**(18)**	**172**	21	127

Gains and losses resulting from changes in interest rates vary depending on the position taken by the Company on the interest rate risk.

c) Exposure to currency risk

The following table presents the net currency exposure on foreign-denominated investments and receivables.

Table 7.6 – *Net currency exposure on foreign-denominated investments and receivables*

As at December 31,	**2014**	**2013**
Net investments and receivables denominated in U.S. dollars		
Fixed-income securities	**1,012**	487
Common shares	**508**	-
Other	**41**	22
Net investments and receivables denominated in U.S. dollars	**1,561**	509
Less: U.S. dollar foreign-currency forward contracts, notional amount	**1,057**	508
Net currency exposure – U.S. dollar	**504**	1
Investment in Brazil denominated in Brazilian Real	**16**	-
Net currency exposure on foreign-denominated investments and receivables	**520**	1

Sensitivity analysis

The sensitivity analysis reflects the impact of a 5% change in the value of the Canadian dollar compared to the U.S. dollars on Net income and OCI after giving effect to forward foreign-exchange contracts. The analysis was prepared using the following assumptions:

- Foreign currency and interest rates move independently.
- Credit, liquidity and basis risks have not been considered.
- Impact on the Company's pension plans is not included.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- AFS debt or equities in an unrealized gain or loss position, as reflected in AOCI may, at some point in the future, be realized through a sale.

Table 7.7 – *Sensitivity analysis to currency risk*

For the years ended December 31,	**2014**		**2013**	
	Net income	**OCI**	**Net income**	**OCI**
5% increase	**1**	**(19)**	-	-
5% decrease	**(1)**	**19**	-	-

7.2 Basis risk

The Company's use of derivatives exposes it to a number of risks, including credit and market risks. The hedging of certain risks with derivatives results in basis risk. The imperfect correlation between the hedging instrument and hedged item 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 economic hedges on a regular basis. Basis risk is controlled by limits prescribed in the investment policy, which are monitored regularly.

7.3 Credit risk

The Company's credit risk exposure is concentrated primarily in its debt securities and preferred shares and, to a lesser extent, in its premium receivables, reinsurance assets, and structured settlement agreements entered into with various life insurance companies. The Company is also subject to counterparty credit risk arising from reinsurance, over-the-counter derivatives, as well as securities lending and borrowing transactions. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to the Company. These exposures and the Company's risk management policy and practices used to mitigate credit risk are explained below.

a) Maximum exposure to credit risk

The table below presents 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 exposure to credit risk is defined as the carrying value of the asset.

Table 7.8 – *Maximum exposure to credit risk*

As at December 31,	**2014**	**2013**
Cash and cash equivalents	**89**	99
Debt securities	**8,684**	7,909
Preferred shares	**1,268**	1,190
Loans	**407**	419
Premium receivables	**2,711**	2,764
Reinsurance assets	**335**	505
Other financial assets[1]	**485**	803
On-balance sheet credit risk exposure	**13,979**	13,689
Structured settlements ***(Note 7.4)***	**1,067**	905
Off-balance sheet credit risk exposure	**1,067**	905

[1] Include Industry pools receivable, Other receivables and recoverable, Accrued investment income, Income taxes receivable, and Financial assets related to investments.

b) 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 industries.

Table 7.9 – *Portfolio breakdown by country of issuer and by industry*

As at December 31,	2014	2013
By country of issuer		
Canada	**86%**	93%
U.S.	**10%**	3%
Other	**4%**	4%
	100%	100%
By industry		
Government	**40%**	42%
Banks, insurance and diversified financial services	**33%**	35%
Energy	**8%**	9%
Other	**19%**	14%
	100%	100%

The Company invests in high-quality non-financial U.S. corporate bonds and U.S. common shares as a means to provide geographic and sector diversification to its investment portfolio. As at December 31, 2014, U.S. securities accounted for approximately 12% of the Company's debt portfolio and 17% of its common share asset portfolio (December 31, 2013 – 6% of its debt portfolio).

The Company has a significant concentration of its investments in the financial sector and in Canada. This risk concentration is closely monitored and the Company hedges some of the risk as it deems necessary.

c) Investments

The Company's risk management strategy is to invest in debt securities 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, all debt securities have a minimum credit rating of 'BBB' and of 'P3' for preferred shares. 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 issuer and by industry regardless of the asset class ***(see Table 7.9).*** The Company applies limits against that aggregate exposure, which are more conservative than OSFI's limits. Investment portfolio diversification helps to mitigate credit risk and is monitored against established guidelines with respect to exposure to individual issuers.

d) Counterparty credit risk

Counterparty credit risk arises from reinsurance, over-the-counter derivatives, as well as security lending and borrowing transactions.

Reinsurance

The Company relies on reinsurance to manage underwriting risk. Under reinsurance 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 risks and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance.

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 may also be subject to credit risk on potential future recoverables arising from catastrophes that could be subject to a non-payment (default). 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 assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The Company also has minimum rating requirements for its reinsurers. Substantially all reinsurers are required to have a minimum credit rating of 'A-' at inception of the contract. The Company also requires that its contracts include a special termination and security review clause allowing the Company to replace a reinsurer during the contract period should the reinsurer's credit rating fall below the level acceptable to the Company or for other reasons that might jeopardize the Company's ability to continue doing business with such reinsurer as intended at the time of entering into the reinsurance arrangement.

The Company has collateral in place to support amounts receivable and recoverable from unregistered reinsurers. The Company is the assigned beneficiary of collateral consisting of cash, security agreements and letters of credit totalling $166 million as at December 31, 2014 (December 31, 2013 – $238 million) as guarantees from unregistered reinsurers. This collateral is held in support of policy liabilities of $91 million as at December 31, 2014 (December 31, 2013 – $149 million) and could be used should these reinsurers be unable to meet their obligations.

Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at the year-end date.

Over-the-counter derivatives, as well as security lending and borrowing transactions

Credit risk from over-the-counter 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 an over-the-counter 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.

Credit risk from security lending and borrowing transactions arises when the counterparty is allowed to re-hypothecate or re-pledge the collateral externally. Credit risk from security borrowing is the potential for the counterparty to default when the value of the collateral posted is higher than the value of the security borrowed.

The Company subjects its derivative-related, as well as security lending and borrowing 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 monthly review by the Operational Investment Committee. The Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of 'A-' and an issuer credit spread below established thresholds.

The Company uses netting clauses in master derivative agreements to reduce derivative-related credit exposure. Netting clauses in master derivative agreements 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 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 Company's rigorous collateral management process is another significant credit mitigation tool used to manage counterparty credit risk arising from over-the-counter derivative and security lending and borrowing transactions. Most of the Company's legal agreements allow for daily collateral movement. Consequently, the Company regularly validates that the collateral that it pledges is not too high and that mark-to-market provisions for derivatives are sufficient. Mark-to-market provisions provide the Company with the right to request that the counterparty pay down or collateralize the current market value of its derivative positions when the value exceed a specified threshold amount.

The credit risk exposure was $123 million as at December 31, 2014 (December 31, 2013 – $96 million) and is the sum of the replacement cost plus an add-on amount for potential future credit exposure. The risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

7.4 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. In the event that the life insurers are in default, the Company may have to assume a financial guarantee obligation. Therefore, the net risk to the Company is any credit risk related to the life insurers. Since the Company deals with registered life insurers with credit rating of at least 'A-' at the inception of the contract, this credit risk is minimal.

7.5 Liquidity risk

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. As a result of the nature of the Company's P&C insurance activities, cash flows may be highly volatile and unpredictable. The Company's liquidity needs are rigorously managed by matching asset and liability cash flows and by establishing forecasts for cash inflows and outflows. The Company invests in various types of assets in order to match them to its liabilities. This method maps the obligations towards insured clients to asset life and performance. The Company reviews the matching status on a quarterly basis.

To manage its cash flow requirements, a portion of the Company's investments is maintained in short-term (less than one year) highly liquid money market securities. A large portion of the investments are unencumbered and held in highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements. In addition, the Company also has an unsecured committed credit facility, ***see Note 14.3***.

The following table presents the undiscounted value of financial liabilities by expected maturity. The expected maturity of claims liabilities is determined by estimating when claims liabilities will be settled. Unearned premiums have been excluded because they do not constitute actual obligations.

Table 7.10 – *Financial liabilities by expected maturity*

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2014					
Claims liabilities	**3,209**	**3,168**	**1,644**	**-**	**8,021**
Financial liabilities related to investments	**48**	**-**	**-**	**384**	**432**
Income taxes payable	**105**	**-**	**-**	**-**	**105**
Debt outstanding	**-**	**249**	**894**	**-**	**1,143**
Other financial liabilities	**791**	**56**	**6**	**246**	**1,099**
	4,153	**3,473**	**2,544**	**630**	**10,800**
As at December 31, 2013					
Claims liabilities	3,207	3,182	1,607	-	7,996
Financial liabilities related to investments	35	-	-	199	234
Income taxes payable	-	8	-	-	8
Debt outstanding	-	-	1,143	-	1,143
Other financial liabilities	829	19	-	301	1,149
	4,071	3,209	2,750	500	10,530

Note 8 – Claims liabilities and unearned premiums

8.1 Summary of claims liabilities

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

Table 8.1 – *Movements in claims liabilities*

	Direct	Ceded	Net
As at December 31, 2014			
Balance, beginning of year	**7,996**	**484**	**7,512**
Current year claims	**4,899**	**32**	**4,867**
Favourable prior-year claims development	**(387)**	**(17)**	**(370)**
Increase due to changes in discount rate	**104**	**1**	**103**
Total claims incurred	**4,616**	**16**	**4,600**
Claims paid	**(4,626)**	**(205)**	**(4,421)**
Business combination	**35**	**19**	**16**
Balance, end of year	**8,021**	**314**	**7,707**
As at December 31, 2013			
Balance, beginning of year	7,656	297	7,359
Current year claims	5,395	340	5,055
Unfavourable (favourable) prior-year claims development	(371)	5	(376)
Decrease due to changes in discount rate	(77)	(2)	(75)
Total claims incurred	4,947	343	4,604
Claims paid	(4,607)	(156)	(4,451)
Balance, end of year	7,996	484	7,512

The following table presents claims liabilities by line of business.

Table 8.2 – *Claims liabilities by line of business*

	Direct	Ceded	Net
As at December 31, 2014			
Automobile	**4,533**	**68**	**4,465**
Property	**584**	**39**	**545**
Personal lines	**5,117**	**107**	**5,010**
Automobile	**674**	**9**	**665**
P&C	**2,230**	**198**	**2,032**
Commercial lines	**2,904**	**207**	**2,697**
	8,021	**314**	**7,707**
As at December 31, 2013			
Automobile	4,353	56	4,297
Property	698	119	579
Personal lines	5,051	175	4,876
Automobile	655	12	643
P&C	2,290	297	1,993
Commercial lines	2,945	309	2,636
	7,996	484	7,512

8.2 Summary of unearned premiums

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

Table 8.3 – *Movements in unearned premiums*

	Direct	Ceded	Net
As at December 31, 2014			
Balance, beginning of year	**4,125**	**21**	**4,104**
Business combination	**13**	**6**	**7**
Premiums written	**7,329**	**187**	**7,142**
Premiums earned	**(7,357)**	**(193)**	**(7,164)**
Balance, end of year	**4,110**	**21**	**4,089**
As at December 31, 2013			
Balance, beginning of year	4,046	23	4,023
Premiums written	7,305	252	7,053
Premiums earned	(7,226)	(254)	(6,972)
Balance, end of year	4,125	21	4,104

The following table presents unearned premiums by line of business.

Table 8.4 – *Unearned premiums by line of business*

	Direct	Ceded	Net
As at December 31, 2014			
Automobile	**1,983**	**-**	**1,983**
Property	**900**	**-**	**900**
Personal lines	**2,883**	**-**	**2,883**
Automobile	**319**	**1**	**318**
P&C	**908**	**20**	**888**
Commercial lines	**1,227**	**21**	**1,206**
	4,110	**21**	**4,089**
As at December 31, 2013			
Automobile	1,972	-	1,972
Property	979	-	979
Personal lines	2,951	-	2,951
Automobile	300	1	299
P&C	874	20	854
Commercial lines	1,174	21	1,153
	4,125	21	4,104

8.3 Fair value of claims liabilities

The Company estimates that the fair value of its net claims liabilities approximate their carrying values. There was no premium deficiency as at December 31, 2014 and 2013.

Table 8.5 – *Carrying value of claims liabilities*

	Direct	Ceded	Net
As at December 31, 2014			
Undiscounted value	**7,675**	**303**	**7,372**
Effect of time value of money using a discount rate of 2.01%	**(351)**	**(9)**	**(342)**
Provision for adverse deviations (PfAD)	**697**	**20**	**677**
	8,021	**314**	**7,707**
As at December 31, 2013			
Undiscounted value	7,756	468	7,288
Effect of time value of money using a discount rate of 2.57%	(447)	(15)	(432)
Provision for adverse deviations (PfAD)	687	31	656
	7,996	484	7,512

8.4 Net gain (loss) from reinsurance

The following table presents the net gain (loss) from reinsurance.

Table 8.6 – *Net gain (loss) from reinsurance*

For the years ended December 31,	2014	2013
Ceded earned premiums	**(193)**	(254)
Ceded claims incurred	**16**	343
Commission earned on ceded reinsurance	**23**	21
	(154)	110

8.5 Prior-year claims development

The following tables present the estimates of cumulative incurred claims, including insurance claims incurred but not reported by policyholders, for the eight most recent accident years, with subsequent developments during the periods and together with cumulative payments to date.

Table 8.7 – *Prior-year claims development – Direct*

		Accident year							
	Total	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**Earlier**
Undiscounted claims liabilities outstanding at end of accident year		2,463	2,768	2,423	2,402	2,072	1,866	1,641	4,622
Revised estimates									
One year later		-	2,698	2,405	2,293	1,966	1,803	1,645	4,455
Two years later		-	-	2,324	2,210	1,944	1,803	1,616	4,373
Three years later		-	-	-	2,125	1,906	1,777	1,606	4,294
Four years later		-	-	-	-	1,884	1,739	1,586	4,217
Five years later		-	-	-	-	-	1,713	1,550	4,047
Six years later		-	-	-	-	-	-	1,534	4,049
Seven years later		-	-	-	-	-	-	-	4,038
Current estimate		2,463	2,698	2,324	2,125	1,884	1,713	1,534	4,038
Claims paid in subsequent periods									
One year later		-	(1,121)	(918)	(876)	(584)	(599)	(619)	(1,175)
Two years later		-	-	(294)	(280)	(298)	(184)	(157)	(570)
Three years later		-	-	-	(222)	(241)	(215)	(145)	(481)
Four years later		-	-	-	-	(194)	(206)	(170)	(343)
Five years later		-	-	-	-	-	(169)	(99)	(328)
Six years later		-	-	-	-	-	-	(90)	(354)
Seven years later		-	-	-	-	-	-	-	(172)
Claims paid to date		-	(1,121)	(1,212)	(1,378)	(1,317)	(1,373)	(1,280)	(3,423)
Undiscounted claims liabilities	**7,675**	2,463	1,577	1,112	747	567	340	254	615
Discounting and PfAD	**346**								
Claims liabilities - Direct	**8,021**								

Table 8.8 – *Prior-year claims development – Net*

		Accident year							
	Total	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**Earlier**
Undiscounted claims liabilities outstanding at end of accident year		2,437	2,504	2,359	2,301	2,032	1,797	1,625	4,293
Revised estimates									
One year later		-	2,443	2,327	2,203	1,918	1,738	1,624	4,135
Two years later		-	-	2,246	2,132	1,890	1,737	1,595	4,068
Three years later		-	-	-	2,048	1,855	1,713	1,585	3,984
Four years later		-	-	-	-	1,831	1,677	1,561	3,909
Five years later		-	-	-	-	-	1,655	1,524	3,820
Six years later		-	-	-	-	-	-	1,510	3,806
Seven years later		-	-	-	-	-	-	-	3,793
Current estimate		2,437	2,443	2,246	2,048	1,831	1,655	1,510	3,793
Claims paid in subsequent periods									
One year later		-	(959)	(885)	(827)	(554)	(568)	(607)	(1,137)
Two years later		-	-	(276)	(269)	(293)	(177)	(156)	(559)
Three years later		-	-	-	(220)	(239)	(212)	(144)	(462)
Four years later		-	-	-	-	(192)	(199)	(169)	(334)
Five years later		-	-	-	-	-	(167)	(95)	(317)
Six years later		-	-	-	-	-	-	(89)	(323)
Seven years later		-	-	-	-	-	-	-	(162)
Claims paid to date		-	(959)	(1,161)	(1,316)	(1,278)	(1,323)	(1,260)	(3,294)
Undiscounted claims liabilities	**7,372**	2,437	1,484	1,085	732	553	332	250	499
Discounting and PfAD	**335**								
Claims liabilities - Net	**7,707**								

The Company applied the transitional rules of *IFRS 4 - Insurance contracts* that permit only five years of information to be disclosed upon adoption of IFRS in 2011. The claims development information disclosed in the preceding table is being increased from five years to ten years over the period 2012 – 2016.

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.

Note 9 – Insurance risk

The Company principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses. The majority of the insurance risk to which the Company is exposed is of a short-tail nature. Policies generally cover a 12-month period. The average duration of claims liabilities is approximately 2.4 years as at December 31, 2014 and 2013.

Insurance contract risk is the risk that a loss arises from the following reasons:

- underwriting and pricing ***(Note 9.1)***;
- fluctuation in the timing, frequency and severity of claims relative to expectations ***(Note 9.2)***;
- inadequate reinsurance protection ***(Note 7.3)***; and
- large unexpected losses arising from a single event such as a catastrophe ***(Note 9.3)***.

Insured events can occur at any time during the coverage period and can generate losses of variable amounts. An objective of the Company is to ensure that sufficient claims liabilities are established to cover future insurance claim payments related to past insured events. 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, including 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 best 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.

The composition of the Company's insurance risk, as well as the methods employed to mitigate risks, are described hereafter.

9.1 Underwriting and pricing risks

The insurance business is cyclical in nature whereby the industry generally reduces insurance rates following periods of increased profitability, while it generally increases rates following periods of sustained loss. The Company's profitability tends to follow this cyclical market pattern and can also be affected by demand and competition. In addition, the Company is at risk from changes in automobile insurance legislation, the economic environment and climate patterns.

In order to properly monitor the Company's risk appetite, pricing targets are set by the Insurance Risk Department and distributed to each region. Pricing targets are established using an internal return on equity model and a risk-based capital model.

Risks associated with commercial P&C and personal property insurance contracts may vary in relation to the geographical area of the risk insured by the Company. The Company's exposure to concentration 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.

The following table illustrates the concentration of insurance contracts on the basis of direct premiums written.

Table 9.1 – *Concentration of insurance contracts on the basis of direct premiums written*

For the years ended December 31,	2014	2013
By line of business		
Personal Automobile	**46%**	46%
Personal Property	**21%**	22%
Commercial P&C	**24%**	24%
Commercial Automobile	**9%**	8%
	100%	100%
By province		
Ontario	**42%**	42%
Quebec	**27%**	29%
Alberta	**18%**	17%
British Columbia	**6%**	6%
Other	**7%**	6%
	100%	100%

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 Enterprise Risk Committee's mandate is to identify, measure and monitor risks, as well as 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. The Company also uses reinsurance under its strategy for managing the underwriting risk. 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.

9.2 Risk related to the timing, frequency and severity of claims

The occurrence of claims being unforeseeable, the Company is exposed to the risk that the number and the severity of claims would exceed the estimates.

Strict claim review policies are in place to assess all new and ongoing claims. 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.

9.3 Catastrophe risk

Catastrophe risk is the risk of occurrence of a catastrophe defined as any one claim, or group of claims related to a single event such as large fires, hurricanes, earthquakes and hail or wind storms. Catastrophes can have a significant impact on the underwriting income of an insurer.

The Company has limited its exposure to catastrophe risk by imposing maximum claim amounts on certain contracts, as well as by using reinsurance arrangements. The placement of ceded reinsurance is almost exclusively on an excess-of-loss basis (per event or per risk). Ceded reinsurance complies with regulatory guidelines. Retention limits for the excess-of-loss reinsurance vary by product line.

The following table shows the Company's reinsurance net retention and coverage limits by nature of risk.

Table 9.2 – *Reinsurance net retention and coverage limits by nature of risk*

As at December 31,	2014	2013
Single risk events		
Retentions:		
On property policies	**7.5**	5
On liability policies	**2 - 10**	2 - 10
Multi-risk events and catastrophes[1]		
Retention	**100**	100
Coverage limits	**3,100**	3,300

[1] Excludes a reinsurance treaty in place for a specific portfolio in British Columbia.

For certain special classes of business or types of risks, the retention may be lower through specific treaties or the use of facultative reinsurance. For multi-risk events and catastrophes, the Company's reduced coverage limits reflect its lower earthquake exposure. Also, the Company retains participations averaging 8% as at December 31, 2014 (December 31, 2013 – 4%) on reinsurance layers between the retention and coverage limits.

9.4 Exposure 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 (severity);
- average number of claims by accident year (frequency);
- trends in claims severity and frequency;
- payment patterns;
- other factors such as inflation, expected or in-force government pricing and coverage reforms, and level of insurance fraud;
- discount rate; and
- provision for adverse deviations (PfAD).

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 insurance contracts that the Company underwrites. There may also 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. Reserving policies are overseen by the Company's Reserve Review Committee.

The claims liabilities' sensitivity to certain of these key assumptions is outlined below. It is not possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process. The analysis is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on Net income. Movements in these assumptions may be non-linear and may be correlated with one another.

Table 9.3 – *Sensitivity analysis (claims liabilities)*

Sensitivity factors	Change in assumptions	Impact on Net income
As at December 31, 2014		
Average number of claims (frequency)	**+5%**	**(53)**
Average claim costs (severity)	**+5%**	**(267)**
Discount rate	**+1%**	**131**
As at December 31, 2013		
Average number of claims (frequency)	+5%	(52)
Average claim costs (severity)	+5%	(259)
Discount rate	+1%	127

Note 10 – Other assets and other liabilities

10.1 Components of other assets

Table 10.1 – *Components of other assets*

As at December 31,	2014	2013
Industry pools receivable	**232**	221
Other receivables and recoverable	**127**	166
Employee future benefit assets *(Table 20.1)*	**69**	96
Financial assets related to investments	**56**	9
Investments, at cost	**44**	44
Prepaids	**26**	18
Other	**17**	27
	571	581

During 2014, there were no events or changes in circumstances that indicated that the carrying values of Investments at cost may not be recoverable.

10.2 Components of other liabilities

Table 10.2 – *Components of other liabilities*

As at December 31,	2014	2013
Industry pools payable	**237**	231
Commissions payable	**210**	249
Premium and sale taxes payable	**158**	176
Accrued salaries and other short-term benefits	**115**	135
Employee future benefit liabilities *(Table 20.1)*	**113**	100
Deposits received from reinsurers	**34**	78
Other payables	**354**	285
	1,221	1,254

Note 11 – Investments in associates and joint ventures

Investments in associates and joint ventures are investments in private entities. The following table presents the movements in the Corporation's interest in associates and joint ventures, which are not individually material for the Company.

Table 11.1 – *Financial information related to interests in associates and joint ventures*

	Associates	Joint ventures	Total
As at December 31, 2014			
Share of profit (loss)			
Net income	**17**	**2**	**19**
OCI	**(2)**	**1**	**(1)**
Total comprehensive income	**15**	**3**	**18**
Carrying amount of investments	**267**	**46**	**313**
As at December 31, 2013			
Share of profit (loss)			
Net income	21	5	26
OCI	-	(1)	(1)
Total comprehensive income	21	4	25
Carrying amount of investments	203	52	255

During 2014, the Company acquired investments in associates and joint ventures accounted for using the equity method for a total purchase price of $78 million (2013 – $15 million). During 2014, there were no events or changes in circumstances that indicated that the carrying values of these investments may not be recoverable.

Note 12 – Property and equipment

Table 12.1 – *Reconciliation of the carrying value of property and equipment*

	Land and buildings	Computer equipment	Furniture and equipment	Leasehold improvements	Total
Cost					
Balance as at January 1, 2014	**-**	**61**	**129**	**77**	**267**
Acquisitions	**-**	**7**	**15**	**11**	**33**
Disposals	**-**	**(1)**	**(2)**	**(3)**	**(6)**
Balance as at December 31, 2014	**-**	**67**	**142**	**85**	**294**
Accumulated depreciation					
Balance as at January 1, 2014	**-**	**(47)**	**(78)**	**(32)**	**(157)**
Disposals	**-**	**1**	**2**	**3**	**6**
Depreciation expense	**-**	**(10)**	**(15)**	**(8)**	**(33)**
Balance as at December 31, 2014	**-**	**(56)**	**(91)**	**(37)**	**(184)**
Net carrying value	**-**	**11**	**51**	**48**	**110**
Cost					
Balance as at January 1, 2013	18	53	106	57	234
Acquisitions	-	8	23	20	51
Business combination	(5)	-	-	-	(5)
Transfer to Other assets	(13)	-	-	-	(13)
Balance as at December 31, 2013	-	61	129	77	267
Accumulated depreciation					
Balance as at January 1, 2013	-	(37)	(67)	(25)	(129)
Depreciation expense	(3)	(10)	(11)	(7)	(31)
Transfer to Other assets	3	-	-	-	3
Balance as at December 31, 2013	-	(47)	(78)	(32)	(157)
Net carrying value	-	14	51	45	110

Note 13 – Goodwill and intangible assets

13.1 Summary of goodwill and intangible assets

Table 13.1 – *Reconciliation of the carrying value of goodwill and intangible assets*

		Intangible assets			
	Goodwill	Distribution networks Total	Customer relationships	Internally developed software	Total intangible assets
Cost					
Balance as at January 1, 2014	**972**	**905**	**228**	**300**	**1,433**
Acquisitions and costs capitalized	**138**	**4**	**43**	**64**	**111**
Reclassification	**5**	**-**	**(5)**	**-**	**(5)**
Disposals	**(13)**	**-**	**(8)**	**-**	**(8)**
Balance as at December 31, 2014	**1,102**	**909**	**258**	**364**	**1,531**
Accumulated amortization					
Balance as at January 1, 2014	**-**	**(4)**	**(96)**	**(169)**	**(269)**
Amortization expense	**-**	**(4)**	**(26)**	**(33)**	**(63)**
Disposals	**-**	**-**	**3**	**-**	**3**
Balance as at December 31, 2014	**-**	**(8)**	**(119)**	**(202)**	**(329)**
Net carrying value	**1,102**	**901**	**139**	**162**	**1,202**
Cost					
Balance as at January 1, 2013	923	905	205	270	1,380
Acquisitions and costs capitalized	49	-	23	47	70
Disposals	-	-	-	(17)	(17)
Balance as at December 31, 2013	972	905	228	300	1,433
Accumulated amortization					
Balance as at January 1, 2013	-	(1)	(74)	(152)	(227)
Amortization expense	-	(3)	(22)	(34)	(59)
Disposals	-	-	-	17	17
Balance as at December 31, 2013	-	(4)	(96)	(169)	(269)
Net carrying value	972	901	132	131	1,164

Management has determined that intangible assets with finite useful lives are not impaired.

The distribution network with indefinite useful life amounted to $820 million as at December 31, 2014 and 2013. Intangible assets under development amounted to $85 million as at December 31, 2014 (December 31, 2013 - $35 million). These intangible assets are not subject to amortization, but are tested for impairment on an annual basis.

Note 14 – Debt outstanding

14.1 Unsecured medium term notes ("term notes")

Table 14.1 – *Term notes outstanding terms*

	Series 1	Series 2	Series 3	Series 4	Series 5
Date issued	Aug. 31, 2009	Nov. 23, 2009	July 8, 2011	Aug. 18, 2011	June 15, 2012
Date of supplemental issue		March 23, 2010			Sept. 10, 2012
Maturity date	Sept. 3, 2019	Nov. 23, 2039	July 8, 2061	Aug. 18, 2021	June 16, 2042
Principal amount outstanding	250	250	100	300	250
Fixed annual rate	5.41%	6.40%	6.20%	4.70%	5.16%
Semi-annual coupon payment due each year on:	March 3 Sept. 3	May 23 Nov. 23	Jan. 8 July 8	Feb. 18 Aug. 18	June 16 Dec. 16

14.2 Summary of debt outstanding

The following table presents the summary of debt outstanding.

Table 14.2 – *Fair value and carrying value of debt outstanding*

	2014		2013	
As at December 31,	Carrying value	Fair value	Carrying value	Fair value
Series 1	**249**	**283**	249	279
Series 2	**248**	**326**	248	301
Series 3	**99**	**135**	99	117
Series 4	**298**	**336**	298	320
Series 5	**249**	**288**	249	250
	1,143	**1,368**	1,143	1,267

The term notes are accounted for at amortized cost which equals their carrying value. They 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. Fair value is established using valuation data from a benchmark firm.

Interest expense on term notes is presented as Finance costs.

14.3 Credit facilities

The Company has a $300-million five-year unsecured revolving term credit facility maturing on December 5, 2019. This credit facility may be drawn as prime loans or base rate (Canada) advances at the prime or base rate plus a margin as well as bankers' acceptances or Libor advances at the bankers' acceptance or Libor rate plus a margin. This facility was undrawn as at December 31, 2014 and 2013.

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, 2014 and 2013.

Note 15 – Common shares and preferred shares

15.1 Authorized

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

15.2 Issued and outstanding

Table 15.1 – *Reconciliation of number of common shares outstanding*

As at December 31,	2014 (in shares)	2013 (in shares)
Balance, beginning of year	**131,543,134**	133,333,665
Shares repurchased for cancellation	**-**	(1,790,531)
Balance, end of year	**131,543,134**	131,543,134

Table 15.2 – *Issued and outstanding shares, by class*

	Number of shares	Amount (in millions $)
As at December 31, 2014 and 2013		
Common	**131,543,134**	**2,090**
Class A		
Series 1 Preferred	**10,000,000**	**244**
Series 3 Preferred	**10,000,000**	**245**
Total Class A	**20,000,000**	**489**

Class A shares

Issued and outstanding Class A shares would rank both with regards to dividends and return of capital in priority to the common shares.

Series 1 Preferred

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 five-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

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 five-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 Preferred Shares and Series 4 Preferred Shares on the same dates.

15.3 Dividends declared per share

During the year ended December 31, 2014, the Company declared dividends on its Common shares of $1.92 per share (December 31, 2013 – $1.76 per share) and of $1.05 per share on its Preferred shares Series 1 and Series 3 (December 31, 2013 – $1.05 per share).

15.4 Normal course issuer bid

On May 13, 2013, the Company commenced a normal course issuer bid ("NCIB") to purchase during the next 12 months ending May 12, 2014 up to 6,666,683 common shares, representing approximately 5% of its issued and outstanding common shares. The NCIB expired on May 12, 2014 and was not renewed. During the year ended December 31, 2014, no common shares were repurchased for cancelation under the NCIB program. During the year ended December 31, 2013, 1,790,531 common shares, at an average price of $59.37 per common share, were repurchased for cancellation for a total consideration of $106 million. Total cost paid, including fees, was first charged to Share capital to the extent of the average carrying value of the common shares repurchased for cancellation and the excess of $78 million was charged to Retained earnings.

Note 16 – Capital management

The Company's 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 its shareholders and maintain its strong position in the Canadian P&C insurance industry.

The capital is managed on an aggregate basis, as well as individually for each regulated subsidiary. The federally chartered P&C insurance subsidiaries of the Company are subject to regulatory capital requirements defined by OSFI and the *Insurance Companies Act*. Québec provincially chartered subsidiaries are subject to the requirements set by the Autorité des marchés financiers ("AMF") and the *Act respecting insurance*. OSFI and AMF have established Minimum Capital Test ("MCT") guidelines, which set out 100% as the minimum. OSFI has also set out 150% as the supervisory target MCT standard for Canadian P&C insurance companies. To ensure that it attains its objectives, the Company has established a minimum internal threshold of 170% in its principal subsidiaries, in excess of which, under normal circumstances, the Company will maintain its capital.

Table 16.1 – *Capital position of the Company's P&C insurance subsidiaries*

As at December 31,	**2014**	**2013**
Total capital available	**3,933**	3,750
Total capital required	**1,878**	1,849
MCT %	**209%**	203%
Excess capital at 100%	**2,055**	1,901
Excess capital at 150%	**1,116**	977
Excess capital at 170%	**740**	607

Total capital available and total capital required represent amounts applicable to the Company's P&C insurance subsidiaries and are determined in accordance with prescribed OSFI and AMF 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. As at December 31, 2014 and 2013, the Company's P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements, as well as above internal thresholds.

Effective January 1, 2015, OSFI issued new rules with regards to the MCT calculation. Based on the Company's assessment of the final proposals, the impact to the Company's regulatory capital ratios will be positive with the benefits phasing in over a three-year period.

Annually, the Company performs Dynamic Capital Adequacy Testing on the MCT to ensure that the Company has sufficient capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The 2014 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 17 – Earnings per share

Earnings per common share were calculated by dividing the Net income attributable to common shareholders of the Company by the weighted-average number of common shares outstanding during the year. Dilution is not applicable and, therefore, diluted earnings per common share are the same as basic earnings per common share.

Table 17.1 – *Earnings per share*

For the years ended December 31,	2014	2013
Net income attributable to shareholders	**782**	431
Less: Dividends declared on preferred shares, net of tax	**21**	21
Net income attributable to common shareholders	**761**	410
Weighted-average number of common shares outstanding (in millions) during the year	**131.5**	132.4
Earnings per common share – basic and diluted (in dollars)	**5.79**	3.10

Note 18 – Revenues

Table 18.1 – *Revenues*

For the years ended December 31,	2014	2013
Net premiums earned	**7,164**	6,972
Other underwriting revenues	**100**	79
Interest income *(Table 4.6)*	**287**	274
Dividend income *(Table 4.6)*	**174**	168
Net investment gains (losses) *(Table 4.7)*	**173**	(83)
Share of profit from investments in associates and joint ventures *(Table 11.1)*	**19**	26
Other revenues	**98**	77
	8,015	7,513

Table 18.2 – *Premiums written and net premiums earned*

For the years ended December 31,	2014	2013
Premiums written		
Direct	**7,329**	7,305
Ceded	**(187)**	(252)
Net	**7,142**	7,053
Changes in unearned premiums	**22**	(81)
Net premiums earned	**7,164**	6,972

Note 19 – Income taxes

19.1 Income tax expense (benefit) recorded in Net income

Table 19.1 – *Components of income tax expense (benefit) recorded in Net income*

For the years ended December 31,	2014	2013
Current year	**163**	65
Prior-year adjustment	**(19)**	(3)
Benefit arising from a previously unrecognized tax loss or temporary difference	**(3)**	-
Current tax expense	**141**	62
Origination and reversal of temporary differences	**34**	(28)
Deferred tax expense (benefit)	**34**	(28)
	175	34

19.2 Income tax expense (benefit) recorded in OCI

Table 19.2 – *Components of income tax expense (benefit) recorded in OCI*

For the years ended December 31,	2014	2013
Reclassification to income of net gains on AFS instruments	**(29)**	(21)
Net changes in unrealized gains (losses) on AFS instruments	**41**	(6)
Net actuarial gains (losses) on employee future benefits	**(11)**	28
	1	1

19.3 Effective income tax rate

The effective income tax rates are different from the combined Canadian federal and provincial income tax rates. The Consolidated statements of comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory tax rates.

The following table presents the reconciliation of the effective income tax rate to the income tax expense calculated at statutory tax rates.

Table 19.3 – *Effective income tax rate reconciliation*

For the years ended December 31,	2014	2013
Income tax expense calculated at statutory tax rates	**26.5%**	26.5 %
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	**(4.9)%**	(10.0)%
Prior year adjustments	**(1.1)%**	-
Resolution of specific tax matters	**(0.8)%**	-
Non-taxable portion of capital gains	**(0.7)%**	(0.6)%
Non-taxable income	**(0.6)%**	(0.9)%
Equity pick-up net of tax	**(0.5)%**	(1.5)%
Non-deductible expenses	**0.5 %**	0.9 %
Tax losses carried back to prior years	**-**	(6.7)%
Other	**(0.1)%**	(0.4)%
Effective income tax rate	**18.3 %**	7.3 %

19.4 Components of deferred tax assets and liabilities

Table 19.4 – *Components of deferred tax assets and liabilities*

	Consolidated balance sheets Asset (liability)		Consolidated statements of comprehensive income Expense (benefit)	
As at December 31,	**2014**	**2013**	**2014**	**2013**
Net claims liabilities	**101**	94	**(7)**	(3)
Deferred expenses for tax purposes	**69**	78	**(1)**	(2)
Losses available for carry forward	**15**	51	**36**	(22)
Post-employment benefit plans	**12**	2	**(10)**	38
Other	**3**	5	**2**	(2)
Deferred tax assets	**200**	230	**20**	9
Intangible assets	**(144)**	(156)	**(13)**	2
Deferred income for tax purposes	**(58)**	(39)	**19**	(20)
Deferred gains and losses on specified debt obligations	**(16)**	(18)	**(2)**	(2)
Property and equipment	**(18)**	(13)	**5**	(2)
Investments	**-**	(2)	**(2)**	2
Deferred tax liabilities	**(236)**	(228)	**7**	(20)
Net deferred tax asset (liability)/ expense (benefit)	**(36)**	2	**27**	(11)
Reported in:				
Deferred tax assets	**57**	62		
Deferred tax liabilities	**(93)**	(60)		
Net income			**34**	(28)
OCI			**(7)**	17
Shareholders' equity	**(5)**	(4)		

The Company had allowable capital losses of $24 million as at December 31, 2014 (December 31, 2013 – $34 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.

The Company has recognized a deferred tax asset for unused non-capital losses as at December 31, 2014 and 2013.

Note 20 – Employee future benefits

The Company has a number of funded and unfunded defined benefit pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life based on final average earnings and contingent upon certain age and service requirements. Effective January 1, 2014, the Company provides active employees a choice between a defined benefit and a defined contribution pension plan. As at the date of the latest actuarial valuation, the defined benefit obligation for the pension plans comprises 63% in respect of active members, 30% in respect of pensioners and beneficiaries and 7% in respect of deferred members.

Subject to applicable pension legislation, plans are administered either by the Company or by a pension committee, with assets held in a pension fund that is legally separate from the Company. The assets cannot be used for any purpose other than payment of pension benefits and related administrative fees.

Provincial minimum funding regulations require special payments from the Company to amortize any shortfall of registered plans' assets relative to the cost of settling all accrued benefit entitlements through the purchase of annuities or payment of an equivalent lump sum value. Security in the form of letters of credit is permitted in lieu of those special payments, up to a limit of 15% of the above cost of settling accrued benefit entitlements.

Subject to applicable legal requirements, any balance of assets remaining after providing for the accrued benefits of the plan members may be returned to the Company upon termination of the plan. Pension legislation may require that the Company submit a proposal to the members and beneficiaries regarding the allocation of surplus assets. However, on an ongoing basis, a portion of such surplus may be recoverable by the Company through a reduction in future contributions or through payment of eligible administrative expenses.

The Company also offers employer-paid post-retirement life insurance and health care benefit plans to a limited number of active employees and retirees and are now closed to new entrants, as well as post-employment benefit plans that provide health and dental coverage to employees on disability for the duration of their leaves. These post-retirement and post-employment benefit plans are unfunded.

The measurement date for the defined benefit pension plans, as well as for the post-retirement and post-employment benefit plans ("defined benefit plans") is December 31. The latest actuarial valuations for defined benefit plans were performed as at December 31, 2013 or 2012 depending on the plan.

20.1 Funded status

The following table shows the aggregate funded status of the Company's defined benefit plans as well as the net deficit amount reported in Other assets and Other liabilities.

Table 20.1 – *Funded status*

	Defined benefit plans	
As at December 31,	**2014**	**2013**
Defined benefit obligation	**(1,772)**	(1,423)
Fair value of plan assets (net of asset reserve of $6 million in 2013)	**1,728**	1,419
Net defined benefit liability	**(44)**	(4)
Reported in:		
Other assets	**69**	96
Other liabilities[1]	**(113)**	(100)

[1] As at December 31, 2014, the amount reported in Other liabilities is composed of $83 million relating to pension plans (December 31, 2013 – $68 million) and $30 million relating to post-retirement and post-employment benefit plans (December 31, 2013 – $32 million).

The Company makes contributions to the defined benefit pension plans to secure the benefits. The amount and timing of the Company's contributions are made in accordance with applicable pension and tax legislation following the advice of an actuary. Under the provisions of the pension plans, members may annually select between three different defined benefit levels and are required to make contributions to their respective plans based on the benefit level selected. The Company must fund the excess of the required funding over the members' contributions.

Employer contributions to its defined benefit plans amounted to $55 million for the year ended December 31, 2014 (December 31, 2013 – $121 million). Based on the latest projections of the financial position of all its plans, total cash contributions by the Company are expected to be approximately $59 million in 2015. The contributions will vary depending on the results of the December 31, 2014 actuarial valuations, use of funding relief measures, if any, and decisions taken by the Company to use or not use letters of credit as permitted by legislation. The Company is also expected to meet the cost of eligible administrative expenses through the pension funds.

The Company's liquidity risk with regards to pension plans is not significant, as inflows from contributions receivable generally outweigh outflows for benefit payments. A large portion of the investments are held in short-term notes and highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements.

The defined benefit obligation is based on the current value of expected benefit payment cash flows to plan members over their expected lifetime.

20.2 Defined benefit obligation

The movement of the defined benefit obligation is as follows:

Table 20.2 – *Movement of the defined benefit obligation*

	Defined benefit plans	
As at December 31,	**2014**	**2013**
Balance, beginning of year	**1,423**	1,506
Current service cost	**49**	68
Past service cost	**1**	-
Interest expense on defined benefit obligation	**70**	62
Re-measurements arising from actuarial losses (gains) from changes in:		
demographic assumptions	**24**	57
financial assumptions	**235**	(226)
Employee contributions	**25**	14
Benefit payments	**(55)**	(58)
Balance, end of year	**1,772**	1,423

20.3 Fair value of plan assets

The movement of the fair value of plan assets is as follows:

Table 20.3 – *Movement of the fair value of plan assets*

	Defined benefit plans	
As at December 31,	**2014**	**2013**
Balance, beginning of year	**1,425**	1,357
Employer contributions	**55**	121
Employee contributions	**25**	14
Interest income on plan assets	**69**	55
Re-measurements recognized in OCI – return on plan assets	**214**	(59)
Benefit payments	**(55)**	(58)
Other	**(5)**	(5)
Balance, end of year	**1,728**	1,425

Re-measurements on the fair value of plan assets represent the difference between the actual return on plan assets and the interest income credited on plan assets at the rate used to discount the defined benefit obligation. The actual return on pension plan assets for the year ended December 31, 2014 was a gain of $283 million (December 31, 2013 – loss of $4 million).

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

Table 20.4 – *Composition of pension plan assets*

	2014		2013	
As at December 31,	**Fair value**	**% of total**	**Fair value**	**% of total**
Cash and short-term notes	**24**	**1%**	24	2%
Fixed income				
Investment grade				
Government	**755**	**44%**	697	49%
Corporate	**310**	**18%**	184	13%
Asset-backed	**8**	**-**	3	-
Debt securities	**1,073**	**62%**	884	62%
Common shares	**604**	**35%**	510	36%
Derivative financial instruments	**27**	**2%**	7	-
	1,728	**100%**	1,425	100%

Plan assets are essentially all quoted in an active market.

20.4 Employee future benefit expense recognized in Net income

Table 20.5 – *Components of employee future benefit expense recognized in Net income*

	Defined benefit plans	
For the years ended December 31,	**2014**	**2013**
Current service cost	**49**	68
Net interest expense on the net defined benefit obligation	**1**	7
Actuarial gains from changes in demographic assumptions	**(2)**	-
Other	**5**	5
	53	80

There were no material plan amendments, curtailments or settlements during the year that affect the results presented herein.

20.5 Actuarial gains (losses) recognized in OCI

Table 20.6 – *Actuarial gains (losses) recognized in OCI*

	Defined benefit plans	
For the years ended December 31,	**2014**	**2013**
Balance, beginning of year[1]	**(59)**	(163)
Re-measurements related to:		
actuarial losses from changes in demographic assumptions	**(26)**	(57)
actuarial gains (losses) from changes in financial assumptions	**(235)**	226
actual return (loss) on plan assets	**214**	(59)
decrease (increase) in asset reserve	**6**	(6)
Actuarial gains (losses) recognized in OCI	**(41)**	104
Balance, end of year[1]	**(100)**	(59)

[1] Net actuarial losses on employee future benefits recognized in OCI are immediately reclassified to Retained earnings as they will not be reclassified subsequently to Net income in future periods.

20.6 Assumptions used and sensitivity analysis

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

Table 20.7 – *Assumptions used*

	Pension plans		Post-retirement and post-employment benefit plans	
As at December 31,	**2014**	**2013**	**2014**	**2013**
To determine benefit obligation at end of period				
Discount rate	**4.0%**	4.8%	**3.6%**	4.4%
Rate of increase in future compensation	**3.0%**	3.0%	**3.0%**	3.0%
Rate of inflation	**2.0%**	2.0%	**2.0%**	2.0%
Life expectancy for pensioners at the age of 65 – male	**21.5**	21.3	**21.5**	21.3
Life expectancy for pensioners at the age of 65 – female	**24.0**	23.5	**24.0**	23.5
Health care cost trend rate	**n/a**	n/a	**7.0%**	7.5%
Dental care cost trend rate	**n/a**	n/a	**4.5%**	4.5%
To determine benefit expense for the period				
Discount rate	**4.8%**	4.0%	**4.4%**	3.7%
Rate of increase in future compensation	**3.0%**	3.0%	**3.0%**	3.0%
Life expectancy for pensioners at the age of 65 – male	**21.3**	19.8	**21.3**	19.8
Life expectancy for pensioners at the age of 65 – female	**23.5**	22.1	**23.5**	22.1
Health care cost trend rate	**n/a**	n/a	**7.5%**	8.0%
Dental care cost trend rate	**n/a**	n/a	**4.5%**	4.5%

Mortality rates as at December 31, 2014 have been established in accordance with the final table and improvement scale published in February 2014 by the Canadian Institute of Actuaries. In 2013, they were established using the draft table published in 2013 by the Canadian Institute of Actuaries.

The following table presents the sensitivity of the defined benefit obligation to key assumptions.

Table 20.8 – *Impact of changes in key assumptions*

As at December 31,	**2014**	**2013**
Discount rate		
1% increase	**(266)**	(248)
1% decrease	**351**	302
Rate of compensation increase		
1% increase	**71**	64
1% decrease	**(68)**	(61)
Rate of inflation		
1% increase	**64**	54
1% decrease	**(61)**	(51)
Life expectancy		
One-year increase	**40**	35

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

The effect on the defined benefit obligation at the end of the year has been calculated by changing one assumption for the sensitivity but without changing any other assumptions.

The impact of a one-year increase in life expectancy has been calculated by determining the adjustment to be made to the mortality rates of a pensioner aged 65 in order to increase the life expectancy by one year and then applying this adjustment to all mortality rates.

20.7 Risk management and investment strategy

Employee defined benefit provisions expose the Company to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market investment risk. The ultimate cost of the defined benefit provisions to the Company will depend upon future events rather than on the assumptions made. In general, the risk to the Company is that the assumptions underlying the disclosures or the calculation of contribution requirements are not borne out in practice and the cost to the Company is higher than expected. This could result in higher contributions required from the Company and a higher deficit disclosed.

Assumptions which may vary significantly include:

- the actual return on plan assets;
- decrease in asset values not being matched by a similar decrease in the value of liabilities; and
- unanticipated future changes in mortality patterns leading to an increase in the defined benefit liabilities.

The defined benefit obligation and the service cost are sensitive to the assumptions made about salary growth levels and inflation, as well as the assumptions made about life expectation. It is also sensitive to the discount rate, which depends on market yields on ‘AA’ corporate bonds.

The Management Pension Committee is responsible for the oversight of the pension plans, including the review of the funding policy and investment performance, and compliance with the Investment policy of the pension plan assets (the “Policy”). The Policy formulates investments principles, guidelines and monitoring procedures to meet the funds needs and objectives, in conformity with applicable rules. It also establishes principles and limits pertaining to debt and equity market risks. Any deviation from the Policy is reviewed by the Operational Investment Committee. The Risk Management Committee, which is a committee of the Company’s Board of Directors, is responsible for the approval of the Policy and the review of the pension plans investment performance.

The pension plans investment portfolio is managed by Intact Investment Management Inc., a subsidiary of the Company, in accordance with investment policies that focus on asset diversification and asset-liability matching.

Asset diversification

The goal of asset diversification is to limit the potential to have material capital losses. Debt securities in the pension plans are significantly exposed to changes in interest rates and movements in credit spreads. Investment policies seek a balanced target investment allocation between debt and equity securities, within credit concentration limit. The pension plans’ risk management strategy is to invest in debt instruments 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 adopted investment policy generally requires minimum credit ratings of ‘BBB’ for investments in debt securities and limits its concentration in any one investee or related group of investees to 5% of the cost of its total assets for debt securities (except for those that are issued or guaranteed by the Government of Canada or by a province of Canada having at least an ‘A’ rating). The Company has overall limits on credit exposure that include debt and equity securities, as well as off-balance sheet exposure.

The Company also establishes asset allocation limits to ensure sufficient diversification.

Table 20.9 – *Pension plan assets by country of issuer and industry*

As at December 31,	2014	2013
By country of issuer		
Canada	**84%**	84%
U.S.	**8%**	8%
Other	**8%**	8%
	100%	100%
By industry		
Government	**46%**	51%
Banks, insurance and diversified financial services	**24%**	19%
Energy	**7%**	7%
Other	**23%**	23%
	100%	100%

Sensitivity analysis is one risk management technique that assists management in ensuring that equity risks assumed remain within the pension plans' risk tolerance level. The Company's pension plans have a significant concentration of their investments in Canada as well as in the Government sector. This risk concentration is closely monitored.

Asset-liability matching

One objective established in the Policy is to maintain an appropriate balance between the interest rate exposure of the Company's invested assets and the duration of its contractual liabilities. The Company calculates a hedge ratio as the dollar-duration of the pension asset portfolio divided by the dollar-duration of the funded pension plans' obligation. A lower hedge ratio increases the Company's exposure to changes in interest rates. The hedge ratio was 68% as at December 31, 2014 (December 31, 2013 – 73%).

The Company regularly monitors compliance with investment policies.

Note 21 – Share-based payments

21.1 Long-term incentive plans

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

Table 21.1 – *Outstanding units and weighted-average fair value at grant date by performance cycle*

Performance cycles	Number of units	Weighted-average fair value at grant date (in $)	Amount (in millions of $)
As at December 31, 2014			
2012–2014	**255,080**	**57.45**	**15**
2013–2015	**230,447**	**62.08**	**14**
2014–2016	**240,928**	**66.25**	**16**
	726,455	**61.84**	**45**
As at December 31, 2013			
2011–2013	275,770	48.06	13
2012–2014	255,829	57.45	15
2013–2015	208,190	62.08	13
	739,789	55.36	41

The following table shows the movements in LTIP share units during the year.

Table 21.2 – *Movements in LTIP share units*

As at December 31,	2014 (in units)	2013 (in units)
Outstanding, beginning of year	**739,789**	1,088,773
Awarded	**193,167**	201,188
Net change in estimate of units outstanding	**105,397**	18,618
Units settled	**(311,898)**	(568,790)
Outstanding, end of year	**726,455**	739,789

The amount charged to Underwriting expenses for LTIP was $20 million for the year ended December 31, 2014 (December 31, 2013 – $18 million).

During the years ended December 31, 2014 and 2013, the Company settled LTIP units that vested through the plan administrator purchasing common shares on the market and remitting them to the participants. The settlement value of the vested units in 2014 amounted to $23 million ($37 million for the vested units in 2013). The cumulative cost of the vested units in 2014, amounting to $15 million, was removed from Contributed surplus ($23 million for the vested units in 2013). The difference between the market price of the shares and the cumulative cost for the Company of the vested units in 2014, amounting to $6 million, net of $2 million of income taxes, was recorded in Retained earnings on the Consolidated balance sheets ($10 million, net of $4 million of income taxes, for the vested units in 2013).

Starting in 2014, participants meeting a defined share ownership threshold (eligible participants) can elect annually to receive cash in lieu of shares of the Company in respect to the cycle that will come to maturity the following year (first cycle: 2015), subject to the Company's Board of Directors' approval. As at December 31, 2014, the amount to be settled in cash in 2015, based on confirmed elections by eligible participants, amounted to $7 million, and was reported in Other liabilities. The cumulative cost of units, amounting to $6 million, was removed from Contributed surplus. The difference between the market price of the shares and the cumulative cost for the Company at the date of the Company's Board of Director's approval, amounting to $1 million, was recorded in Retained earnings.

21.2 Employee share purchase plan

The following table shows the movements in restricted common shares under the ESPP during the year.

Table 21.3 – *Movements in restricted common shares*

As at December 31,	**2014 (in units)**	**2013 (in units)**
Outstanding, beginning of year	**167,883**	141,814
Awarded	**155,730**	153,322
Vested or forfeited	**(162,179)**	(127,253)
Outstanding, end of year	**161,434**	167,883

The ESPP expense was $11 million for the year ended December 31, 2014 (December 31, 2013 – $9 million).

21.3 Deferred share unit plan

The DSU provision amounted to $7 million as at December 31, 2014 (December 31, 2013 – $5 million). The DSU expense was $2 million for the year ended December 31, 2014 (December 31, 2013 – $1 million).

Note 22 – Related-party transactions

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

22.1 Transactions with associates and joint ventures

Table 22.1 – *Income and expenses with associates and joint ventures*

For the years ended December 31,	2014	2013
Reported in:		
Income		
Net investment income	**5**	5
Expenses		
Underwriting expenses	**172**	172

Table 22.2 – *Assets and liabilities with associates and joint ventures*

As at December 31,	2014	2013
Reported in:		
Assets		
Loans	**91**	94
Liabilities		
Other liabilities	**59**	80

22.2 Compensation of key management personnel

Key management personnel comprise all members of the Board of Directors and certain members of the Executive Committee. The compensation of key management personnel comprises salaries, share-based awards, annual incentive plans and pension value. Total compensation amounted to $13 million for the year ended December 31, 2014 (December 31, 2013 - $14 million).

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.

22.3 Pension plans

Intact Investment Management Inc., a subsidiary of the Company, manages the investment portfolio of the pension plans' Master Trust in return for investment advisory fees charged to the pension plans, for a total of $5 million for the year ended December 31, 2014 (December 31, 2013 - $4 million).

The Company made contributions to pension plans of $55 million for the year ended December 31, 2014 (December 31, 2013 – $121 million).

Note 23 – Additional information on the Consolidated statements of cash flows

The following table provides additional details on the items included in net cash flows provided by (used in) operating activities.

Table 23.1 – *Additional information on the Consolidated statements of cash flows*

For the years ended December 31,	2014	2013
Depreciation of property and equipment	**33**	31
Amortization of intangible assets	**63**	59
Net premiums on debt securities classified as AFS	**17**	28
Share-based payments	**20**	18
Other	**19**	9
Adjustments for non-cash items	**152**	145
Unearned premiums, net	**(22)**	81
Deferred acquisition costs, net	**15**	(13)
Premium and other receivables	**55**	(94)
Other operating assets	**5**	(134)
Other operating liabilities	**(22)**	43
Changes in other operating assets and liabilities	**31**	(117)
Composition of cash and cash equivalents		
Cash	**87**	98
Cash equivalents	**2**	1
Cash and cash equivalents, end of year	**89**	99
Other relevant cash flow disclosures		
Interest paid	**64**	64
Interest received	**284**	276
Dividends received	**174**	168

Note 24 – Commitments and contingencies

24.1 Operating lease commitments

The Company has entered into commercial operating leases on certain property and equipment. These leases have a life ranging from one to 12 years with renewal options included in the contracts.

The following table presents the future minimum rental payments under non-cancellable operating leases.

Table 24.1 – *Operating lease commitments*

As at December 31,	2014
Less than 1 year	**128**
From 1 to 5 years	**374**
Over 5 years	**274**
	776

24.2 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 provisions 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.

Note 25 – Disclosures on rate regulation for automobile insurance

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:

Table 25.1 – *Rate filing 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 premiums written in these provinces totalled $4 billion for the year ended December 31, 2014 and 2013, which represent approximately 99% for the year ended December 31, 2014 and 2013 of automobile direct premiums written.

Table 25.2 – *Regulatory authorities and rate filings for automobile insurance*

Province and territories	Regulatory authority	Rate filing
Alberta	Alberta Automobile Insurance Rate Board	File and approve
Ontario	Financial Services Commission of Ontario	File and approve
Quebec	Autorité des marchés financiers	Use and file
Nova Scotia	Nova Scotia Utility and Review Board	File and approve
New Brunswick	New Brunswick Insurance Board	File and approve
Prince Edward Island	Island Regulatory Appeals Commission	File and approve
Newfoundland and Labrador	Board of Commissioners of Public Utilities	File and approve

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. As at December 31, 2014 and 2013, the Company had no significant regulatory asset or liability.

Note 26 – Standards issued but not yet effective

26.1 Financial instruments

IFRS 9 – *Financial instruments* ("IFRS 9") is a three-part standard that will replace IAS 39 – *Financial instruments: Recognition and measurement* ("IAS 39"). The new standard will reduce complexity by replacing the many different rules in IAS 39. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact that this standard will have on its Consolidated financial statements.

a) Classification and measurement

The classification of financial instruments is dependent of the economic model and the cash flows characteristics.

Table 26.1 – *Classification of financial instruments*

Amortized cost	Fair value through OCI ("FVTOCI")	FVTPL
Default classification when the objective of the economic model is uniquely to: – receive contractual cash flows of principal and interest.	**Default classification when the objective of the economic model is equally to:** – receive contractual cash flows of principal and interest; and – realize cash flows from the sale.	**Default classification for:** – all other financial assets.

An entity can elect on initial recognition to present fair value changes on an equity investment that is not held for trading directly in OCI. 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. For financial assets that must be classified as amortized cost or FVTOCI, an entity can elect to measure them as FVTPL if it eliminates or significantly reduces an accounting mismatch.

b) Hedge accounting

The new model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures (IAS 39 allows components of financial items to be hedged, but not components of non-financial items). It will enable more entities to apply hedge accounting to reflect their actual risk management activities. The new IFRS 9 model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting, compared to IAS 39 which imposes eligibility and compliance based on metrics that are designed solely for accounting purposes.

c) Expected credit loss

This new impairment model applies only to financial assets classified as amortised cost and those that are classified by default as FVTOCI. Under the expected credit loss model, all the financial assets concerned will be impaired, and depending of the circumstances, their impairment will correspond to life time expected credit losses or 12-month expected credit losses.

26.2 Revenues from contracts with customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"). The standard supersedes IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 applies to nearly all contracts with customers: main exceptions are insurance contracts, financial instruments and leases.

IFRS 15:
- specifies how and when to recognize revenue;
- provides more comprehensive guidance for transactions that were not previously addressed;
- improves guidance for multiple-element arrangements; and
- requires entities to provide users of financial statements with more informative, relevant disclosures.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company does not expect significant impacts upon adoption of this standard.

FIVE-YEAR FINANCIAL HISTORY

(Excluding MYA. In millions of Canadian dollars, except as noted)

	2014	2013	2012	2011	2010
Consolidated performance					
Written insured risks (thousands)	7,062	7,115	6,729	5,084	4,614
Direct premiums written	7,349	7,319	6,868	5,099	4,498
Net premiums earned	7,207	7,014	6,571	4,880	4,231
Favourable prior year claims development	(364)	(374)	(372)	(223)	(193)
Underwriting income (loss)	519	142	451	273	193
Combined ratio	92.8%	98.0%	93.1%	94.4%	95.4%
Net investment income	427	406	389	326	294
Net investment gains (losses)	174	(83)	37	204	182
Income before income taxes	957	465	712	594	637
Effective tax rate	18.3%	7.3%	19.8%	23.1%	22.0%
Net operating income	767	500	675	460	402
Net income attributable to shareholders	782	431	571	465	498
Net operating income per share ($)	5.67	3.62	5.00	3.91	3.49
Earnings per share ($)	5.79	3.10	4.20	3.96	4.32
Weighted-average number of common shares outstanding (millions)	131.5	132.4	130.8	115.3	115.1
Operating return on equity	16.3%	11.2%	16.8%	15.3%	15.1%
Return on equity	16.1%	9.3%	13.5%	14.3%	16.9%
Personal lines – total					
Written insured risks (thousands)	6,092	6,123	5,809	4,465	4,089
Direct premiums written	4,973	4,994	4,655	3,627	3,308
Net premiums earned	5,004	4,868	4,539	3,535	3,139
Combined ratio	92.7%	96.7%	95.0%	95.0%	97.5%
Underwriting income (loss)	363	162	226	179	76
Personal auto					
Written insured risks (thousands)	3,900	3,902	3,584	2,723	2,475
Direct premiums written	3,376	3,373	3,093	2,419	2,236
Net premiums earned	3,387	3,349	3,077	2,406	2,157
Combined ratio	94.5%	93.2%	95.7%	90.9%	98.1%
Underwriting income (loss)	186	228	132	219	41
Personal property					
Written insured risks (thousands)	2,192	2,221	2,225	1,742	1,614
Direct premiums written	1,597	1,621	1,562	1,208	1,072
Net premiums earned	1,617	1,519	1,462	1,129	982
Combined ratio	89.0%	104.4%	93.5%	103.5%	96.5%
Underwriting income (loss)	177	(66)	94	(40)	35
Commercial lines – total					
Written insured risks (thousands)	970	992	920	619	525
Direct premiums written	2,376	2,325	2,213	1,472	1,190
Net premiums earned	2,203	2,146	2,032	1,345	1,092
Combined ratio	92.9%	100.9%	88.9%	93.0%	89.3%
Underwriting income (loss)	156	(20)	225	94	117
Commercial auto					
Written insured risks (thousands)	520	526	477	325	282
Direct premiums written	632	612	552	396	336
Net premiums earned	615	603	536	384	326
Combined ratio	89.6%	93.3%	81.5%	86.5%	86.0%
Underwriting income (loss)	64	40	99	52	46
Commercial P&C					
Written insured risks (thousands)	450	466	443	294	243
Direct premiums written	1,744	1,713	1,661	1,076	854
Net premiums earned	1,588	1,543	1,496	961	766
Combined ratio	94.2%	103.9%	91.6%	95.6%	90.7%
Underwriting income (loss)	92	(60)	126	42	71
Financial condition					
Total excess capital (over 170% MCT)	681	550	599	435	809
MCT %	209%	203%	205%	197%	233%
Cash provided by (used in) operating activities	1,378	185	723	532	360
Debt-to-capital ratio	17.3%	18.7%	18.9%	22.9%	14.3%
Book value per share ($)	37.75	33.94	33.03	29.73	26.47
Investments					
Performance					
Market-based yield	3.65%	3.68%	3.63%	4.01%	4.18%
Total investments	13,440	12,261	12,959	11,828	8,653
Portfolio mix (net of hedging positions)					
Short-term notes, including cash and cash equivalents	3%	2%	3%	4%	6%
Fixed-income securities	72%	73%	74%	73%	61%
Preferred shares	9%	10%	10%	11%	16%
Common shares	13%	12%	10%	9%	13%
Loans	3%	3%	3%	3%	4%

THREE-YEAR QUARTERLY REVIEW

(Excluding MYA. In millions of Canadian dollars, except as noted)	2014				2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance												
Written insured risks (thousands)	1,595	1,881	2,142	1,444	1,589	1,899	2,165	1,462	1,543	1,794	2,018	1,374
Direct premiums written	1,760	1,913	2,173	1,503	1,702	1,911	2,182	1,524	1,690	1,798	1,977	1,403
Net premiums earned	1,830	1,826	1,801	1,750	1,804	1,784	1,723	1,703	1,742	1,640	1,599	1,590
Favourable prior year claims development	(78)	(80)	(65)	(141)	(66)	(103)	(95)	(110)	(85)	(70)	(83)	(134)
Underwriting income (loss)	216	124	128	51	67	(50)	42	83	138	67	123	123
Combined ratio	88.2%	93.2%	92.9%	97.1%	96.3%	102.8%	97.5%	95.1%	92.1%	95.9%	92.3%	92.3%
Net investment income	111	106	105	105	104	104	102	96	102	92	95	100
Net investment gains (losses)	(3)	30	44	103	(29)	(3)	(94)	43	6	16	3	12
Income before income taxes	265	244	252	196	130	41	121	173	223	111	161	217
Effective tax rate	22.6%	17.2%	14.7%	18.3%	17.6%	(14.6)%	14.9%	(0.6)%	20.6%	17.1%	19.9%	20.3%
Net operating income	247	185	206	129	143	59	123	175	194	122	180	179
Net income attributable to shareholders	205	202	215	160	107	47	103	174	177	92	129	173
Net operating income per share ($)	1.84	1.37	1.53	0.94	1.05	0.41	0.89	1.27	1.42	0.89	1.35	1.34
Earnings per share ($)	1.52	1.49	1.60	1.17	0.77	0.32	0.73	1.27	1.29	0.67	0.95	1.30
Weighted-average number of common shares outstanding (millions)	131.5	131.5	131.5	131.5	131.5	131.6	133.0	133.3	133.3	130.6	129.6	129.6
Operating return on equity	16.3%	14.3%	11.6%	9.9%	11.2%	12.7%	14.4%	16.0%	16.8%	16.4%	17.3%	16.2%
Return on equity	16.1%	14.5%	11.1%	8.7%	9.3%	11.2%	12.4%	12.9%	13.5%	11.7%	12.7%	13.5%
Personal lines – total												
Written insured risks (thousands)	1,354	1,645	1,858	1,235	1,354	1,656	1,870	1,243	1,310	1,573	1,747	1,179
Direct premiums written	1,129	1,354	1,492	998	1,108	1,367	1,516	1,003	1,097	1,277	1,362	919
Net premiums earned	1,262	1,266	1,256	1,220	1,255	1,237	1,196	1,180	1,202	1,132	1,104	1,101
Combined ratio	87.1%	96.4%	92.2%	95.3%	94.6%	102.9%	95.2%	93.9%	91.8%	103.0%	94.1%	91.4%
Underwriting income (loss)	162	46	98	57	68	(35)	57	72	99	(34)	66	95
Personal auto												
Written insured risks (thousands)	840	1,034	1,220	806	836	1,035	1,226	805	783	954	1,102	745
Direct premiums written	739	909	1,031	697	734	911	1,037	691	722	843	907	621
Net premiums earned	847	857	853	830	861	849	831	808	825	765	744	743
Combined ratio	93.7%	95.8%	91.5%	97.0%	98.4%	93.0%	87.2%	94.1%	103.1%	94.9%	89.0%	95.2%
Underwriting income (loss)	53	36	72	25	14	60	106	48	(25)	39	82	36
Personal property												
Written insured risks (thousands)	514	611	638	429	518	621	644	438	527	619	645	434
Direct premiums written	390	445	461	301	374	456	479	312	375	434	455	298
Net premiums earned	415	409	403	390	394	388	365	372	377	367	360	358
Combined ratio	73.6%	97.7%	93.5%	91.8%	86.4%	124.7%	113.3%	93.5%	67.1%	119.8%	104.5%	83.5%
Underwriting income (loss)	109	10	26	32	54	(95)	(49)	24	124	(73)	(16)	59
Commercial lines – total												
Written insured risks (thousands)	241	236	284	209	235	243	295	219	233	221	271	195
Direct premiums written	631	559	681	505	594	544	666	521	593	521	615	484
Net premiums earned	568	560	545	530	549	547	527	523	540	508	495	489
Combined ratio	90.5%	86.0%	94.7%	101.1%	100.1%	102.5%	102.9%	98.0%	92.7%	80.3%	88.2%	94.4%
Underwriting income (loss)	54	78	30	(6)	(1)	(15)	(15)	11	39	101	57	28
Commercial auto												
Written insured risks (thousands)	128	126	159	107	124	127	165	110	120	114	146	97
Direct premiums written	163	148	192	129	150	144	186	132	146	132	159	115
Net premiums earned	159	157	151	148	154	155	149	145	146	133	129	128
Combined ratio	99.5%	89.4%	79.5%	89.3%	100.4%	86.0%	89.6%	97.3%	84.2%	77.0%	79.6%	85.2%
Underwriting income (loss)	1	16	32	15	(1)	21	16	4	23	31	26	19
Commercial P&C												
Written insured risks (thousands)	113	110	125	102	111	116	130	109	113	107	125	98
Direct premiums written	468	411	489	376	444	400	480	389	447	389	456	369
Net premiums earned	409	403	394	382	395	392	378	378	394	375	366	361
Combined ratio	87.1%	84.7%	100.5%	105.6%	100.0%	109.0%	108.2%	98.2%	95.9%	81.4%	91.3%	97.6%
Underwriting income (loss)	53	62	(2)	(21)	–	(36)	(31)	7	16	70	31	9
Financial condition												
Total excess capital (over 170% MCT)	681	497	657	670	550	515	486	744	599	598	649	595
MCT %	209%	203%	208%	213%	203%	199%	197%	214%	205%	201%	205%	205%
Cash provided by (used in) operating activities	442	519	367	50	(27)	413	275	(476)	204	367	279	(127)
Debt-to-capital ratio	17.3%	17.8%	17.8%	18.4%	18.7%	19.0%	19.0%	18.5%	18.9%	19.5%	19.8%	19.1%
Book value per share ($)	37.75	36.44	36.29	34.80	33.94	33.25	33.15	34.15	33.03	31.81	30.30	30.40
Investments												
Performance												
Market-based yield	3.61%	3.57%	3.69%	3.76%	3.70%	3.83%	3.76%	3.44%	3.58%	3.56%	3.69%	3.73%
Total investments	13,440	13,199	12,913	12,371	12,261	12,285	12,283	12,532	12,959	12,844	11,668	11,513
Portfolio mix (net of hedging positions)												
Short-term notes, including cash and cash equivalents	3%	3%	4%	2%	2%	5%	3%	1%	3%	5%	5%	3%
Fixed-income securities	72%	73%	72%	72%	73%	71%	73%	74%	74%	72%	72%	73%
Preferred shares	9%	9%	9%	10%	10%	9%	10%	10%	10%	10%	10%	11%
Common shares	13%	12%	12%	13%	12%	11%	11%	12%	10%	10%	9%	10%
Loans	3%	3%	3%	3%	3%	4%	3%	3%	3%	3%	4%	3%

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 earnings per share (AEPS) A non-IFRS financial measure calculated as net income from continuing operations for a specific period less preferred share dividends plus the after-tax impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs and change in fair value of contingent consideration, divided by the weighted-average number of common shares outstanding during the same period.

Adjusted return on equity (AROE) A non-IFRS financial measure calculated as net income from continuing operations for a 12-month period less preferred share dividends plus the after-tax impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs and change in fair value of contingent consideration, 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 mortgage-backed securities, auto loan receivables, credit card receivables and asset-backed commercial paper.

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 Shareholders' equity (excluding preferred shares) divided by the number of common shares outstanding 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 Any one claim, or group of claims, equal to or greater than $7.5 million related to a single event.

Claims expenses The direct and indirect expenses of settling claims.

Claims liabilities Technical accounting provisions comprised of the following: (1) case reserves, (2) claims that are incurred but not reported (IBNR), and (3) 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 an unprofitable underwriting result.

Counterparty Any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to 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 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 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 (DPW) The total amount of premiums for new and renewal policies billed (written) during a specific reporting period from the primary insured.

GLOSSARY

Earnings per share to common shareholders (EPS), basic Calculated as net income attributable to common shareholders divided by the weighted-average number of common shares outstanding during the same period.

Earnings per share to common shareholders (EPS), diluted Calculated as net income attributable to common shareholders divided by the weighted-average number of common shares outstanding during the same 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 net liquid assets of the non-regulated entities.

Expense ratio Underwriting expenses including commissions, premium taxes and general expenses incurred in connection with underwriting activities 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.

Forwards 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 Standardized contracts with respect to amounts and settlement dates, and traded on regular futures 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" positions.

Incurred but not reported (IBNR) claims reserve 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" 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 interest-rate-sensitive financial instruments 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" includes IFRS and interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC).

Investments or investment portfolio Financial 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 Non-IFRS financial measure defined as the annualized total pre-tax investment income (before expenses) divided by the average fair values of net 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.

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 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. OSFI expects insurers to establish a target capital level above the minimum requirement, and maintain ongoing capital, at no less than the supervisory target of 150% of required capital under MCT. The Company has an internal operating target of 170%.

Net operating income (NOI)
A non-IFRS financial measure calculated as net income from continuing operations for a specific period less preferred share dividends, plus the after-tax impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs, change in fair value of contingent consideration, net investment gains (losses), difference between expected return and discount rate on pension assets, and MYA.

Net operating income per share (NOIPS) A non-IFRS financial measure calculated as net operating income for a specific period less preferred share dividends, divided by the weighted-average number of common shares outstanding during 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 during the same period.

Normal course issuer bid (NCIB)
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)
A non-IFRS financial measure calculated as 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 grants to the buyer 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 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 (PfAD) An amount added to undiscounted case reserves and IBNR to account for adverse deviation from claims reserve estimates.

Reinstatement premium Premium payable to restore the original reinsurance policy limit as a result of a reinsurance loss payment under a catastrophe cover. Reinstatement premiums are reported in Net premiums earned.

Reinsurer An insurance company that agrees 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 the 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 claimants 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.

Underlying current year loss ratio
A non-IFRS financial measure calculated as current year claims ratio excluding catastrophe losses, reinstatement premiums and prior year claims development.

Underlying growth Growth in DPW normalized for the effect of multi-year policies. This measure matches DPW to accident year, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.

Underwriting income Net premiums earned less net claims incurred, commissions, premium taxes and general expenses (excluding MYA).

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

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President, Placements Beluca Inc.

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Corporate Director

Janet De Silva [2,4]
President and Chief Executive Officer, Toronto Region Board of Trade

Claude Dussault
Chairman of the Board and President, ACVA Investing Corporation

Eileen Mercier [1,4]
Corporate Director

Timothy H. Penner [2,4]
Corporate Director

Louise Roy [2,3]
Chancellor and Chair of the Board, Université de Montréal and Invited Fellow, Centre for Interuniversity Research and Analysis on Organizations

Frederick Singer [1,3]
CEO of Echo360

Stephen Snyder [1,3]
Corporate Director

Carol Stephenson [2,3]
Corporate Director

EXECUTIVE COMMITTEE MEMBERS

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Martin Beaulieu
Senior Vice President and Chief Operating Officer, Direct-to-Consumer Distribution

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Senior Vice President, Atlantic Canada

Jean-François Blais
President, Intact Insurance

Debbie Coull-Cicchini
Senior Vice President, Ontario

Jean-François Desautels
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Claude Désilets
Senior Vice President and Chief Risk Officer

Monika Federau
Senior Vice President and Chief Strategy Officer

Anne Fortin
Senior Vice President, Marketing and Strategic Relationships, Direct-to-Consumer Distribution

Louis Gagnon
President, Service and Distribution

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

Louis Marcotte
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Werner Muehlemann
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Executive Vice President, Governance and Capital Management

Peter Weightman
President, BrokerLink

Notes:
1 Denotes member of the Audit Committee
2 Denotes member of the Compliance Review and Corporate Governance Committee
3 Denotes member of the Human Resources and Compensation Committee
4 Denotes member of the Risk Management Committee

For complete biographies of the members of the Board of Directors, please see the Management Proxy Circular which may be found on the SEDAR website at www.sedar.com.

Concept and Design: THE WORKS DESIGN COMMUNICATIONS www.worksdesign.com

Credit rating
IFC's long-term issuer rating with Moody's Investors Services is 'Baa1' and the Company's principal operating insurance subsidiaries are rated 'A1' for Insurance Financial Strength (IFS). IFC's long-term issuer rating with A.M. Best is 'a-' and its principal operating subsidiaries have a Financial Strength Rating (FSR) of 'A+' with stable outlook. IFC's long-term issuer rating with DBRS is 'A (low)'.

DBRS has assigned a rating of 'Pfd-2 (low)' with a Stable trend for the Non-cumulative Rate Reset Class A Shares Series 1 and 3 (the "Series 1 and 3 Preferred Shares") issued on July 12, 2011 and August 18, 2011, respectively.

Toronto Stock Exchange (TSX) listings
Common Shares Ticker Symbol: IFC
Class A Series 1 Preferred Shares Ticker Symbol: IFC.PR.A
Class A Series 3 Preferred Shares Ticker Symbol: IFC.PR.C

Annual and Special Meeting of Shareholders
Date: Wednesday, May 6, 2015
Time: 2 pm ET
Location/Venue: Art Gallery of Ontario
317 Dundas Street West
Toronto, Ontario M5T 1G4

Version française
Il existe une version française du présent rapport annuel à la section Relations investisseurs de notre site Web www.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.

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1 800 564 6253

Auditors
Ernst & Young LLP

Earnings release dates
Q1 – Wednesday, May 6, 2015
Q2 – Wednesday, July 29, 2015
Q3 – Wednesday, November 4, 2015
Q4 – Wednesday, February 10, 2016

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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	**$ 69.95**	**$ 65.82**	**$ 68.80**	**16,814,617**
Q2	**$ 74.92**	**$ 67.89**	**$ 73.58**	**15,294,740**
Q3	**$ 76.32**	**$ 70.52**	**$ 72.51**	**16,428,400**
Q4	**$ 84.42**	**$ 71.11**	**$ 83.85**	**17,726,044**
Year 2014	**$ 84.42**	**$ 65.82**	**$ 83.85**	**66,263,801**
Q1	$ 66.82	$ 61.65	$ 62.25	16,033,974
Q2	$ 64.27	$ 56.44	$ 59.25	31,134,095
Q3	$ 63.36	$ 56.53	$ 61.78	17,048,486
Q4	$ 69.74	$ 61.48	$ 69.37	14,762,433
Year 2013	$ 69.74	$ 56.44	$ 69.37	78,978,988
Q1	$ 61.69	$ 55.65	$ 60.03	13,056,282
Q2	$ 65.00	$ 59.58	$ 63.39	17,767,530
Q3	$ 64.69	$ 57.61	$ 59.80	13,760,058
Q4	$ 65.13	$ 58.25	$ 64.77	12,876,735
Year 2012	$ 65.13	$ 55.65	$ 64.77	57,460,605

Source: Toronto Stock Exchange

OUR VALUES

We behave with integrity

We are customer driven

We are socially responsible

We strive for excellence

We respect each other

belairdirect.

VIEW OUR ONLINE REPORT
reports.intactfc.com/2014

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