OFFER A CUSTOMER
EXPERIENCE
THAT'S SECOND TO NONE

A TOP EMPLOYER
ATTRACTS THE BEST
EMPLOYEES

BE ONE OF THE
MOST RESPECTED
COMPANIES IN CANADA

[intact]

BIG IDEAS DISCIPLINED APPROACH
2015 ANNUAL REPORT

We are the largest provider of property and casualty ("P&C") insurance in Canada with almost $8 billion in annual direct premiums written ("DPW") and an estimated market share of 17%. We insure more than 5 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 $13.5 billion.

FINANCIAL HIGHLIGHTS

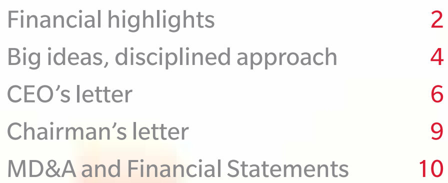
(excluding MYA, in millions of Canadian dollars, except as noted)

	2015	2014	2013	2012	2011
Consolidated performance					
Written insured risks (thousands)	**7,419**	7,062	7,115	6,729	5,084
Direct premiums written	**7,907**	7,349	7,319	6,868	5,099
Net premiums earned	**7,535**	7,207	7,014	6,571	4,880
Combined ratio	**91.7%**	92.8%	98.0%	93.1%	94.4%
Underwriting income	**628**	519	142	451	273
Net investment income	**424**	427	406	389	326
Net operating income	**860**	767	500	675	460
Net investment gains (losses)	**(64)**	174	(83)	37	204
Net income	**706**	782	431	571	465
Net operating income per share ($)	**6.38**	5.67	3.62	5.00	3.91
Earnings per share ($)	**5.20**	5.79	3.10	4.20	3.96
Book value per share ($)	**39.83**	37.75	33.94	33.03	29.73
Operating return on equity	**16.6%**	16.3%	11.2%	16.8%	15.3%
Adjusted return on equity	**14.3%**	16.8%	10.3%	16.1%	17.4%

ONLINE
ANNUAL REPORT

Please visit our online annual report to view videos, interactive features and additional information on our "big ideas, disciplined approach".

It can be accessed by scanning this QR code or visiting **reports.intactfc.com/2015**



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BIG IDEAS DISCIPLINED APPROACH

We are inspired by an idea – to be Canada's most respected auto, home and business insurance provider. A company where we are true to our values, where our people are engaged because they know their work matters and where our customers are our advocates because they know what matters to them matters to us. We are Intact Financial Corporation.

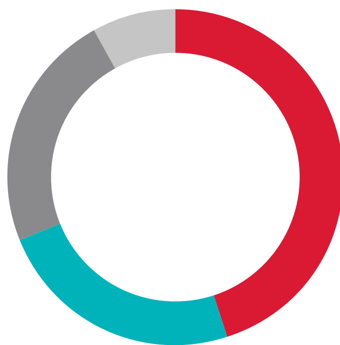
This annual report contains forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, as a number of factors could cause the Company's actual results, performance or achievements, or future events or developments to differ materially from those expressed 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 13% compound annual growth in dividends per share, and 14% compound annual total return since our IPO.

2015 DIRECT PREMIUMS WRITTEN BY BUSINESS LINE

(excluding pools, %)



Personal auto	45%
Personal property	24%
Commercial P&C	23%
Commercial auto	8%

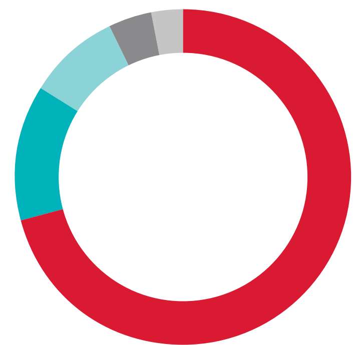
2015 DIRECT PREMIUMS WRITTEN BY DISTRIBUTION CHANNEL

(excluding pools, %)

Intact Insurance	78%
BrokerLink	8%
Direct-to-consumer	14%

2015 INVESTMENT MIX

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



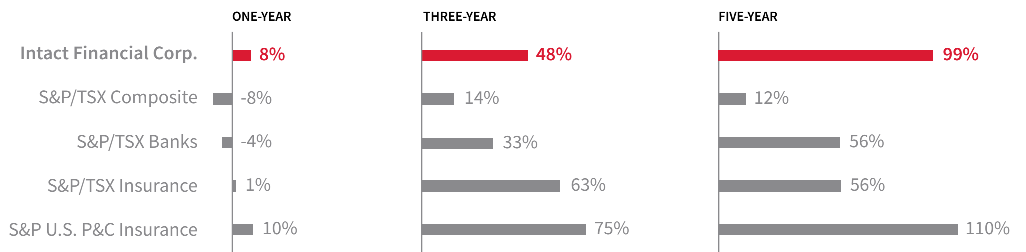
Fixed income	71%
Common shares	13%
Preferred shares	9%
Cash and short-term notes	4%
Loans	3%

TOTAL SHAREHOLDER RETURN

15%

On a total shareholder return basis (including dividends), our 15% CAGR over the past five years was higher than most comparable indices, bolstered by our operating results.

Source: Bloomberg

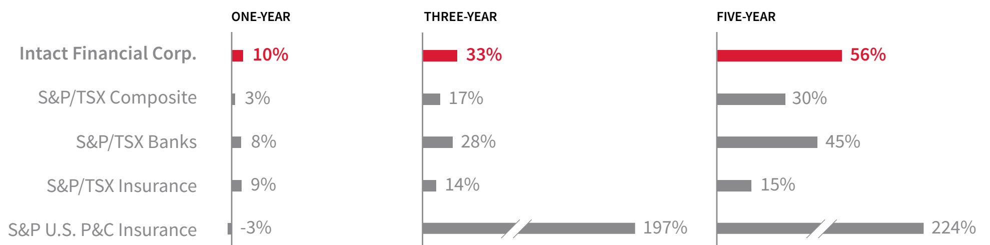


DIVIDENDS PER SHARE GROWTH

9%

We are proud of our dividend growth track record, including a five-year CAGR of 9%, which compares favourably versus our peers.

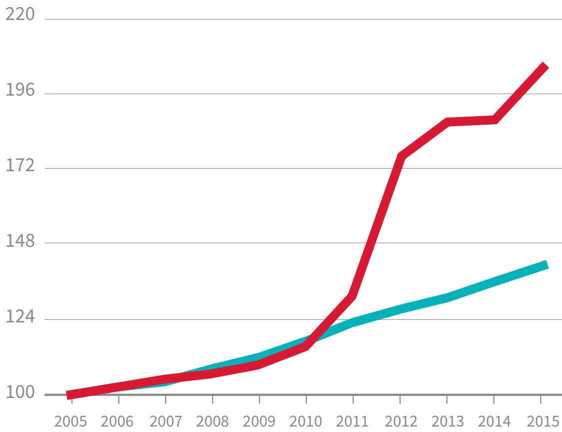
Source: Bloomberg



DIRECT PREMIUMS WRITTEN GROWTH

(%) (base 100 = 2005)

● IFC ● Industry

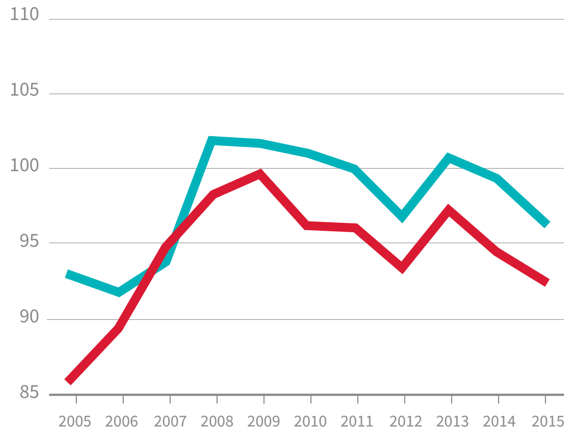


The combination of our organic growth and accretive acquisitions has led to a significant growth outperformance versus the industry.

COMBINED RATIO[1]

(%)

● IFC ● Industry

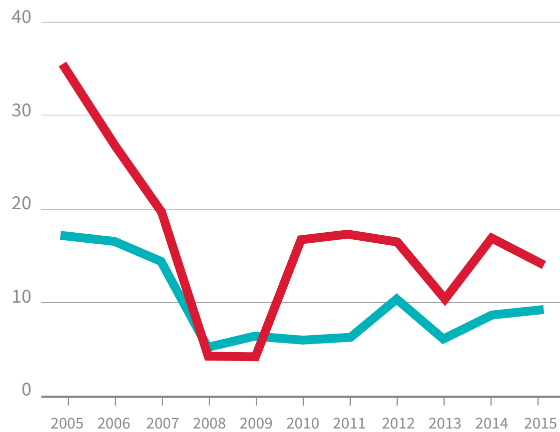


Our sophisticated pricing, underwriting discipline and in-house claims expertise have enabled us to outperform the industry's combined ratio.

RETURN ON EQUITY[2]

(%)

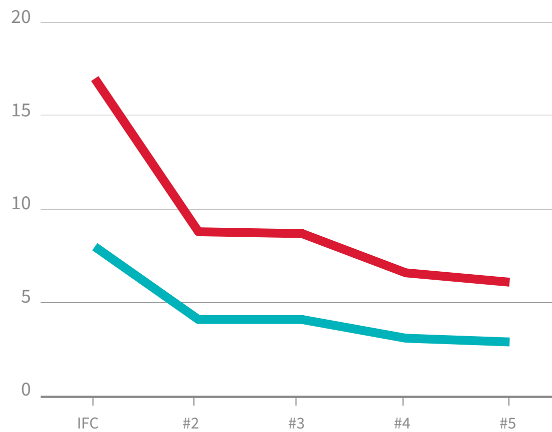
● IFC ● Industry



Our superior underwriting results, investment performance and capital management have led to a better ROE than the industry.

MARKET SHARE BY COMPANY

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



With an estimated market share of 17%, we are 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 December 31, 2015.

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 in our Glossary.

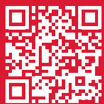
BIG IDEAS DISCIPLINED APPROACH

We believe that insurance is not about things. It's about people. This belief is the foundation of three big goals at the company – deliver the best customer experience, be a top employer and become one of Canada's most respected companies. To do so, we live our values, embrace change as an opportunity, and carry out our plans with our usual disciplined approach.

A LEADING CUSTOMER EXPERIENCE

We take our responsibility to customers very seriously and appreciate that good service is good business. We believe in going beyond expectations and delivering an experience that is second to none. Our scale and in-house expertise mean that we can deliver a claims experience that is not easily replicated by our peers. We continue to make investments in technology and data analytics to "make insurance simple" and offer innovative insurance solutions. As customers' needs evolve, our dedication to a leading customer experience remains unchanged. Through our disciplined approach to continuous innovation, we will ensure that we remain an insurance provider of choice in the years ahead.

More than
3,000 CLAIMS PROFESSIONALS
providing a seamless, high-quality experience 24/7



VIEW OUR REPORT ONLINE

Please visit our online annual report (reports.intactfc.com/2015) to view videos, interactive features and additional information on how "big ideas, disciplined approach" shaped our business in 2015.

ONE OF CANADA'S BEST EMPLOYERS

It's easy to be one of Canada's best employers when you have the best employees. Employees are at the heart of what we do best: helping people in good times and bad. Our people are at the centre of what makes Intact successful as an organization. That's why employee engagement is one of our top priorities. This year, Intact was recognized for the first time as an Aon Hewitt Best Employer, Platinum Level, which shows that our employees are engaged, live our values and, most importantly, are proud to be part of Intact. Intact was also recognized by Mediacorp as one of Canada's top 100 employers in 2016 for creating exceptional workplaces for employees. Our promise to our employees rests on four pillars: we will support their career and growth, surround them with inspiring teams, offer a financial rewards program that recognizes their success and we won't compromise on our values of integrity and respect – because they matter as much as results.

TOP 100 EMPLOYER,

as recognized by Mediacorp Canada Inc. for 2016

ONE OF CANADA'S MOST RESPECTED COMPANIES

We want to earn the right to be one of Canada's most respected companies. We know that to do so, we need to anchor our actions to a firm foundation of values. These values – integrity, respect, customer driven, excellence and social responsibility – are the key to meeting and exceeding customer and employee needs and expectations. These values speak to our transparency in how we work with all of our stakeholders, strive to grow by exceeding expectations and maintain a track record of doing what we say we will do. Intact had a strong finish to 2015, and we are well positioned to continue outperforming the industry due to our pricing and underwriting discipline, claims management capabilities, prudent investment and capital management practices, and strong financial position. We are energized by the opportunities that the future brings. By responding to change with agility, excelling at fundamentals and staying true to our values, we aim to be one of Canada's most respected companies.

OUR VALUES:

integrity, respect, customer driven, excellence, social responsibility

CEO'S LETTER

A DISCIPLINED APPROACH TO OUR BIG GOALS

At Intact, we firmly believe that we are here to help people, businesses and society prosper in good times and be resilient in bad times. Again in 2015, our employees and brokers worked very hard to provide our customers with an experience that is second to none. It is becoming increasingly clear that our customers truly value that what matters to them also matters to us. That's why so many recommend us to their friends and family, one of our key ambitions.

Charles Brindamour
Chief Executive Officer

CEO'S VIDEO MESSAGE
reports.intactfc.com/2015

Being intensely driven by our customers is critical to maintaining our position in the marketplace. Because we believe that insurance is about people (not things), our employees' engagement is key. More and more, our people understand that they make a real difference and are proud of what they do. My colleagues and I feel quite lucky to have the best people in the industry. In return, we have to be one of the best employers in Canada, another important ambition.

Ultimately, we are trying to make Intact Financial Corporation one of the most respected companies in Canada. One driven by strong values and moral character, but also one that outperforms its peers every year and grows its operating earnings over time.

Year in review

In 2015, we progressed on all of our ambitions. In our quest for customers to be our advocates, we made significant strides by improving the digital experience we provide, raising the bar in claims, building strategic partnerships and adding products to our offer. In automobile insurance, Intact Insurance scored "highest in customer satisfaction with the auto insurance claims experience" in a J.D. Power study.[1]

To stay ahead of the curve, we launched the Intact Lab. This group aims to advance our core competencies in data, risk selection and digital experience. While still young, the team made meaningful contributions to our growth and outperformance in 2015. This bodes well for 2016.

1 Intact Insurance received the highest numerical score in the proprietary J.D. Power 2015 Canadian Auto Claims Study℠, based on 2,583 total responses, ranking 11 providers. Excludes those with claims only for glass/windshield, theft/stolen or roadside assistance. Proprietary results based on experiences and perceptions of consumers surveyed February–April 2015. Your experiences may vary. Visit jdpower.com

When it comes to our employees, we were pleased to be recognized as an Aon Hewitt Platinum Level Best Employer and as one of Canada's Top 100 Employers by Mediacorp Canada Inc. for 2016. While those accolades are appreciated, we have much work to do on that front.

When employees are engaged, customers are happy. If all goes well, this should translate into strong financial performance. This was the case in 2015. Direct premiums written grew by 8% to reach $7.9 billion in direct premiums written and increased net operating income by 12% to $860 million. Overall, we delivered a solid operating return on equity of 16.6%.

From a capital perspective, we ended the year with a strong balance sheet and $625 million in excess capital, despite having returned almost $300 million to our shareholders in dividends and funding the acquisition of Canadian Direct Insurance Inc. ("CDI"). This move was strategically important, as it helped strengthen our distribution platform by expanding our direct-to-consumer experience from coast to coast.

We also announced a 9% dividend increase, our 11th consecutive annual increase since we became a public company. Our financial results enabled us to deliver excellent value to our shareholders with a total return of more than 8% in 2015, or almost 15% compound annual total return over the last five years, better than the S&P/TSX and Canadian financial peers.

We remain committed to addressing climate change, one of the most significant issues facing Canadians and our industry. In November, we announced the launch of the Intact Centre on Climate Adaptation ("ICCA") with the University of Waterloo, a continuation of our partnership on the Climate Change Adaptation Project ("CCAP"), which we began in 2009. We believe this partnership will help foster innovative solutions aimed at reducing the physical, financial and social impacts of extreme weather on Canadian communities.

Industry outlook

Overall, we believe the property and casualty insurance environment remains favourable. In the near term, we anticipate low single digit growth in premiums in personal auto. More specifically, we believe mild rate reductions in Ontario will be offset by increases in other regions. For personal property, we expect the current hard market conditions to continue given the impact of changing weather patterns. In commercial lines, we believe the continued low interest rate environment, combined with elevated loss ratios driven in part by weather events, have translated into firmer market conditions.

"Ultimately, we are trying to make Intact Financial Corporation one of the most respected companies in Canada. One driven by strong values and moral character, but also one that outperforms its peers every year and grows its operating earnings over time."

As for the industry trend in profitability, we expect the combined ratio should continue to improve in 2016 from the recent peak above 100% in 2013 and the ROE should trend back toward its long-term average of 10% over time. From our perspective, we remain confident that the strength of our operational discipline and initiatives will continue to help us outperform the industry's ROE by at least 500 basis points in 2016 and grow net operating income per share by 10% per year over time.

2016 and beyond

Our customers' expectations are evolving quickly and new players are entering the market. It's an exciting time to be a part of the property and casualty insurance industry as opportunities abound. Our strategy in the years to come is centred on four pillars:

Customer Driven – Build our brands by making Intact Insurance and belairdirect household names. Improve our customer experience through world-class claims service and digital interactions. Simplify our products and how we make them available.

Excel at Fundamentals – Enhance our strengths in pricing and risk selection by leveraging new sources of data. Leverage our size in claims to improve our supply chain. Transform our technology platforms to enhance our agility.

16.6% operating return on equity

Strengthen Distribution – Support brokers in consolidating distribution as well as through great technology, people and products. Expand our BrokerLink platform as well as our direct-to-consumer operation. Continue to participate in the consolidation in the Canadian marketplace.

Invest in People – Build and develop the best team to succeed now and in the future. Create a workplace where our employees are engaged and where we value people as our biggest strength. Continue to reinforce that living our values matters as much as results.

In the same way that we are looking at evolving customer needs and building on our capabilities, we continue to look for new growth streams and opportunities to accelerate our learning through international markets and adjacent business ventures. Our recent investment in Metromile Inc., an innovative distributor of pay-per-mile insurance, is a concrete step in that direction.

Supporting brokers

Our relationships with brokers across the country are important to our success and enable us to meet rapidly evolving customer needs. To help these entrepreneurs be the best they can be, we are committed to continue to significantly invest in our brand and our products while maintaining a very strong local presence, second-to-none claims service and great technology. We intend to continue to offer one of the best broker experiences in the industry.

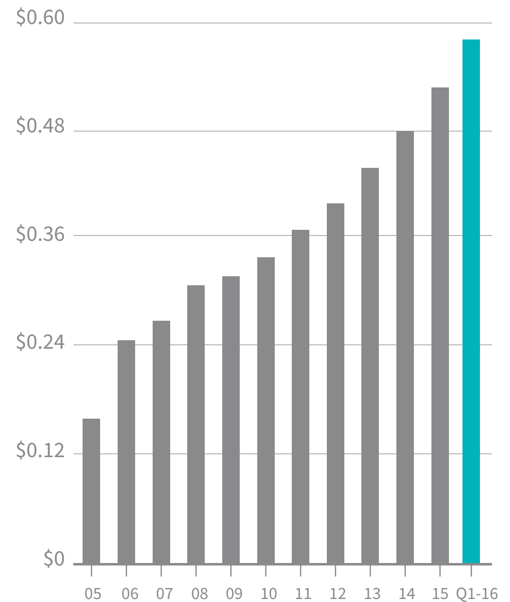
In closing

We are excited about the opportunities in 2016 and beyond. We believe that our disciplined underwriting, robust capital levels and passionate employees place us in a very strong position to benefit from the environment in which we compete.

I would like to thank our Board of Directors, whose insight and guidance continue to steer us in the right direction. Finally, to our customers, shareholders and brokers, we appreciate your continued support. We will strive to maintain your confidence and reward it in the years ahead.

Charles Brindamour
Chief Executive Officer

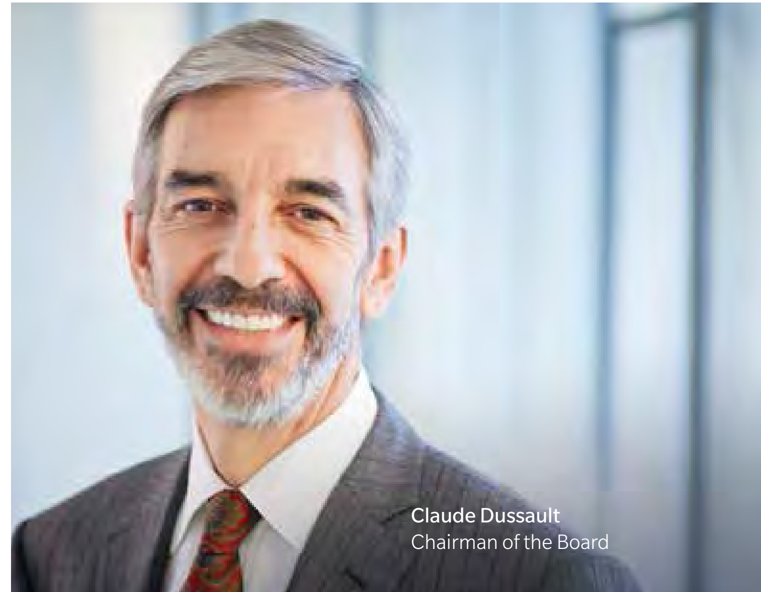
QUARTERLY DIVIDENDS PER SHARE



CHAIRMAN'S LETTER

2015 – A YEAR OF **GROWTH AND** ACHIEVEMENTS

Intact had a very strong year in 2015. Your company continued to improve in profitability, delivered strong organic growth and once again outperformed the industry. These results attest to the strong strategic direction of your company with its demonstrated success from growth initiatives and capability in commercial lines to improve performance.



Claude Dussault
Chairman of the Board

Following the acquisition of CDI, your company continued to integrate its people and processes, enhancing its presence from coast to coast. Aligned with its customer driven focus, and its focus on meeting the evolving needs and expectations of customers, Intact renewed its commitment to raise the bar on the customer experience – through a host of innovative initiatives, growing its brand awareness and accelerating its digital leadership.

Besides providing strategic stewardship on customer-facing initiatives, your Board invested significant time and effort on Intact's people strategy, specifically relating to robust succession planning and diversity. Intact respects and celebrates diversity. This was confirmed at a Catalyst event of 2015, where Charles Brindamour was the recipient of an award for his inclusive leadership and support for the professional advancement of women.

In the year, your Board continued to strengthen your company's risk management. This effort was devoted to looking at IT practices and cyber-security, as well as potential threats. Further, we reviewed our asset-management strategy, paying specific attention to the protection and mix of assets, balanced against our liabilities. As well, your Board continued to review and apply governance best practices.

We also welcomed a new member to your Board of Directors, Mr. Robert G. Leary. Mr. Leary has vast knowledge of asset and investment management. He also has a demonstrated history of delivering innovation and customer-focused strategies and initiatives across diverse distribution channels. These strengths make him a highly respected complement to the collective expertise of your Board.

We know investors value transparency and communication. Your company's efforts paid off, as Intact was recognized in the Brendan Wood Investor Intelligence Report for Q4 2015 – ranking #1 in Canada across Banks, Financial Services and Insurance in

"Besides providing strategic stewardship on customer-facing initiatives, your Board invested significant time and effort on Intact's people strategy, specifically relating to robust succession planning and diversity."

shareholder confidence, corporate strategy, short-term and long-term growth, CEO, Senior Management and Board.

Internally, on the employee engagement front, Intact received Aon Hewitt's 2016 Best Employer Platinum award. We were also recognized as one of Canada's top 100 employers by Mediacorp Canada Inc. for 2016. Both awards were a first for your company, and are outstanding achievements, reflective of the efforts of all employees at Intact. Congratulations to your team on these milestones.

Together, with the leadership team, your Board continues to hone the strategic direction of your company. On behalf of my colleagues, I thank you for another rewarding year. Your unwavering commitment and disciplined execution to delivering a customer experience that is second to none provides substantial value to all our stakeholders and ensures a successful future for your company.

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 64; Financial Statements – pages 1 to 63.

Intact Financial Corporation

Management's Discussion and Analysis

For the year ended December 31, 2015

INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the year ended December 31, 2015

(in millions of dollars, except as otherwise noted)

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, 2015. 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, 2015 compared to the corresponding periods in 2014. It should be read in conjunction with our Consolidated financial statements for our fiscal year ended December 31, 2015. All amounts herein are expressed in Canadian dollars. This MD&A is dated February 9, 2016.

"Intact", the "Company", "IFC", "we" and "our" are terms used throughout the document to refer to Intact Financial Corporation and its subsidiaries. Further information about Intact Financial Corporation, including the Annual Information Form, may be found online on SEDAR at www.sedar.com.

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Non-IFRS financial measures

We use both IFRS and non-IFRS financial measures to assess our performance. Non-IFRS financial 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 22 – *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 DPW (underlying), Underlying current year loss ratio, Underwriting income, NOI, NOIPS, OROE, ROE, AROE, Non-operating results, AEPS, 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.

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, including its acquisition of Canadian Direct Insurance Inc. ("CDI"), 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 catastrophe 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 and potential disruption to those systems, including evolving cyber-attack risk; 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 the section entitled *Risk management* (Sections 16-19) 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

Abbreviation	Description	Abbreviation	Description
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	**NEP**	Net earned premiums
BVPS	Book value per share	**NOI**	Net operating income
CAD	Canadian Dollar	**NOIPS**	NOI per share
CAGR	Compound annual growth rate	**OCI**	Other comprehensive income
CAT	Catastrophe	**OROE**	Operating ROE
DBRS	Dominion Bond Rating Services	**OSFI**	Office of the Superintendent of Financial Institutions
DPW	Direct premiums written	**PYD**	Prior year claims development
EPS	Earnings per share to common shareholders	**ROE**	Return on equity
FVTPL	Fair value through profit and loss	**S&P**	Standard & Poor's
IFRS	International Financial Reporting Standards	**U.S.**	United States
LTIP	Long-term incentive plans	**USD**	U.S. Dollar

Important notes

- Unless otherwise noted, DPW refers to DPW as reported under IFRS, excluding industry pools (referred to as "DPW" or "reported DPW" in this MD&A).
- 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. As a result, total revenues exclude other underwriting 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.
- A large loss is defined as a single claim larger than $0.25 million but smaller than the CAT threshold of $7.5 million.
- A non-catastrophe weather event ("non-CAT weather event") is a group of claims which is considered significant but that is smaller than the CAT threshold of $7.5 million, related to a single weather event.
- All references to "total excess capital" in this MD&A include excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries, unless otherwise noted.
- Unless otherwise noted, market share and market related data are based on the latest available annual data (2014) from MSA Research Inc. and exclude Lloyd's Underwriters Canada ("Lloyd's"), Insurance Corporation of British Columbia ("ICBC"), Saskatchewan Government Insurance ("SGI"), Saskatchewan Auto Fund ("SAF"), Manitoba Public Insurance ("MPI") and Genworth Financial Mortgage Insurance Company Canada ("Genworth"). Market share and market positioning reflect the impact of acquisitions and are therefore presented on a proforma basis.
- In an effort to maximize disclosure effectiveness, we aim to reduce duplication in our disclosures. As such, we have made a cross reference to the Consolidated financial statements in our MD&A in situations where the information that would have been provided as part of the MD&A would have been substantially the same.
- Certain totals, subtotals and percentages may not agree due to rounding. 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%.

OVERVIEW

Section 1 – About Intact Financial Corporation

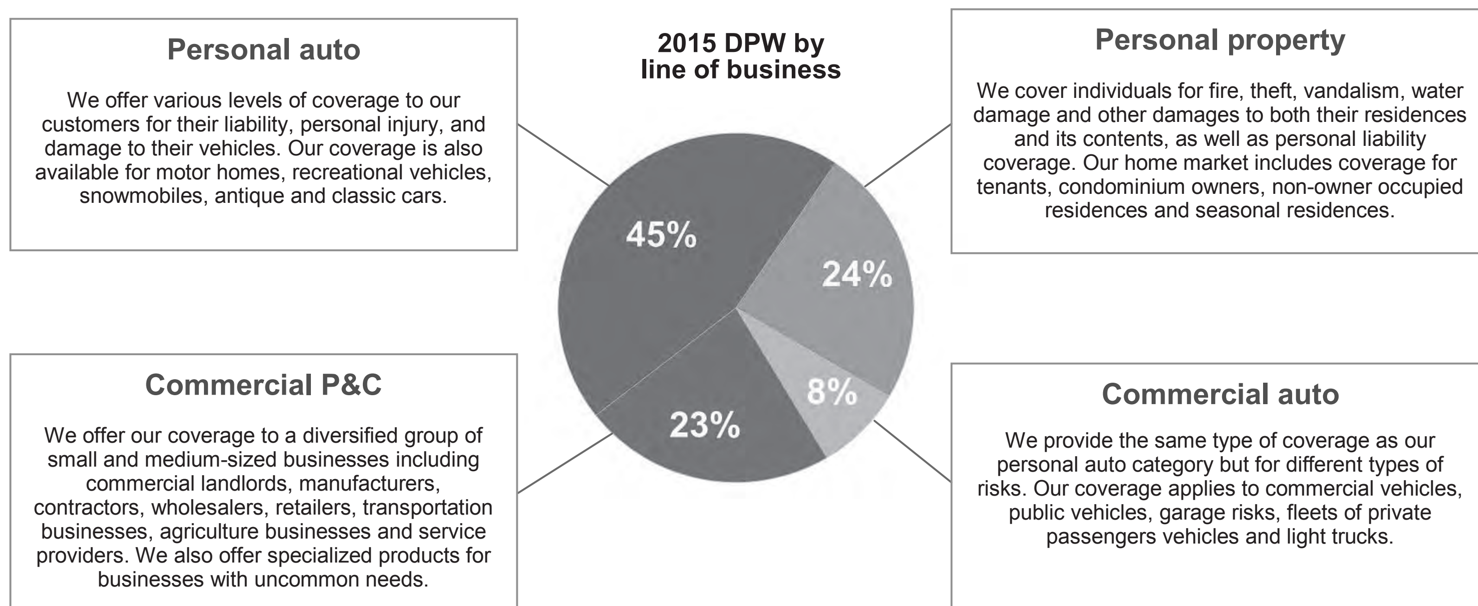
1.1 Our family of brands – the power of choice

Who we are:

- Largest provider of P&C insurance in Canada with close to $8 billion in annual DPW and an approximate market share of 17%.
- We distribute insurance under the Intact Insurance brand through a wide network of brokers, including our wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect.
- Trusted by more than five million individuals and businesses who are insured through our multi-channel distribution strategy.
- Proven industry consolidator with a track record of 15 successful acquisitions since 1988.
- Largest private sector provider of P&C insurance in British Columbia, Alberta, Ontario, Québec and Nova Scotia.
- Canada's largest provider of commercial insurance, with an approximate market share of 13% and a leading provider for specialized coverages such as Surety, Long Haul Trucking and Farm.
- Close to 12,000 employees from coast to coast.

1.2 What we offer

With our comprehensive and broad range of car, home and business insurance products, we offer customers protection tailored to meet their unique needs. Across Intact, 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.



Section 2 – Critical capabilities

We have several critical capabilities which have enabled us to sustainably ourperform other P&C insurers in Canada. These critical capabilities are described in the table below.

Critical capabilities	Outperformance
Scale advantage	• Our large database of customer and claims information enables us to identify trends in claims and more accurately model the risk of each policy. • We can negotiate preferred terms with suppliers, including service and quality guarantees for repairs and workmanship, and lower material costs.
Sophisticated pricing and underwriting	• Our superior underwriting expertise and proprietary segmentation models are used to price risks which allow us to identify certain segments of the market that are more profitable than others and in turn 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, which translates to claims settled faster and at a lower cost, and a more consistent service experience created for the customer.
Broker relationships	• We have more than 2,000 relationships across Canada for customers that prefer the highly-personalized, community-based service that an insurance broker provides. • We provide our brokers with a variety of services including technology, sales training and financing to enable them to continue to grow and expand their businesses.
Multi-channel distribution	• Our multi-channel distribution strategy includes 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 15 successful acquisitions since 1988, the most recent being CDI, completed in 2015. • Our primary strategy is to pursue consolidation in the Canadian market and expansion in foreign markets where we can deploy our expertise in pricing, underwriting, claims management and multi-channel management. With these acquisitions, we look to expand our product offering and improve customer experience. • Our outperformance is driven by three key factors: thorough due diligence to assess all the risks and opportunities; swift and effective integration with seamless impact to our customers; and financial benefit from significant synergies due to our scale.
Tailored 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 maximize after-tax total return via appropriate asset allocation and active management of investment strategies.

PERFORMANCE

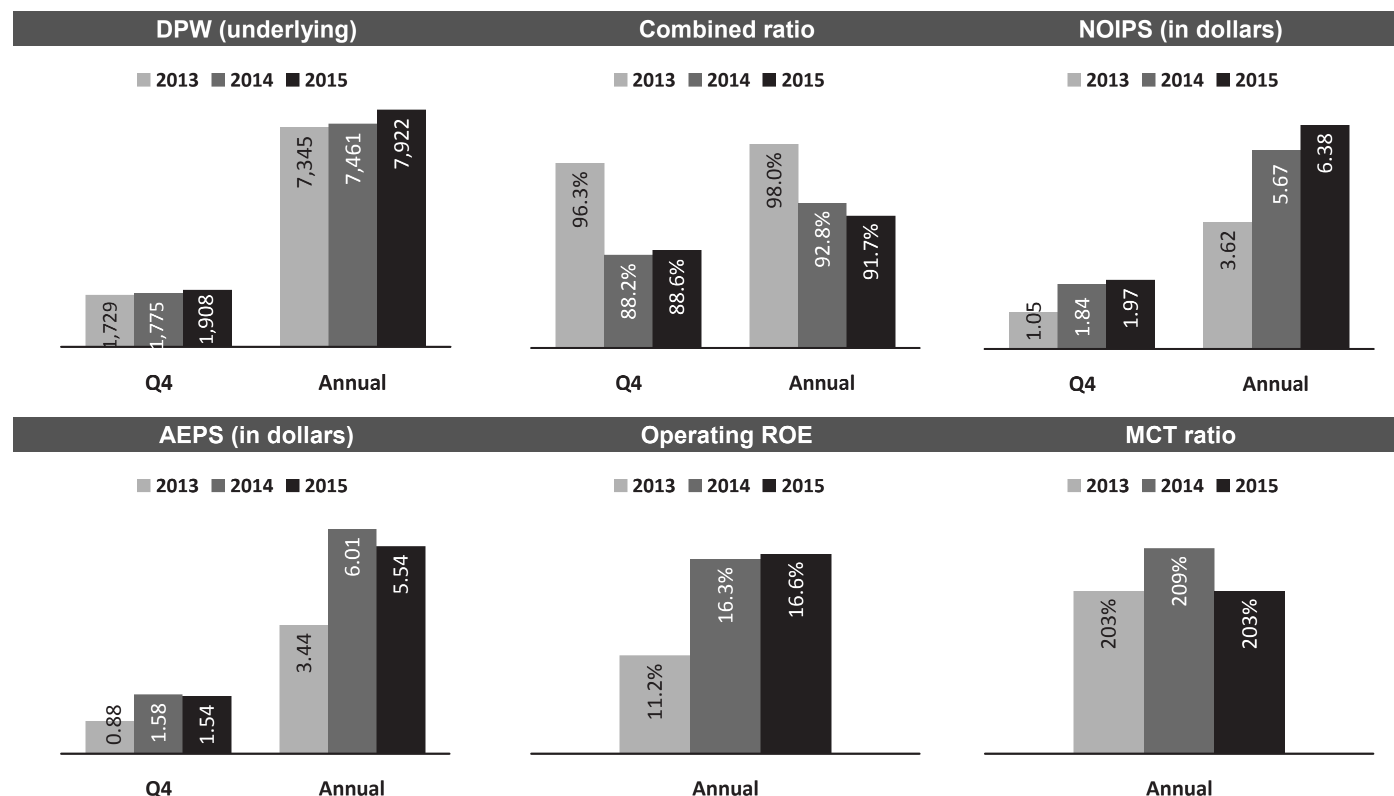
Section 3 – Our performance at a glance

2015 Highlights

Growth	Combined ratio	NOIPS	OROE	MCT
+6%	91.7%	+13%	16.6%	203%

Q4-2015 Highlights

- Net operating income per share of $1.97 and a solid combined ratio of 88.6%
- Strong underlying DPW growth of 7%, driven by 6 points of organic growth
- Operating ROE of 16.6% for the last 12 months with total excess capital of $625 million
- Book value per share up 6% this year to $39.83
- Quarterly dividend increased 9% to $0.58 per share



Section 4 – Consolidated performance

4.1 Consolidated performance

Table 1 – Consolidated performance

	Q4-2015	Q4-2014	Change	2015	2014	Change
DPW[1]	**1,897**	1,760	8%	**7,907**	7,349	8%
DPW (underlying)[1]	**1,908**	1,775	7%	**7,922**	7,461	6%
Personal auto	808	739	9%	3,591	3,374	6%
Personal property	452	407	11%	1,864	1,715	9%
Commercial P&C	480	466	3%	1,796	1,740	3%
Commercial auto	168	163	3%	671	632	6%
NEP[1]	**1,948**	1,830	6%	**7,535**	7,207	5%
Operating income[1]						
Underwriting income[1]	**221**	216	5	**628**	519	109
Net investment income	**110**	111	(1)	**424**	427	(3)
Finance costs	**(16)**	(16)	-	**(64)**	(64)	-
Distribution income, net	**22**	14	8	**104**	75	29
Corporate and other income (expense)[2]	**3**	(5)	8	**(1)**	(10)	9
Pre-tax operating income[1]	**340**	320	20	**1,091**	947	144
NOI[1]	**265**	247	7%	**860**	767	12%
Effective income tax rate	**17.8%**	22.6%	(4.8) pts	**19.3%**	18.3%	1.0 pts
Net income	**198**	205	(3)%	**706**	782	(10)%
Combined ratio	**88.6%**	88.2%	0.4 pts	**91.7%**	92.8%	(1.1) pts
Per share measures, basic and diluted (in dollars)						
NOIPS[1]	**1.97**	1.84	7%	**6.38**	5.67	13%
EPS	**1.46**	1.52	(4)%	**5.20**	5.79	(10)%
AEPS[1]	**1.54**	1.58	(3)%	**5.54**	6.01	(8)%
Return on equity for the last 12 months						
OROE[1]	**16.6%**	16.3%	0.3 pts			
ROE[1]	**13.4%**	16.1%	(2.7) pts			
AROE[1]	**14.3%**	16.8%	(2.5) pts			
BVPS (in dollars)	**39.83**	37.75	6%			
Total excess capital	**625**	681	(56)			
MCT	**203%**	209%	(6.0) pts			
Debt-to-capital ratio	**16.6%**	17.3%	(0.7) pts			

[1] Refer to Section 22 – *Non-IFRS financial measures*.

[2] Tend to fluctuate from quarter to quarter and include adjustments that occur from time to time.

Table 2 – Combined ratio by line of business

	Q4-2015	Q4-2014	Change	2015	2014	Change
Personal lines	**88.9%**	87.1%	1.8 pts	**92.3%**	92.7%	(0.4) pts
Personal auto	**96.9%**	93.7%	3.2 pts	**95.4%**	94.5%	0.9 pts
Personal property	**72.7%**	73.6%	(0.9) pts	**85.9%**	89.0%	(3.1) pts
Commercial lines	**88.0%**	90.5%	(2.5) pts	**90.3%**	92.9%	(2.6) pts
Commercial P&C	**80.1%**	87.1%	(7.0) pts	**86.8%**	94.2%	(7.4) pts
Commercial auto	**107.9%**	99.5%	8.4 pts	**99.0%**	89.6%	9.4 pts

	Q4-2015 vs Q4-2014	2015 vs 2014
Underlying DPW growth	• Our organic growth initiatives, including branding, digital leadership, product innovation, customer experience and distribution, combined with favourable market conditions led to **strong organic growth of 5.8%.** The acquisition of CDI, which closed on May 1, 2015, contributed another 1.7 points of growth, for total premium growth of 7.5%.	• Our organic growth initiatives, combined with favourable market conditions, positively impacted both our units and premiums, resulting in **organic growth of 5.0%.** When including CDI, total premium growth rose to 6.2%.
Underwriting performance	• Our **88.6% combined ratio reflects a solid underwriting performance** driven by our property lines. • Our profitability initiatives in **personal property** and **commercial P&C**, combined with mild weather conditions, have paid off with both lines reporting lower combined ratios. • In **personal auto**, our combined ratio of 96.9% was 3.2 points worse, primarily due to lower favourable PYD and slightly higher expenses. • In **commercial auto**, which represents less than 10% of our DPW, profitability remains unsatisfactory and we are taking corrective measures.	• Our **91.7% combined ratio** is 1.1 points better than the prior year's driven by our results in property lines. • In **personal auto**, our combined ratio of 95.4% deteriorated 0.9 points on mildly higher frequency and difficult winter conditions in Q1-2015, offset by higher favourable PYD and favourable pool results. • In **personal property**, our combined ratio of 85.9% improved by 3.1 points as low CAT losses and the success of profitability initiatives were offset by severe winter storms in Atlantic Canada. • In **commercial lines**, our combined ratio of 90.3% reflects an overall improvement of 2.6 points primarily due to the success of our commercial P&C action plan. In commercial auto, results have been unsatisfactory and are subject to corrective actions.
Net investment income	• On a quarterly and annual basis, **largely unchanged**, as the benefit of incremental investments was offset by lower yields.	
Net distribution income	• **Increased $8 million** from last year's low level, due to growth in our broker network and improved profitability.	• **Increased 39% to $104 million,** as we've grown our investments in the broker network and improved its profitability.
NOIPS	• **Up 7%**, primarily driven by an increase of 2.3% in underwriting income and strong distribution income. Corporate and other income was up from favourable non-recurring items.	• **Up 13%**, driven by an increase of 21% in underwriting income and $29 million in additional distribution income.
Net income	• **Down 3%,** as higher NOI was offset by investment losses related to challenging capital market conditions.	• **Down 10%,** as higher NOI was offset by investment losses related to challenging capital market conditions, including higher equity impairments.

Our **12-month OROE remains very healthy at 16.6% with excess capital of $625 million**. Our **MCT rose to 203%** in the quarter and **BVPS increased 6%** from a year ago to $39.83, despite absorbing unrealized losses from weaker capital markets amounting to $1.26, or 3%, in 2015. Our **debt-to-capital ratio at December 31, 2015 was 16.6%,** which was lower than our internal target level of 20%.

Section 5 – Underwriting performance

Table 3 – Consolidated underwriting results

	Q4-2015	Q4-2014	Change	2015	2014	Change
NEP[1]	**1,948**	1,830	6%	**7,535**	7,207	5%
Net claims:						
Current year claims (excluding CAT losses)	**1,196**	1,134	62	**4,976**	4,636	340
Current year CAT losses	**2**	10	(8)	**116**	243	(127)
Favourable PYD	**(75)**	(78)	3	**(477)**	(364)	(113)
Total net claims[1]	**1,123**	1,066	57	**4,615**	4,515	100
Commissions, premium taxes and general expenses	**604**	548	56	**2,292**	2,173	119
Underwriting income[1]	**221**	216	5	**628**	519	109
Underwriting ratios						
Underlying current year loss ratio[1]	**61.4%**	62.0%	(0.6) pts	**66.1%**	64.3%	1.8 pts
CAT losses[2]	**-**	0.5%	(0.5) pts	**1.5%**	3.3%	(1.8) pts
Favourable PYD	**(3.8)%**	(4.2%)	0.4 pts	**(6.3)%**	(5.0%)	(1.3) pts
Claims ratio	**57.6%**	58.3%	(0.7) pts	**61.3%**	62.6%	(1.3) pts
Expense ratio	**31.0%**	29.9%	1.1 pts	**30.4%**	30.2%	0.2 pts
Combined ratio	**88.6%**	88.2%	0.4 pts	**91.7%**	92.8%	(1.1) pts

[1] Refer to Section 22 – *Non-IFRS financial measures*.
[2] CAT losses include reinstatement premiums.

Table 4 – Components of expense ratio

	Q4-2015	Q4-2014	Change	2015	2014	Change
Commissions	**16.3%**	16.2%	0.1 pts	**16.3%**	16.7%	(0.4) pts
General expenses	**11.2%**	10.3%	0.9 pts	**10.6%**	10.1%	0.5 pts
Premium taxes	**3.5%**	3.4%	0.1 pts	**3.5%**	3.4%	0.1 pts
Expense ratio	**31.0%**	29.9%	1.1 pts	**30.4%**	30.2%	0.2 pts

Q4-2015 vs Q4-2014

- **Underwriting income increased marginally** from the strong results reported last year.
- Our ongoing organic growth initiatives combined with the acquisition of CDI led to a **6% increase in NEP**.
- **Underlying current year loss ratio improved 0.6 points**, as our commercial lines saw substantial improvements in the quarter.
- As with last year, **weather was not a factor** given the absence of CAT losses and insignificant non-CAT weather events.
- **Favourable PYD remains a strong contributor** to our underwriting results but the decline from last year can be attributed to an unfavourable PYD in commercial auto.
- **Expense ratio is up 1.1 points to 31.0%**, which is mostly due to investments in our organic growth initiatives over the year. The same explanation applies to all lines of business discussed hereafter.

2015 vs 2014

- **Underwriting income rose $109 million, or 21%,** on higher NEP combined with improved margins.
- **Robust organic growth** in our DPW was progressively earned during the year, which combined with the acquisition of CDI, led to a 5% increase in NEP.
- **Underlying current year loss ratio deteriorated 1.8 points** on higher non-CAT weather events, including the severe winter storms in Atlantic Canada earlier in the year, large losses and higher severity in commercial auto.
- Although **CAT losses were well below those of 2014**, the impact of **severe weather events** negatively influenced the underlying current year loss ratio.
- **Favourable PYD contributed 6.3 points to the combined ratio**, or 1.3 points more, on positive PYD mainly in personal auto and commercial P&C, as well as in prior year CAT reserves.
- **Expense ratio of 30.4% was relatively unchanged** as higher variable compensation and organic growth initiatives were offset by lower variable commissions.

5.1 Personal auto

Table 5 – Underwriting results for personal auto

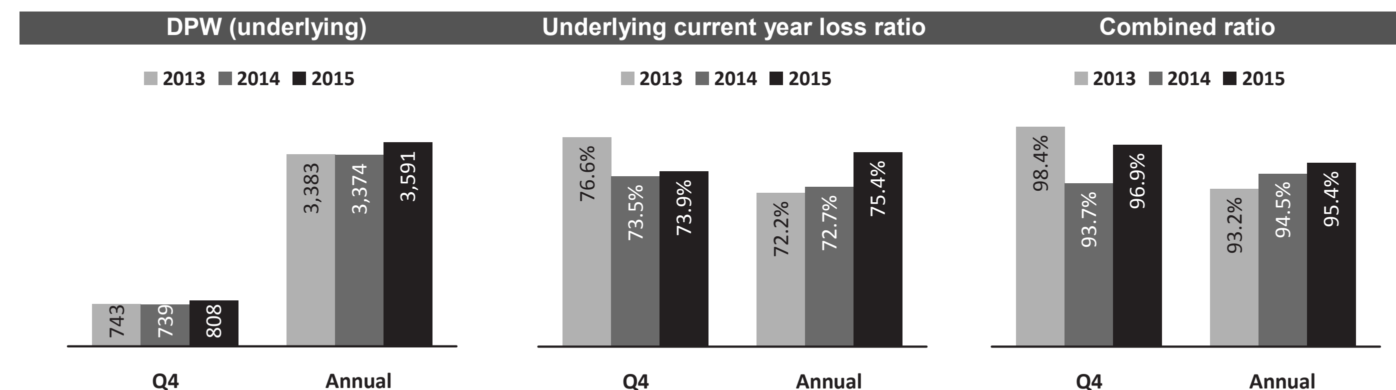
	Q4-2015	Q4-2014	Change	2015	2014	Change
DPW	**801**	739	8%	**3,584**	3,376	6%
DPW (underlying)	**808**	739	9%	**3,591**	3,374	6%
Written insured risks (in thousands)	**899**	840	7%	**4,159**	3,900	7%
NEP	**909**	847	7%	**3,508**	3,387	4%
Underwriting income	**28**	53	(47)%	**161**	186	(13)%
Underlying current year loss ratio	**73.9%**	73.5%	0.4 pts	**75.4%**	72.7%	2.7 pts
CAT losses	**0.4%**	(0.1)%	0.5 pts	**1.1%**	1.2%	(0.1) pts
Favourable PYD	**(3.3)%**	(4.5)%	1.2 pts	**(6.1)%**	(4.2)%	(1.9) pts
Claims ratio	**71.0%**	68.9%	2.1 pts	**70.4%**	69.7%	0.7 pts
Expense ratio	**25.9%**	24.8%	1.1 pts	**25.0%**	24.8%	0.2 pts
Combined ratio	**96.9%**	93.7%	3.2 pts	**95.4%**	94.5%	0.9 pts

Q4-2015 vs Q4-2014

- **Solid organic growth of 6.9%** was mainly driven by our organic growth initiatives and rational market dynamics. CDI added another 2.5 points of DPW growth, and helped drive total unit growth of 7%.
- **Underlying current year loss ratio slightly deteriorated to 73.9%**, as we are tackling headwinds from bodily injury trends in Alberta. We are taking claims and pricing actions, and engaging with the government in finding a solution.
- **Favourable PYD remains healthy at 3.3%** but lower than last year due to the trends observed in Alberta.

2015 vs 2014

- **Underlying DPW grew 6.5%**, with 1.8 points of contribution from CDI, and the remainder from organic growth. Most of the organic growth was unit driven, as rate decreases in Ontario were largely offset by increases in other markets.
- **Underlying current year loss ratio deteriorated 2.7 points,** driven by mild frequency increases, non-CAT weather events earlier in the year and the bodily injury trends in Alberta.
- **Favourable PYD contributed 6.1 points** to the combined ratio, well above last year. The improvement reflects increased confidence in the Ontario reforms and better results in the assumed industry pools.
- **Expense ratio is fairly stable at 25%**.



5.2 Personal property

Table 6 – Underwriting results for personal property

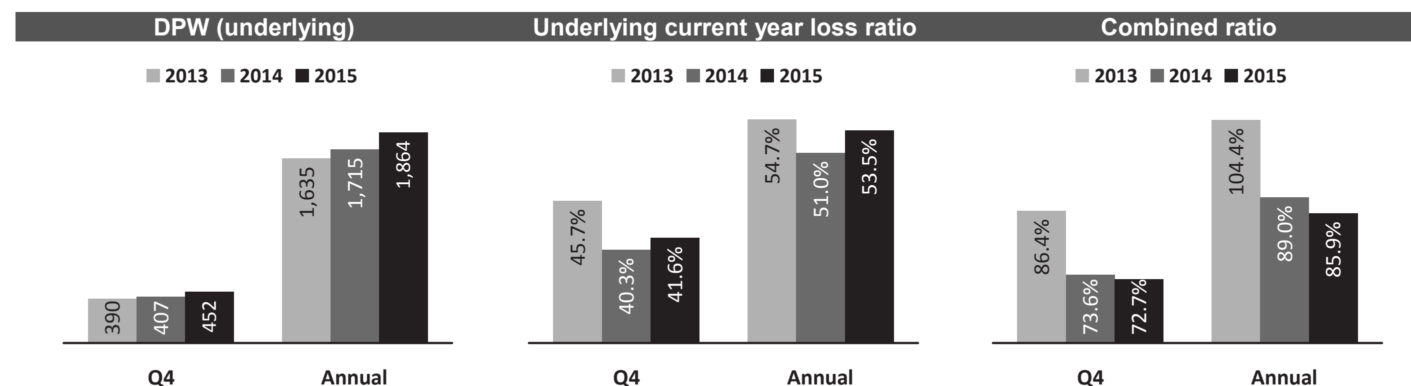
	Q4-2015	Q4-2014	Change	2015	2014	Change
DPW	**452**	390	16%	**1,864**	1,597	17%
DPW (underlying)	**452**	407	11%	**1,864**	1,715	9%
Written insured risks (in thousands)	**547**	514	6%	**2,294**	2,192	5%
NEP	**453**	415	9%	**1,736**	1,617	7%
Underwriting income	**123**	109	13%	**244**	177	38%
Underlying current year loss ratio	**41.6%**	40.3%	1.3 pts	**53.5%**	51.0%	2.5 pts
CAT losses	**-**	0.9%	(0.9) pts	**2.3%**	8.6%	(6.3) pts
Favourable PYD	**(2.8)%**	(1.2)%	(1.6) pts	**(4.0)%**	(4.4)%	0.4 pts
Claims ratio	**38.8%**	40.0%	(1.2) pts	**51.8%**	55.2%	(3.4) pts
Expense ratio	**33.9%**	33.6%	0.3 pts	**34.1%**	33.8%	0.3 pts
Combined ratio	**72.7%**	73.6%	(0.9) pts	**85.9%**	89.0%	(3.1) pts

Q4-2015 vs Q4-2014

- **Underlying DPW grew 11.1%, 8.4 points from organic growth initiatives** supported by hard market conditions, and 2.7 points from CDI. Units increased by 6%.
- **Underlying current year loss ratio of 41.6%** was again strong in Q4, despite being slightly higher than last year.
- **Weather was not a factor** in the quarter as evidenced by the absence of CAT losses and insignificant non-CAT weather events.
- **Favourable PYD** was higher than last year's low level, but **in line with our expectations**.
- **Strong combined ratio of 72.7%** in an environment where there were no CAT losses, weather was benign and our profitability initiatives have been effective.

2015 vs 2014

- On an annual basis, **we grew 6.6% organically**, thanks to hard market conditions combined with the deployment of our organic growth initiatives. We took advantage of our competitive position and product innovation to grow our unit base by 3%. CDI added another 2.0 points of inorganic growth.
- **Underlying current year loss ratio was healthy at 53.5%** although above the 51.0% reported last year. Non-CAT weather events, including the severe winter storms in Atlantic Canada, as well as higher fire-related losses negatively impacted our results but were partly offset by the impact of our profitability measures.
- **CAT losses were well below last year and lower than expected**, positively impacting our combined ratio by 6.3 points.
- **Favourable PYD contributed 4 points** to the combined ratio, similar to last year and consistent with historical levels.
- **Combined ratio of 85.9% is consistent with our expectation,** given the low level of CAT activity.



5.3 Commercial P&C

Table 7 – Underwriting results for commercial P&C

	Q4-2015	Q4-2014	Change	2015	2014	Change
DPW	**477**	468	2%	**1,789**	1,744	3%
DPW (underlying)	**480**	466	3%	**1,796**	1,740	3%
Written insured risks (in thousands)	**109**	113	(4)%	**443**	450	(2)%
NEP	**418**	409	2%	**1,640**	1,588	3%
Underwriting income	**83**	53	57%	**216**	92	135%
Underlying current year loss ratio	**49.5%**	52.7%	(3.2) pts	**58.1%**	60.2%	(2.1) pts
CAT losses	**(0.7)%**	1.7%	(2.4) pts	**2.0%**	3.6%	(1.6) pts
Favourable PYD	**(8.1)%**	(5.0)%	(3.1) pts	**(12.2)%**	(8.2)%	(4.0) pts
Claims ratio	**40.7%**	49.4%	(8.7) pts	**47.9%**	55.6%	(7.7) pts
Expense ratio	**39.4%**	37.7%	1.7 pts	**38.9%**	38.6%	0.3 pts
Combined ratio	**80.1%**	87.1%	(7.0) pts	**86.8%**	94.2%	(7.4) pts

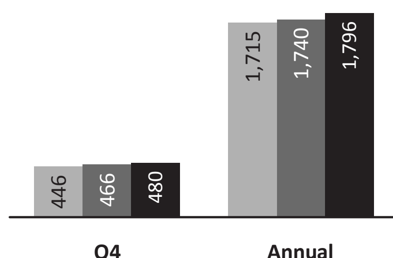
Q4-2015 vs Q4-2014

- **Underlying DPW grew 2.9%**, all organic, buoyed by increasing rates and solid retention levels. The commercial P&C market remains firmer than last year in most market segments and most regions.
- **Our commercial P&C action plan, launched two years ago, continued to pay off** which, combined with lower large losses and benign weather, helped improve our underlying current year loss ratio by 3.2 points to a very strong 49.5%.
- **There were no CAT losses in the quarter**. We recorded favourable development of prior quarter's CAT losses in Q4 leading to a 0.7 point positive impact on the combined ratio.
- **PYD was 3.1 points better,** mainly due to favourable PYD on certain large files.

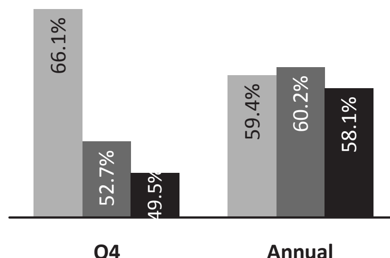
2015 vs 2014

- **Underlying DPW grew by 3.2%**, mainly driven by higher rates in firmer market conditions.
- **The benefits of the commercial P&C action plan are nearly fully earned**, and explain most of the 2.1 point improvement in the underlying current year loss ratio. We estimate that there remains one additional point of improvement to be earned in 2016.
- **CAT losses were below last year,** positively impacting our combined ratio by 1.6 points.
- **PYD was 4 points better,** due to positive PYD on prior year files and CAT losses.
- **Expense ratio is 0.3 points higher** on increased investments in organic growth initiatives.

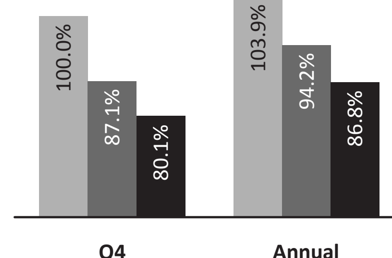
DPW (underlying)



Underlying current year loss ratio



Combined ratio



5.4 Commercial auto

Table 8 – Underwriting results for commercial auto

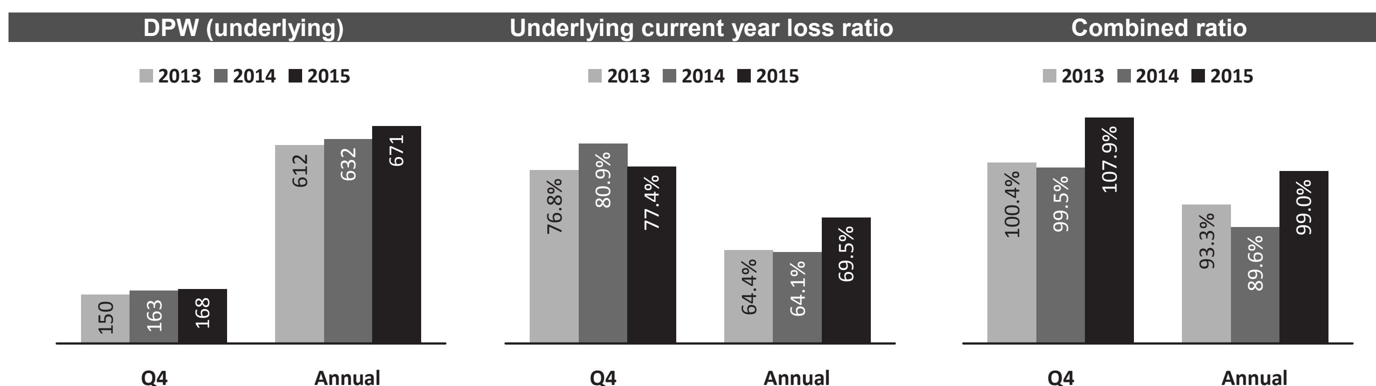
	Q4-2015	Q4-2014	Change	2015	2014	Change
DPW	**167**	163	2%	**670**	632	6%
DPW (underlying)	**168**	163	3%	**671**	632	6%
Written insured risks (in thousands)	**125**	128	(2)%	**523**	520	1%
NEP	**168**	159	6%	**651**	615	6%
Underwriting income (loss)	**(13)**	1	nm	**7**	64	(89)%
Underlying current year loss ratio	**77.4%**	80.9%	(3.5) pts	**69.5%**	64.1%	5.4 pts
CAT losses	**0.1%**	-	0.1 pts	**0.6%**	0.8%	(0.2) pts
Unfavourable (favourable) PYD	**1.1%**	(9.0)%	10.1 pts	**0.7%**	(3.6)%	4.3 pts
Claims ratio	**78.6%**	71.9%	6.7 pts	**70.8%**	61.3%	9.5 pts
Expense ratio	**29.3%**	27.6%	1.7 pts	**28.2%**	28.3%	(0.1) pts
Combined ratio	**107.9%**	99.5%	8.4 pts	**99.0%**	89.6%	9.4 pts

Q4-2015 vs Q4-2014

- **Underlying DPW grew 2.7%**, led by strength from its regular, trucking and fleet businesses. Growth in this line of business tends to fluctuate quarter to quarter.
- **Underlying current year loss ratio improved 3.5 points to 77.4%,** essentially from higher rates, partially offset by large losses.
- **PYD deteriorated by 10.1 points,** as we increased reserves to match our experience in this line of business.
- The **underperformance** of this line of business has led to **corrective measures starting in Q4-2015** for policies renewing in 2016, with the target of bringing this line of business back to a low 90s combined ratio.

2015 vs 2014

- **Underlying DPW grew by 6.1%** mainly from strength in trucking.
- **Underlying current year loss ratio rose 5.4 points** driven by multiple factors, including higher severity, large losses, foreign exchange rates and challenging winter conditions.
- We initiated corrective measures in Q4-2015, including higher rates on underperforming classes and improved segmentation and underwriting.
- **PYD deteriorated by 4.3 points**, mainly from unfavourable development of prior year claims files which led to reserve increases.



Section 6 – Investment performance

6.1 Investment policy

Our investments are managed internally by our subsidiary, Intact Investment Management Inc. ("IIM") according to our investment policy. The asset mix is designed to generate interest and dividend income, while ensuring an optimal mix of risk and total return. 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. Our primary investment objective is to maximize after-tax total return via appropriate asset allocation and active management of investment strategies. In order to generate dividend income, we also actively invest in dividend-paying common shares and preferred shares. 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. Management monitors and enforces compliance with our investment policy.

6.2 Net investment income

Table 9 – Net investment income

	Q4-2015	Q4-2014	Change	2015	2014	Change
Interest income	**70**	74	(4)	**281**	288	(7)
Dividend income	**48**	43	5	**179**	174	5
Investment income, before expenses	**118**	117	1	**460**	462	(2)
Expenses	**(8)**	(6)	(2)	**(36)**	(35)	(1)
Net investment income	**110**	111	(1)	**424**	427	(3)
Average net investments[1]	**13,067**	12,882	1%	**12,974**	12,270	6%
Market-based yield[2]	**3.62%**	3.61%	0.01 pts	**3.55%**	3.65%	(0.10) 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 22 – *Non-IFRS financial measures*.

Q4-2015 vs Q4-2014

- **Net investment income of $110 million was largely unchanged**. The benefit of incremental operating cash flows was offset by the impact of lower bond yields on interest income.
- **Average net investments were up 1%**, mainly due to investment income received, partially offset by negative mark-to-market on our investment portfolio from lower equity markets and bond prices.

2015 vs 2014

- **Net investment income of $424 million was largely unchanged**. The benefit of incremental investments was offset by the impact on income of the replacement of maturing fixed-income securities, as well as the purchase of new debt securities and preferred shares, at lower yields.
- **Average net investments were up 6%** due to the investment and timing of cash generated from insurance operations and investment income received.

6.3 Net investment gains (losses)

Net investment gains (losses) are reported in non-operating results and include the following items.

Table 10 – Net investment gains (losses)

	Q4-2015	Q4-2014	Change	2015	2014	Change
Fixed-income strategies						
Realized and unrealized gains (losses) on:						
FVTPL debt securities[1]	**(17)**	26	(43)	**(16)**	57	(73)
Other derivatives	**1**	(1)	2	**(6)**	6	(12)
Realized gains (losses) on:						
AFS debt securities[1]	**(1)**	13	(14)	**15**	21	(6)
	(17)	38	(55)	**(7)**	84	(91)
Equity strategies						
Realized and unrealized gains (losses) on:						
FVTPL common shares, net of related derivatives	**(5)**	(8)	3	**(13)**	(23)	10
Embedded and other derivatives	**(5)**	2	(7)	**50**	(11)	61
Realized gains (losses) on:						
AFS common shares and preferred shares[1]	**(5)**	16	(21)	**5**	180	(175)
Foreign currency related to AFS U.S. common shares	**4**	-	4	**19**	-	19
Impairment losses on:						
Common shares	**(44)**	(46)	2	**(124)**	(68)	(56)
Preferred shares	**-**	(5)	5	**(38)**	(9)	(29)
	(55)	(41)	(14)	**(101)**	69	(170)
Investments in associates and joint ventures	**-**	-	-	**44**	21	23
Net investment gains (losses)	**(72)**	(3)	(69)	**(64)**	174	(238)

[1] Excluding foreign currency impact.

Our U.S. fixed-income portfolio is hedged using foreign-currency forward contracts, resulting in no currency gain or loss on the U.S. fixed-income portfolio.

Unrealized gains and losses on AFS investments are recognized in OCI during the year and reported in AOCI until the securities are sold or impaired (see Table 19 – *Net pre-tax unrealized gains (loss) on AFS securities*).

The mark-to-market of our investments is fully refleted in our BVPS. As a result, impairment losses have no impact on BVPS.

Q4-2015 vs Q4-2014

- **Net investment losses were up by $69 million**.
- In Q4-2015, lower equity markets resulted in net investment losses of $72 million.
- In Q4-2014, higher bond prices helped offset some losses from lower equity markets, resulting in net investment losses of $3 million.
- Impairment losses were mainly driven by stocks in the energy and material sectors.

2015 vs 2014

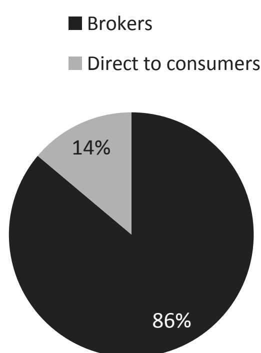
- **Net investment losses were up by $238 million**.
- In 2015, lower equity markets resulted in net investment losses of $64 million. In 2014, higher equity markets overall and higher bond prices resulted in net investment gains of $174 million.
- Throughout 2015, we recorded impairment losses due to the continued decline in stocks in the energy and materials sectors. In 2014, impairment losses mainly arose in the fourth quarter.
- In 2015, gains resulting from the lower valuations of written call option derivative liability embedded in our perpetual preferred shares helped mitigate investment losses.

Section 7 – Distribution channels

7.1 Overview of our distribution strategy

Our multi-channel distribution strategy includes 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. Business with brokers continues to represent a large part of our DPW and is expected to support our long-term growth and generate distribution income. Our broker channel represented 86% of our DPW in 2015, while our direct-to-consumer channel represented 14%.

DPW by distribution channel



Our direct-to consumer channel

- Our direct-to-consumer strategy is to have a cost-efficient national platform, be the digital leader and provide a simplified customer experience that is second to none.
- We continue to seek opportunities to expand our reach and find innovative solutions to make it easy for our customers to protect the things they care about, with the objective of doubling our direct-to-consumer business in the mid-term.

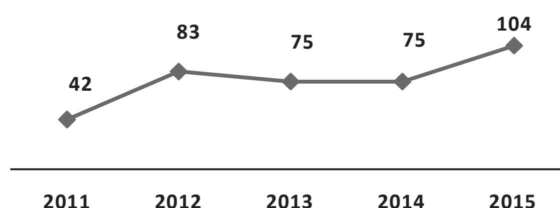
Our broker channel

- Our scale and financial strength makes us a strong ally for our broker partners in terms of brand, technology, products and expertise, business opportunities, as well as financial solutions.
- We continue to invest in our broker network (through equity investment or financing) to develop broker relationships. Through these relationships, we are able to contribute to their ongoing growth, participate in the consolidation within the broker network, and enhance our product distribution.
- Our objective is to capture a share of distribution income in the market.

7.2 Distribution income

- Net distribution income represents income from our wholly-owned broker, BrokerLink, as well as broker affiliates.
- Given our continued focus on this channel, distribution income has increased sharply since 2011, bolstered by the acquisition of AXA Canada Inc. in late 2011.
- Distribution income increased by 39% to $104 million in 2015 from continued growth and improved profitability.
- In 2015, our brokers generated an earnings before interest, taxes, depreciation and amortization (EBITDA) margin close to 30%.
- We expect distribution income to continue to grow in the future.

Distribution income, net



STRATEGY AND OUTLOOK

Section 8 – What we are aiming to achieve

We are committed to offering our customers an outstanding experience that goes beyond their expectations and providing best-in-class service to our brokers. We are customer driven, invest in our people and strive to be one of the most respected companies in Canada.

	Our customers are our **advocates**	Our employees are **engaged**	Our company is **the most respected** insurance provider in Canada
Our objectives	• **One million advocates**	• **Be one of Canada's best employers**	• **Outperform industry ROE by at least 500 basis points every year** • **Grow NOIPS at a yearly rate of 10% over time**
Our strategy	• Be easy to deal with and go beyond expectations to deliver a customer experience that is second to none • Be the recognized leader in small and mid-sized businesses and specialty lines through service, expertise and product • Build best in class digital distribution and service platforms • Enhance distribution capabilities by leveraging scale in sales and technology	• Build the best insurance team to succeed now and in the future • Create a workplace where we live our values • Invest in the professional development of our people and surround them with inspiring teams	• Deepen our fundamental strengths in pricing, risk selection, claims and investments • Use our scale to bring efficiencies in distribution and claims • Manage capital opportunistically • Consolidate Canadian industry in manufacturing and distribution
Our 2015 achievements	• Intact Insurance scored highest among Canada's insurance companies in J.D Power's 2015 Canadian Auto Claims Satisfaction Study. For J.D. Power award information, visit jdpower.com • 880,000 advocates, up 9% from last year	• Recognized as an Aon Best Employer- Canada 2016, Platinum Level. • Recognized as one of Canada's Top 100 Employers by Mediacorp Canada Inc. for 2016	• Outperformed industry's ROE by 6.2 points in the first nine months of 2015 • Grew NOIPS by 13% in 2015 when compared to 2014. Our 2015 NOIPS of $6.38 represents a five-year CAGR of 13% since 2010

Section 9 – Outlook and strategy

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 12-month outlook	Our strategy
Market environment	Personal auto	• We expect to see cost pressures outside Ontario and improved market dynamics. • In Ontario, we continue to expect symmetry between future rate reductions and government cost reduction measures. • We believe that mild rate reductions in Ontario will be offset by increases in other markets. • We expect growth at a low single digit rate.	• We expect our branding and digital actions in this line of business to help grow our market position. • We have a robust action plan to tackle trends in bodily injury claims in Alberta, including taking pricing actions and engaging with the government to find a solution.
Market environment	Personal property	• We expect the current hard market conditions to continue, as changing weather patterns have negatively impacted industry results. • Industry growth rate should stay at the upper single digit level.	• As our home improvement plan is fully implemented, we are monitoring its effectiveness to ensure the results are sustainable even in harsh weather conditions. • We are focusing on growing our business by introducing innovative products such as Lifestyle advantage and the new Enhanced water damage package.
Market environment	Commercial lines	• We believe that the continued low interest rates and elevated loss ratio of the past years, driven in part by weather events, have translated into firmer conditions. • We expect to see some impact from the slowing Alberta economy leading to pressure on the industry premium growth. • We expect growth at a mid-single digit rate.	• We continuously engage in innovative product development to address customer needs such as coverage for cyber risk, fleet telematics, drones, and the sharing economy. At the same time, we continue our focus on training and service excellence. • We are targeting a combined ratio sustainably in the low 90s through better segmentation, rate increases and product changes. • Corrective measures are being implemented in Commercial auto.
Capital markets	Investments	• 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.	• We expect a mild erosion in our net investment income over the next 12 months as the low yield environment continues to be challenging.
Capital markets	Financial strength	• Economic data suggests 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. • The preferred share market has been negatively impacted by the latest interest rate outlook. The valuation of preferred shares depends on the timing and magnitude of interest rate movements. • Global capital requirements are continuing to influence the asset decisions of many companies.	• We maintain a strong financial position to capture growth opportunities as they arise or withstand headwinds from volatile capital markets or natural disasters. • We expect our MCT ratio to be positively impacted by the 2016 changes to the MCT guidelines.
Overall	Overall	• We expect growth at a low single digit rate. • We expect the industry's combined ratio to continue to improve in 2016 from the recent peak above 100% in 2013. • Overall, we expect the industry's ROE to trend back toward its long-term average of 10%.	• We continue to invest in brand, digital strategies, customer experience and distribution networks to generate growth. • We expect that our pricing and underwriting discipline, as well as our claims management capabilities will help position us to outperform the industry.

Section 10 – Canadian P&C insurance industry

The P&C insurance market in Canada is relatively mature and highly competitive. It is:

Large and highly fragmented	• A $45 billion market representing approximately 3% of GDP, according to MSA Research Inc. data for 2014. • The top five insurers represent 47% of the market, and the top 20 have a combined market share of 83%. Intact is the largest player with approximately 17% market share.
Evolving and growing over time	• Over the last 30 years, the industry has grown at a 6% CAGR and delivered an ROE of approximately 10%. • Brokers continue to control commercial lines and a large share of personal lines in Canada. However, direct-to-consumer channel is growing. Distribution in the industry is currently about 65% through brokers and 35% through the direct/agency channel. • There has been consolidation in recent years and we expect more to come.
Regulated	• Insurance companies are licensed under insurance legislation in each of the provinces and territories in which they conduct business. • Home and commercial insurance rates are unregulated, while personal auto rates are regulated in many provinces. • Capital for federal insurance companies is regulated by OSFI and by provincial authorities in the case of provincial insurance companies.

The most recent Canadian P&C insurance results for YTD Q3-2015 are as follows:

Table 11 – Estimated Canadian P&C insurance results

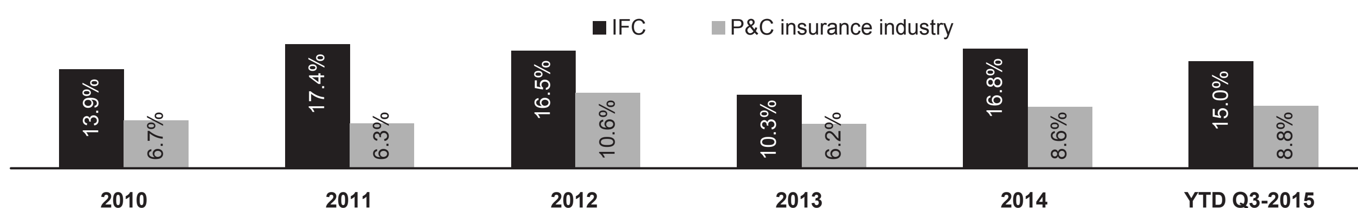
	IFC	P&C industry[1]	Out performance	Industry Benchmark[2]	Out performance
DPW growth	**5.7%**	3.4%	2.3 pts	2.7%	3.0 pts
Combined ratio (including MYA)	**94.1%**	97.5%	3.4 pts	98.7%	4.6 pts
ROE (annualized)[3]	**15.0%**	8.8%	6.2 pts	9.2%	5.8 pts

[1] Based on MSA Research Inc., excluding Lloyd's, ICBC, SGI, SAF, MPI, Genworth and IFC.
[2] Consists of the 19 largest companies of the P&C industry, as defined above.
[3] IFC's ROE corresponds to the AROE, which excludes the after-tax impact of acquisition-related items.

YTD Q3-2015

- **Our growth outperformance against our industry benchmark reached 3.0 points**, driven by our strong growth in 2015 as our competitive position improved and we invested in organic growth initiatives. In 2014, our growth had been hampered by our profitability measures, which are now largely complete, as well as rate reductions.
- **Our combined ratio outperformance against our industry benchmark remains healthy at 4.6 points**.
- **Our ROE outperformance of 6.2 points versus the P&C insurance industry is above our objective of 5 points** but shrank from 8.2 points in 2014 mainly due to the impact of weaker capital markets.

IFC's ROE versus the P&C insurance industry over time



Section 11 – Operating environment

Our financial results are influenced to some degree by economic factors such as interest rates and equity markets, industry factors, government policy and regulatory changes, and weather conditions.

11.1 Capital markets

The following section presents a high level overview of the capital markets in 2015.

Table 12 – Selected economic indicators

	S&P/TSX Composite Index	Financials	Materials	Small Cap	Energy	S&P/TSX Preferred share Index	Dow Jones U.S. Dividend 100 Index	Strengthening of USD vs CAD
Q1-2015	**2%**	**(1)%**	**3%**	**-**	**(2)%**	**(6)%**	**(1)%**	**9%**
Q2-2015	**(2)%**	**(1)%**	**(3)%**	**1%**	**(5)%**	**(5)%**	**(3)%**	**(2)%**
Q3-2015	**(9)%**	**(4)%**	**(25)%**	**(15)%**	**(18)%**	**(14)%**	**(6)%**	**7%**
Q4-2015	**(2)%**	**1%**	**3%**	**1%**	**(3)%**	**5%**	**7%**	**4%**
2015	**(11)%**	**(6)%**	**(23)%**	**(13)%**	**(26)%**	**(19)%**	**(3)%**	**19%**

The S&P/TSX Composite Index declined for a third consecutive quarter driven by weakness in the energy and materials sectors, which led to impairment losses.

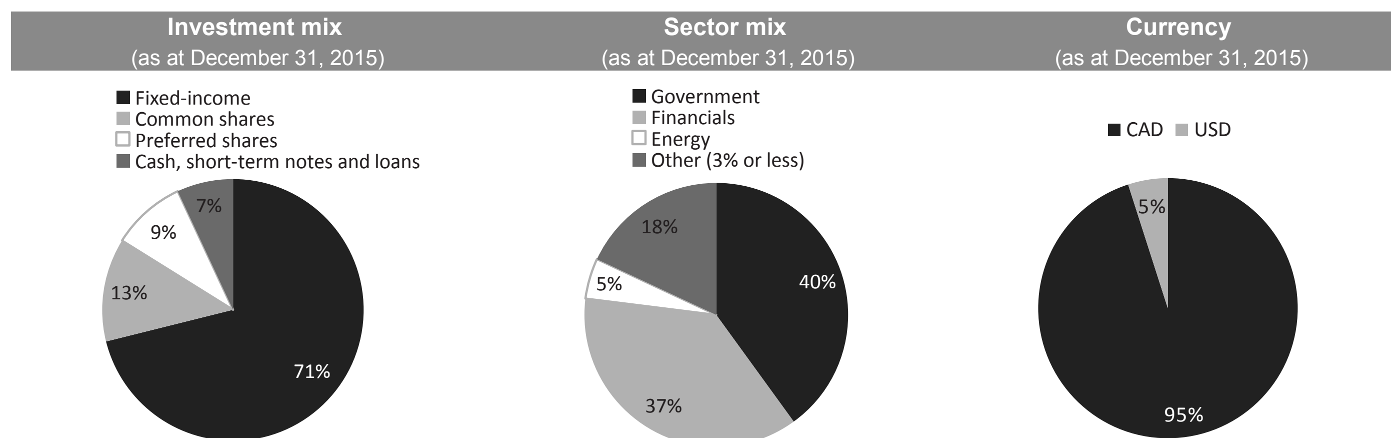
Interest rates and credit spreads behaved as follows:

- Five-year Canadian sovereign rates were down slightly during Q4-2015, but declined by approximately 50 basis points in 2015.
- Five-year U.S. sovereign rates rose significantly, by approximately 40 basis points in Q4-2015 and were essentially unchanged in 2015.
- Five-year AA corporate spreads were essentially unchanged in Q4-2015, but widened by approximately 30 basis points in 2015.

The valuation of preferred shares with fixed-reset features was hit especially hard in 2015 by the continued low interest rate environment in Canada, leading to unrealized losses recorded in OCI on some AFS securities.

The valuation of the U.S. investment portfolio was negatively impacted by the underperformance of the Dow Jones U.S. Dividend 100 Index overall. However, after giving consideration to the USD appreciation relative to the CAD in 2015, the index was up 11 % in Q4-2015 and 15% in 2015. This results in a large unrealized gain in OCI on the AFS USD common shares that we continue to hold as at December 31, 2015.

Our net exposure, after reflecting the impact of hedging strategies and financial liabilities related to investments, is outlined below.



11.2 Ontario personal auto environment

August 2013	• Ontario government introduced a rate and cost reduction mandate to improve the affordability of auto insurance in the province, while also reducing costs in the system. • Government cost reduction measures to date include tightening of the Minor Injury Guideline (MIG) back towards its original intent and licensing of health care clinics to reduce fraud.
December 2014	• Ontario Bill 15, Fighting Fraud and Reducing Automobile Insurance Rates Act, 2014 ("Bill 15") was passed and elements such as a reduction in the pre-judgement interest (PJI) rate and streamlining the dispute resolution system, are becoming effective as regulations are defined.
April 2015	• Ontario government released a budget outlining additional actions to reduce costs, which became Bill 91. It updates the catastrophic impairment definition and reduces the standard duration of medical and rehabilitation benefits to be more in line with that of other provinces. Bill 91 also prescribed some measures through which the insurance industry is to reduce costs for customers.

Companies were asked to file rates by October 2015 to reflect the benefits of the reforms included in Bill 91, as well as those coming from Bill 15 if not already reflected, with an effective date of June 2016. A portion of these filings were approved in Q4-2015, with the bulk expected to be approved in Q1-2016.

Since the rate and cost reduction mandate was introduced in August 2013, we have taken a cumulative average rate reductions of 10.6%, recognizing the benefits of Bill 15 and the winter tire portion of Bill 91. In comparison, the industry has reduced rates on average by approximately 6.9%, as many players have yet to reflect the impact of Bill 15. In addition, a number of companies received rate increases in the same period, as some players were in an underwriting loss position.

According to industry results, the claims ratio in Ontario personal auto for the first nine months of 2015 was 73.3%, improved from 2010, but still reflective of an industry combined ratio around 100%. This indicates that rate reductions in excess of reforms would likely lead to availability issues for drivers. We believe the government understands these issues and that we are currently in a rational operating environment.

11.3 Weather conditions

The first half of 2015 was marked by a deep jet stream, which caused warmer than average temperatures in the West and colder than average temperatures in the East. Due to the cold weather, snow accumulated until April in Atlantic Canada, and when the spring brought warmer weather and rain, the snow melted in a short amount of time. In the West, the warm Pacific ocean temperatures combined with the already warm air initiated the fire season earlier than normal and burned almost twice as much land as the 10-year average. Fortunately, no cities were affected. As the year progressed, the strongest El Niño pattern since 1997-1998 caused anomalously warm temperatures and dry conditions across major Canadian cities. Furthermore, due to El Niño, hurricane season was below average in both frequency and severity of storms, leaving the Maritimes relatively unharmed in this respect for 2015. Again in part because of El Niño, winter had a late start throughout the country, resulting in better Q4 results than last year, which also experienced benign weather. Our CAT losses were low for all of 2015, and overall were at their lowest level in the past five years. Also see Section 27.3 – S*easonality of the P&C insurance business* for more details on seasonality.

11.4 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. Insurers can choose to cede risks to the RSP. The risks ceded are aggregated and assumed by the entities in the Canadian P&C insurance industry, generally in proportion to market share and volume of business ceded to the RSP. Results for industry pools tend to fluctuate between periods. The impact of assumed industry pools on personal auto underwriting income was a loss of $6 million in Q4-2015, compared to a gain of $13 million in Q4-2014. On a full year basis, the impact was a loss of $6 million in 2015, compared to a loss of $23 million in 2014.

Section 12 – Recent developments

At a glance	
Business developments	• We **acquired CDI** from Canadian Western Bank, which extends our direct-to-consumer operations from coast to coast. The transaction closed on May 1, 2015 and integration is proceeding as planned. We started the conversion of the insurance policies to our belairdirect platform on January 1, 2016. We expect the acquisition to be accretive to NOIPS in 2016. We continue to target annual expense synergies of $10 million after tax, and expect our run rate to reach this level by mid-2017 • We entered into a cooperative agreement to develop tailored insurance products with the ride-sharing service provider, **Uber**, as part of our broader product development strategy that addresses consumer needs within the growing sharing economy.
Innovation	• We launched **Intact Lab**, our center for digital excellence, which will focus on world-class digital solutions to provide our customers with an unrivaled service experience, and brokers with industry-leading business solutions. • We launched **Quick Quote**, an ultrafast quote tool that will transform the personal auto insurance market in Québec and Ontario. This tool creates an outstanding customer experience and provides an accurate auto quote in less than three minutes. The simplified interface is easy to use and intuitive. • We launched our **new commercial solution** to address privacy breaches, which can include the loss, theft or unauthorized access or use of personal, customer or employee information. • We unveiled **'Lifestyle advantage'**, a new type of home insurance coverage that gives experienced homeowners the flexibility to rebuild their lives the way that they want in the event of a total loss to their home or any loss to their personal property. • We announced the creation of the **Intact Centre on Climate Adaptation** in collaboration with the University of Waterloo. The centre will focus on research and building awareness for innovative adaptation solutions to climate change risks facing Canadian homeowners, communities, industries and governments. • We announced the national launch of ***my* Fleet Solution**, which leverages an existing GPS Fleet tracking and management solution from two industry leaders, Fleet Complete and TELUS. • We recently introduced our new commercial solution for Unmanned Air Vehicles (UAVs), typically referred to as **drones**.

At a glance

Liquidity and capital resources	• On September 11, 2015, We filed a **final short form base shelf prospectus** that will allow IFC to offer up to $5.0 billion of debt securities, class A shares, common shares, subscription receipts, warrants, share purchase contracts, units or any combination of such securities, over the next 25 months. We also filed a **supplement to our base shelf prospectus** to establish a medium term note program that would allow us to issue up to $1.2 billion in unsecured medium term notes. This will provide us with the flexibility to take advantage of new opportunities. • During the third quarter of 2015, **Fitch** initiated a rating coverage on IFC and its P&C insurance subsidiaries and assigned a long-term issuer credit rating of 'A-' to IFC and an insurance financial strength rating of 'AA-' to its principal P&C insurance subsidiaries with a stable outlook. • In December 2015, **DBRS** upgraded the long-term issuer credit rating of IFC to 'A' from 'A(low)' and assigned an insurance financial strength ratings of 'AA(low)' to its principal P&C insurance subsidiaries with a stable outlook. • The Board of Directors has authorized a **NCIB** to purchase, for cancellation, up to 6,577,156 common shares during the next 12 months, representing approximately 5% of IFC issued and outstanding common shares. We expect that this NCIB will begin on or about February 12, 2016 and will expire on the earlier of February 11, 2017, or the date on which we have either acquired the maximum number of common shares allowable or otherwise decided not to make any further repurchases.
Awards and recognitions	• Recognized as an **Aon Best Employer – Canada 2016, Platinum level,** recognizing IFC for its strong level of employee engagement, leadership, performance culture and employment brand. • Recognized as **one of Canada's Top 100 Employers by Mediacorp Canada Inc. for 2016**, recognizing IFC for its exceptional human resources programs and forward-thinking workplace policies. • Intact Insurance scored highest among Canada's insurance companies in **J.D Power's 2015 Canadian Auto Claims Satisfaction Study**. For J.D. Power award information, visit jdpower.com. • Recognized as **one of the best governed companies in Canada**, tying for fifth place out of 234 companies in the Globe and Mail's 2015 Board Games corporate governance ranking. The Board Games report measures the quality of governance practices of all S&P/TSX composite index companies. • Ranked **one of the 100 Most Sustainable Corporations in the World in 2015** by Corporate Knights, one of the leading publications in Corporate Social Responsibility.

FINANCIAL CONDITION

Section 13 – Financial position

2015 Highlights

BVPS	Debt-to-capital ratio	Total excess capital	MCT
+6%	16.6%	$625 million	203%

13.1 Balance sheets

Table 13 – Balance sheets

As at December 31,	2015	2014
Assets		
Investments		
Cash, cash equivalents and short-term notes	**351**	213
Fixed-income securities	**8,499**	8,560
Preferred shares	**1,235**	1,268
Common shares	**2,971**	2,992
Loans	**448**	407
Investments	**13,504**	13,440
Premium receivables	**2,868**	2,711
Reinsurance assets	**274**	335
Deferred acquisition costs	**720**	669
Other assets	**1,417**	1,121
Intangible assets and goodwill	**2,453**	2,304
Total assets	**21,236**	20,580
Liabilities		
Claims liabilities	**8,094**	8,021
Unearned premiums	**4,390**	4,110
Financial liabilities related to investments	**378**	432
Other liabilities	**1,503**	1,419
Debt outstanding	**1,143**	1,143
Total liabilities	**15,508**	15,125
Shareholders' equity		
Common shares	**2,090**	2,090
Preferred shares	**489**	489
Contributed surplus	**119**	115
Retained earnings	**3,051**	2,616
AOCI	**(21)**	145
Shareholders' equity	**5,728**	5,455
Book value per share (in dollars)	**39.83**	37.75

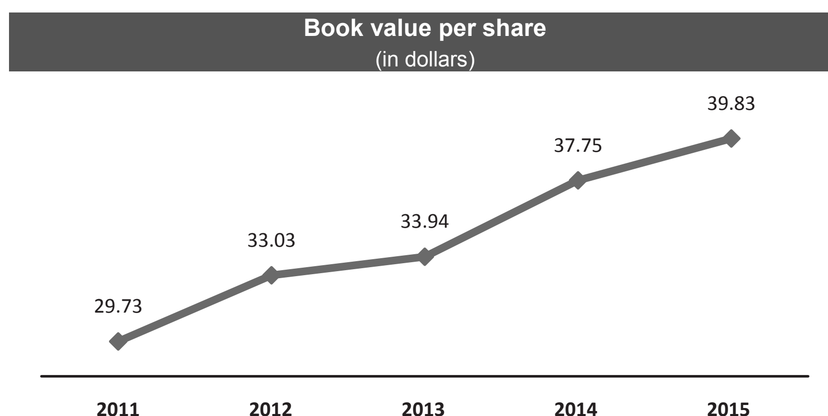
13.2 Book value per share

Table 14 – Components of BVPS

As at December 31,	2015	2014	2013
BVPS, beginning of year	**37.75**	33.94	33.03
EPS	**5.20**	5.79	3.10
Dividends on common shares	**(2.12)**	(1.92)	(1.76)
Impact of market movements on AFS securities	**(1.26)**	0.25	(0.54)
Net actuarial gains (losses) on employee future benefits	**0.27**	(0.23)	0.57
NCIB	**-**	-	(0.35)
LTIP and other	**(0.01)**	(0.08)	(0.11)
BVPS, end of year	**39.83**	37.75	33.94
Year-over-year increase	**6%**	11%	3%

- Our BVPS improved by 34% since 2011. Our accretive acquisitions, combined with our profitable organic growth have driven BVPS up, while consistently returning capital to shareholders through dividends and/or share buy backs.
- With over $13 billion of investments, we are exposed to market volatility. In 2015, our BVPS was impacted by unrealized losses from weaker capital markets, amounting to $1.26 per share.
- We remained committed to our financial objectives in terms of ROE and NOIPS to enhance value to shareholders.

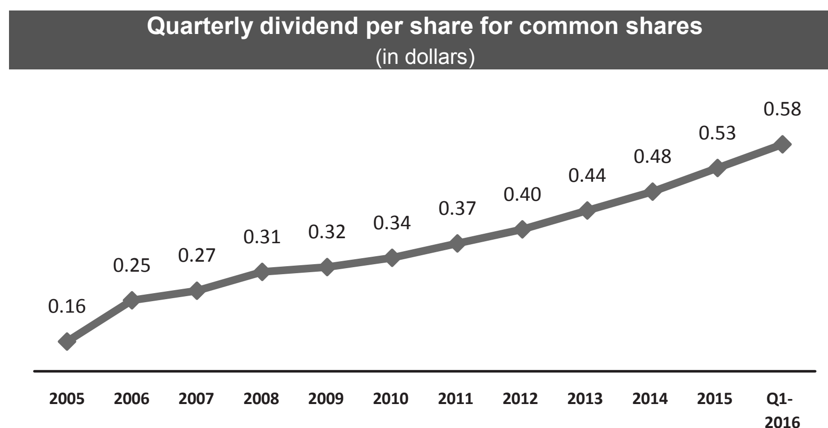
Book value per share
(in dollars)



13.3 Dividends per share

- The decision to pay dividends to our shareholders is part of our overall capital management framework.
- While we don't target a specific dividend payout ratio, our ratio has been close to 40%, both in terms of NOIPS and EPS, over the last five years.
- On February 9, 2016, the Board of Directors increased the quarterly dividend by 9%, or 5 cents, to 58 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 create value for shareholders.
- We have increased our dividend every year since our initial public offering in 2004.

Quarterly dividend per share for common shares
(in dollars)



13.4 Investments

Our investments totalled $13.5 billion as at December 31, 2015, a level similar to December 31, 2014. Our investment portfolio is mainly composed of Canadian securities and includes a mix of cash and short-term notes, fixed-income securities, preferred shares and common shares.

- We invest in corporate and government bonds and approximately 99% of our fixed-income portfolio is rated 'A-' or better as at December 31, 2015.
- We have no exposure to leveraged securities.
- Our asset-backed securities, all rated 'AAA', totalled $250 million as at December 31, 2015 ($215 million as at December 31, 2014) and comprised Canadian credit card and auto loan receivables ($230 million as at December 31, 2015, $192 million as at December 31, 2014) and mortgage-backed securities.
- Our preferred shares portfolio is mainly comprised of Canadian issuers with 82% of our portfolio invested in securities that are highly rated, with at least a 'P2L' credit rating.
- Our common equity exposure is focused on dividend-paying Canadian equities, and is complemented by $584 million in dividend-paying U.S. equities. We actively manage to enhance dividend income throughout the year.

Net exposure: investment mix by asset class

As part of our investment strategies, from time to time we 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 shows our investment mix by asset class after reflecting the impact of hedging strategies and financial liabilities related to investments.

Table 15 – Investment mix by asset class (net exposure)

As at December 31,	2015	2014
Cash, cash equivalents, and short-term notes	**4%**	3%
Fixed-income strategies	**71%**	72%
Preferred shares	**9%**	9%
Common equity strategies	**13%**	13%
	97%	97%
Loans	**3%**	3%
	100%	100%

The investment mix as at December 31, 2015 is comparable to last year.

Net exposure: by currency

As a means to provide geographic and sector diversification to our portfolio, we invest in high quality USD corporate bonds and USD equities. Approximately 12% of our fixed-income and 20% of our common share asset portfolios were comprised of USD securities as at December 31, 2015. Foreign currency exposure in USD denominated fixed-income securities is hedged using foreign-currency forward contracts.

The following table shows our exposure by currency, after reflecting the impact of hedging strategies and financial liabilities related to investments.

Table 16 – Currency (net exposure)

As at December 31,	2015	2014
CAD	**95%**	96%
USD	**5%**	4%
	100%	100%

Net exposure: sector mix by asset class

The following table shows our sector mix by asset class, after reflecting the impact of hedging strategies and financial liabilities related to investments, as a percentage of total investments (excluding cash, short-term notes and loans).

Table 17 – Sector mix by asset class (net exposure)

As at December 31,	Fixed-income securities	Preferred shares	Common shares		IFC Total 2015	IFC Total 2014
			IFC	S&P/TSX Weighting		
Government	**58%**	**-**	**-**	**-**	**40%**	41%
Financials	**30%**	**73%**	**15%**	**38%**	**37%**	35%
Energy	**2%**	**15%**	**19%**	**19%**	**5%**	6%
Industrials	**2%**	**-**	**12%**	**8%**	**3%**	3%
Consumer staples	**3%**	**-**	**10%**	**5%**	**3%**	3%
Telecommunication	**-**	**-**	**8%**	**5%**	**1%**	2%
Utilities	**1%**	**12%**	**8%**	**2%**	**3%**	2%
Consumer discretionary	**1%**	**-**	**9%**	**7%**	**2%**	2%
Materials	**-**	**-**	**8%**	**10%**	**1%**	2%
Information technology	**2%**	**-**	**7%**	**3%**	**3%**	2%
Health care	**1%**	**-**	**4%**	**3%**	**2%**	2%
	100%	**100%**	**100%**	**100%**	**100%**	100%

Our fixed-income investment portfolio is mainly concentrated 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

Our investment portfolio includes high quality government and corporate bonds, as well as equity securities of large, publicly-traded, dividend-paying companies.

The following table highlights the credit quality of our fixed-income securities and preferred shares.

Table 18 – Credit quality of the fixed-income securities and preferred shares

As at December 31,	2015	2014
Fixed-income securities[1]		
AAA	**50%**	49%
AA	**31%**	35%
A	**18%**	16%
BBB	**1%**	-
	100%	100%
Preferred shares[1]		
P1	**1%**	9%
P2	**81%**	78%
P3	**18%**	13%
	100%	100%

[1] Source: S&P, DBRS and Moody's.

As at December 31, 2015, the weighted-average rating of our fixed-income portfolio was 'AA+', unchanged since December 31, 2014, and the average duration of our fixed-income portfolio was 4.03 years (4.00 years including the impact of derivatives used to decrease overall interest rate exposure). The weighted-average rating of our preferred share portfolio was 'P2' as at December 31, 2015 and 2014.

Net pre-tax unrealized gain (loss) on AFS securities

In determining the fair value of investments, we rely 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.

Table 19 – Net pre-tax unrealized gain (loss) on AFS securities

As at	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Fixed-income securities	**121**	118	127	183	94
Preferred shares	**(111)**	(165)	(13)	20	66
Common shares	**(12)**	(74)	36	88	54
Net pre-tax unrealized gain (loss) position	**(2)**	(121)	150	291	214

Dec. 31, 2015 vs Sept. 30, 2015	Dec. 31, 2015 vs 2014
• **The favourable development of $119 million** was driven by higher preferred share values, impairment losses of $44 million which were recognized in net income in Q4, and the performance of our USD equities which was further enhanced by the appreciation of the USD.	• **The unfavourable development of $216 million** was due to the weakness in Canadian equity markets (including preferred shares). Some of these unrealized losses were recognized in net income in 2015 through impairment losses amounting to $162 million. • There was also a favourable impact from the USD appreciation on our USD common shares.

See section 11.1 – *Capital markets* for more details. Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions, reflecting our investment strategy which is focused primarily on dividend-paying Canadian common equities.

Impairment recognition

Common shares classified as AFS are assessed for impairment if there has been:

- **a significant decline** in the fair value below the book value (normally an unrealized loss of 50% or more);
- **a prolonged decline** in the fair value below the book value (normally an unrealized loss for 15 consecutive months or more); or
- **a significant and prolonged decline** in the fair value below the book value (normally an unrealized loss for nine consecutive months or more combined with a current unrealized loss of 25% or more).

Table 20 – Aging of unrealized losses on AFS common shares

As at	Dec 31, 2015	Sept 30, 2015	June 30, 2015	Mar 31, 2015	Dec 31, 2014
Less than 25% below book value	**96**	113	62	47	36
More than 25% below book value for less than 6 consecutive months	**31**	52	8	7	57
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	**44**	19	17	23	2
Unrealized losses on AFS common shares	**171**	184	87	77	95

The current valuation of preferred shares, particularly those with reset features, reflects, to a large extent, the impact of low interest rates. Accordingly, we have refined our impairment model for preferred shares as at December 31, 2015 such that any impairment is based on credit considerations, not interest rate levels. This is consistent with the treatment of debt securities. As a result, almost all of our preferred shares are now assessed for impairment using a debt impairment model given that our business model is to purchase these shares for the purpose of earning dividend income, with the intent of holding them for the long-term.

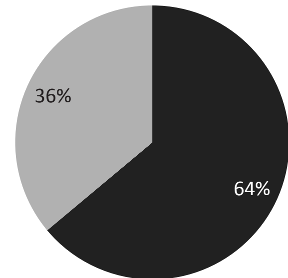
Under a debt impairment model, debt securities and preferred shares are impaired only if there is objective evidence of impairment, as a result of one of more loss events (such as bankruptcy or large financial reorganization, reduction or cessation of dividends), occurring after initial recognition, and that loss event has an impact on the estimated future cash flows of the financial asset.

Based on our assessment, we recorded impairment losses on AFS common shares amounting to $44 million in Q4-2015 and $124 million in 2015 (nil and $38 million respectively for preferred shares). *Refer to Note 2 – Summary of significant accounting policies to the accompanying Consolidated financial statements for additional details on the impairment of financial assets.*

13.5 Claims liabilities

Claims liabilities amounted to $8.1 billion as at December 31, 2015, essentially unchanged since December 31, 2014.

Direct claims liabilities
(as at December 31, 2015)



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 principal assumption underlying the claims liability estimates is that our future claims development will follow a similar pattern to past claims development experience. Claims liability 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").

The total claims reserve is made up of two main elements:

1) reported claims case reserves, and
2) incurred but not reported ("IBNR") reserves.

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 or subrogation amounts 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 the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. IBNR and PfAD are reviewed and adjusted at least quarterly.

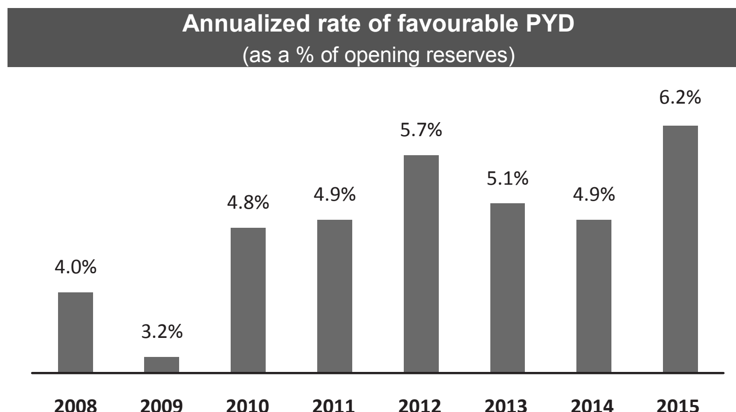
The discount is applied to the total claims reserve and adjusted on a regular basis for changes in market yields. If market yields rise, the discount would increase and reduce total claims liabilities and, therefore, positively impact underwriting income in that period, all else being equal. If market yields decline, it would have the opposite effect.

See Section 23 – *Non-operating results* for more details on the impact of MYA on underwriting.

Prior year claims development

- 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.
- PYD 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 PYD as a percentage of opening reserves has been approximately 3% to 5% per year over the long term.

Annualized rate of favourable PYD
(as a % of opening reserves)



The following table shows the PYD by line of business, as well as the annualized rate of favourable PYD (as a % of opening reserves).

Table 21 – PYD by line of business

	Q4-2015	Q4-2014	Change	2015	2014	Change
By line of business						
Personal auto	**(29)**	(38)	9	**(212)**	(141)	(71)
Personal property	**(13)**	(5)	(8)	**(70)**	(71)	1
Commercial P&C	**(34)**	(21)	(13)	**(199)**	(130)	(69)
Commercial auto	**1**	(14)	15	**4**	(22)	26
Total favourable development	**(75)**	(78)	3	**(477)**	(364)	(113)
Annualized rate of favourable PYD[1]	**3.9%**	4.2%	(0.3) pts	**6.2%**	4.9%	1.3 pts

[1] As a % of opening reserves.

Q4-2015 vs Q4-2014	2015 vs 2014
• Favourable PYD of $75 million, or 3.9% of opening reserves on an annualized basis, was below the 4.2% recorded in Q4-2014, but in line with recent history. • Compared to last year, there was higher favourable PYD in commercial P&C, helped by the resolution of certain large files, offset by deteriorating bodily injury trends in Alberta affecting the auto lines of business.	• Favourable PYD of $477 million, or 6.2% of opening reserves, was higher by $113 million. • The elevated level of favourable PYD includes favourable development from industry pools, prior year CAT losses, and increasing comfort around the effectiveness of Ontario auto reforms.

13.6 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). Ceded reinsurance complies with regulatory guidelines. Furthermore, the reinsurance treaties call for timely reimbursement of ceded losses.

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 ($198 million as at December 31, 2015, $241 million as at December 31, 2014) 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. We have collateral in place to support amounts receivable and recoverable from unregistered reinsurers.

Reference to our Consolidated financial statements for details on the counterparty risk arising from reinsurance
Note 8.3 d)

Annually, we review and adjust our reinsurance coverage as well as our net retention of risks in order to reflect our current exposures and our capital base. For multi-risk events and catastrophes, the coverage limits are well in excess of the regulatory requirements with respect to the earthquake risk as per our conservative approach.

The following table shows our reinsurance net retention and coverage limits by nature of risk.

Table 22 – Reinsurance net retention and coverage limits by nature of risk

As at	January 1, 2016	December 31, 2015
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	**3,475**	3,450

Single risk events
For certain special classes of business or types of risks, the retention may be lower through specific treaties or the use of facultative reinsurance.

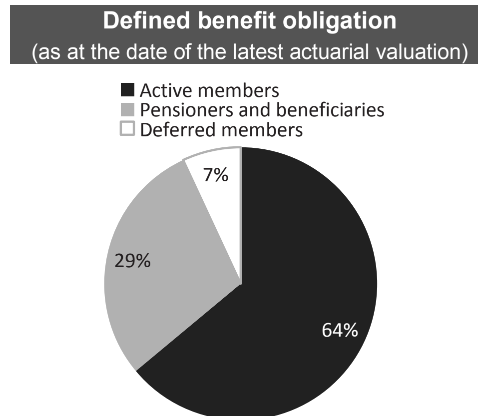
Multi-risk events and catastrophes
Following the integration of the CDI exposure in our reinsurance program, the coverage limit was increased to $3,450 million on August 1, 2015. We retain a participation averaging 5.4% as at January 1, 2016 (December 31, 2015 – 5.5%) on reinsurance layers between the retention and coverage limits. The 2016 coverage limit will gradually move from $3,475 million to $3,575 million during the year. In addition, we entered into an aggregate reinsurance treaty to protect for frequency of multi-risk events and catastrophes of $30 million or more. The above retention and coverage limits exclude this aggregate reinsurance treaty.

The net after-tax impact of a catastrophe that would exhaust our coverage limits as at January 1, 2016 is estimated at 3.6% of our NEP for 2015 (December 31, 2015 – 3.7%).

13.7 Employee future benefit programs

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. All employees have a choice between a defined benefit and a defined contribution pension plan.

Defined benefit obligation
(as at the date of the latest actuarial valuation)



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.

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;
- adding inflation sensitive assets;
- making voluntary contributions to improve the funding status of our pension plans; and
- amending pension plan benefits and conditions.

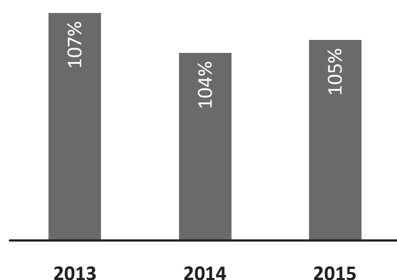
We realized a positive return on plan assets in 2015. As at December 31, 2015, we have a net surplus of $93 million, or 105%, for funded pension plans, compared to a net surplus of $65 million, or 104%, as at December 31, 2014.

Our actions to reduce interest rate exposure in previous years significantly mitigated the impact of declining interest rates in 2014 and 2015. 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.

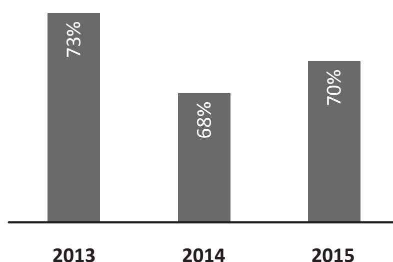
Reference to our Consolidated financial statements

Actuarial gains and losses recognized in OCI	Assumptions used and sensitivity analysis	Risk management and investment strategy
Note 21.5	Note 21.6	Note 21.7

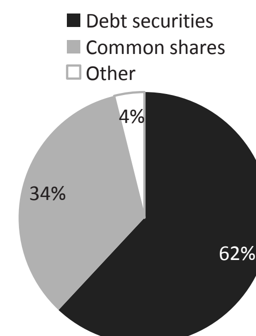
Funding ratio
(as at December 31)



Hedge ratio
(as at December 31)



Pension plan asset mix
(as at December 31, 2015)



Funding ratio: plan assets as a percentage of funded plan obligations.

Hedge ratio: dollar-duration of the pension asset portfolio divided 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%.

Section 14 – Liquidity and capital resources

14.1 Financing and capital structure

We generate liquidity by collecting and investing premiums in advance of paying claims. 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.

We had a debt-to-capital ratio of 16.6% as at December 31, 2015 (17.3% as at December 31, 2014).

Base shelf prospectus and medium-term note supplement

On September 11, 2015, we filed a final short form base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada that will allow us to offer up to $5.0 billion in any combination of debt, preferred shares or common share securities, subscription receipts, warrants, share purchase contracts and units over the following 25 months. We also filed a supplement to our base shelf prospectus to establish a medium-term note program that would allow us to issue up to $1.2 billion in unsecured medium-term notes. As at December 31, 2015, the amounts available under the respective prospectuses were $5.0 billion and $1.2 billion, respectively.

Credit facility

We have a $300-million five-year unsecured revolving term credit facility, which matures on December 5, 2020. 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, 2015 and 2014.

As part of the covenants of the loans under the credit facility, we are required to maintain certain financial ratios, which were fully met as at December 31, 2015 and 2014.

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 set price and date, up to a maximum of 1.5% of invested assets. We did not have any securities sold under repurchase agreements as at December 31, 2015 and 2014.

14.2 Ratings

Independent third party rating agencies assess our insurance subsidiaries' ability to meet their ongoing policyholder obligation ("financial strength rating") and our ability to honour our financial obligations ("issuer credit rating"). Ratings are an important factor in establishing our competitive position in the insurance market, mainly in commercial insurance, and accessing capital markets at competitive pricing levels.

Table 23 – Ratings

	A. M. Best	DBRS	Moody's	Fitch
Financial strength ratings of IFC's principal P&C insurance subsidiaries	A+	AA(low)	A1	AA-
Long-term issuer credit ratings of IFC	a-	A	Baa1	A-

- During the third quarter of 2015, Fitch initiated a rating coverage on IFC and its P&C insurance subsidiaries and assigned a long-term issuer credit rating of 'A-' to IFC and an insurance financial strength rating of 'AA-' to its principal P&C insurance subsidiaries with a stable outlook.

- On September 27, 2015, Moody's reaffirmed the long-term issuer credit rating of IFC and the insurance financial strength ratings of its principal P&C insurance subsidiaries. The outlook was upgraded from stable to positive.

- On December 17, 2015, DBRS upgraded the long-term issuer credit rating of IFC to 'A' from 'A (low)' and assigned an insurance financial strength rating of 'AA (low)' to its principal P&C insurance subsidiaries with a stable outlook.

- A.M. Best has maintained its rating for long-term issuer and insurance financial strength.

14.3 Understanding our cash flows

Cash inflows from operating activities mainly consist of insurance premiums and investment income. Cash inflows in excess of cash flows deployed on operating, investing and financing activities can be used to build up our investment portfolio with the expectation of generating additional investment income in the future.

Table 24 – Cash flows

	Q4-2015	Q4-2014	Change	2015	2014	Change
Cash flows from operating activities	**240**	300	(60)	**889**	1,412	(523)
Cash flows deployed on:						
Business combinations, net of cash acquired	**-**	-	-	**(187)**	(13)	(174)
Equity investments in brokerages, net of sales	**(7)**	(17)	10	**(77)**	(178)	101
Purchases of intangibles and P&E, net	**(32)**	(26)	(6)	**(89)**	(97)	8
Dividends	**(75)**	(70)	(5)	**(300)**	(276)	(24)
Share-based payments	**-**	-	-	**(17)**	(23)	6
	(114)	(113)	(1)	**(670)**	(587)	(83)
Cash flow available for investment activities[1]	**126**	187	(61)	**219**	825	(606)
Purchase of investments net of proceeds from sales	**(170)**	(150)	(20)	**(167)**	(835)	668
Net increase (decrease) in cash and cash equivalents	**(44)**	37	(81)	**52**	(10)	62

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

The decrease in cash flows from operating activities of $523 million reflects income taxes paid of $265 million in 2015, compared to income taxes received of $293 million in 2014.

14.4 Contractual obligations

The table below presents the expected timing of contractual liquidity requirements as at December 31, 2015.

Table 25 – Contractual obligations

		Payments due by period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	Thereafter
Principal repayment on debt outstanding	**1,143**	-	-	249	894
Interest payments on debt	**1,121**	63	125	108	825
Reported claims case reserves	**4,717**	1,901	1,160	717	939
Operating leases on premises and equipment	**813**	157	269	157	230
Pension obligations[1]	**50**	7	15	14	14
Total contractual obligations	**7,844**	2,128	1,569	1,245	2,902

[1] 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 15 – Capital management

15.1 Capital management objectives

Our objectives when managing capital consist of:

- ensuring policyholders are well protected, while maintaining strong regulatory capital levels (see Regulatory capital section below); and
- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company.

We seek 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 their potential impact on capital.

We also keep higher levels of excess capital when we foresee growth or actionable opportunities in the near term. Furthermore, we intend to return excess capital to shareholders through annual dividend increases and, when excess capital levels permit, through share buybacks.

Regulatory capital

We manage regulatory capital on an aggregate basis, as well as individually for each regulated entity. Our federally chartered P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the *Insurance Companies Act,* while our Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the *Act respecting insurance*.

Federal and Québec regulated P&C insurers are required, at a minimum, to maintain a MCT ratio of 100%. OSFI and the AMF have also established an industry-wide supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement. To ensure that there is minimal risk of breaching the supervisory target, we have established a higher internal threshold in our principal insurance subsidiaries in excess of which, under normal circumstances, we will maintain our capital.

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, net of related deferred tax liabilities. Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. It is further increased by an operational risk margin, based on the overall riskiness of a P&C insurer (its capital required) and its premium volume. Capital required is then reduced by a credit for diversification between investment risk and insurance risk.

MCT Guidelines

MCT guidelines change from time to time and may impact our capital levels. We carefully monitor all changes, actual or proposed. On November 30, 2015, OSFI issued a final 2016 MCT Guideline, which amends regulatory capital requirements, beginning January 1, 2016. The most significant changes are the addition of capital requirements for equity derivatives and equity instruments sold short, as well as the recognition of equity hedging strategies. Based on our initial assessement of the guideline, the impact on our MCT ratios will be positive, with the benefit phasing in over a two-year period.

15.2 Own risk and solvency Assessment

Since 2014, we have conducted our Own Risk and Solvency Assessments ("ORSA") at least annually. 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 (DCAT) performed annually by the Appointed Actuary *(refer to Note 17 – Capital management to the accompanying Consolidated financial statements for details)*.

Our ORSA revealed that the financial resources of our insurance subsidiaries 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 continues to be materially lower than current regulatory requirements given the same confidence level and time horizon. Our 2015 assessment was comparable to that of 2014 in terms of our overall risk profile and capital sufficiency.

The revisions to the MCT Guidelines in 2015 and again in 2016 have resulted in lower capital requirements for IFC and are converging directionally with our assessment for the main categories of risk. We believe the convergence of the regulatory view of risk with our own risk assessment is a positive development for IFC and the Canadian P&C industry.

15.3 Capital position

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

Table 26 – Estimated aggregated capital position of our P&C insurance subsidiaries

As at December 31,	December 31, 2015	September 30, 2015	December 31, 2014[1]
Total capital available	**3,840**	3,687	3,933
Total capital required	**1,889**	1,893	1,878
MCT %	**203%**	195%	209%
Excess capital at 100%	**1,951**	1,794	2,055
Excess capital at 150%	**1,007**	848	1,116
Excess capital at 170%	**629**	469	740

[1] Comparative figures are presented under the MCT guidelines in effect as at December 31, 2014.

Our estimated aggregate MCT level as at December 31, 2015 was strong at 203%, up by 8 points from September 30, 2015, reflecting our operating profit. The six-point decline from December 31, 2014 was mainly due to the funding of the acquisition of CDI exclusively with excess capital and the volatility in capital markets, partially offset by the positive impact of the 2015 MCT Guideline phase-in which, as expected, benefited MCT by approximately 8 points in 2015.

As at December 31, 2015, our P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements.

Total excess capital includes excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries. As at December 31, 2015, total excess capital stood at $625 million, down $56 million from December 31, 2014, reflecting the funding of the CDI acquisition exclusively with excess capital and a higher balance of excess capital outside of the P&C insurance subsidiaries.

15.4 MCT sensitivity

The MCT is impacted by many factors including changes in interest rates, equity market performance, USD and underwriting profitability. Based on our estimated aggregate MCT of 203% as at December 31, 2015, the following table sets out the estimated immediate impact or sensitivity of our MCT ratio to certain sudden but independent changes in interest rates, equity markets, USD and combined ratio. Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 27 – MCT sensitivity

	Interest rates 1% increase[1]	Common share prices 10% decline[2]	Preferred share prices 5% decline	USD 10% decline	Combined ratio 3-point increase[3]
MCT[4]	**(3) pts**	**(1) pts**	**(2) pts**	**(1) pts**	**(10) 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.
[3] The combined ratio deteriorates by 3 points across all lines of business. All resulting claims are outstanding (no payments) and no reinsurance is triggered.
[4] Capital sensitivities are calculated independently for each risk factor and assume that all other risk variables remain constant. No management action is considered.

RISK MANAGEMENT

Section 16 – Overview

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, employees, shareholders, and other stakeholders. Our risk management programs aim at mitigating 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 and risk transfer 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.

Section 17 – 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 largely unchanged from 2014.

Board of Directors	Main responsibility 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.
Risk Management Committee	Primary function is to assist the Board of Directors 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.
Compliance Review and Corporate Governance (CRCG) Committee	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.
Human Resources and Compensation Committee	Primary function is to assist the Board of Directors 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.
Audit Committee	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.
Enterprise Risk Committee	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 both in terms of the impact on financial resources and reputation; (iii) monitor risks; and (iv) manage risk in accordance with the risk appetite statement 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.
Other committees	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.

Section 18 – Corporate governance and compliance program

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:

Corporate governance ensuring compliance with laws and regulatory requirements

Sound corporate governance standards	Effective disclosure controls and processes	Sound corporate compliance structures and processes	Specialized resources independent from operations
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 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.

Section 19 – Enterprise Risk Management

19.1 Mandate

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.

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.

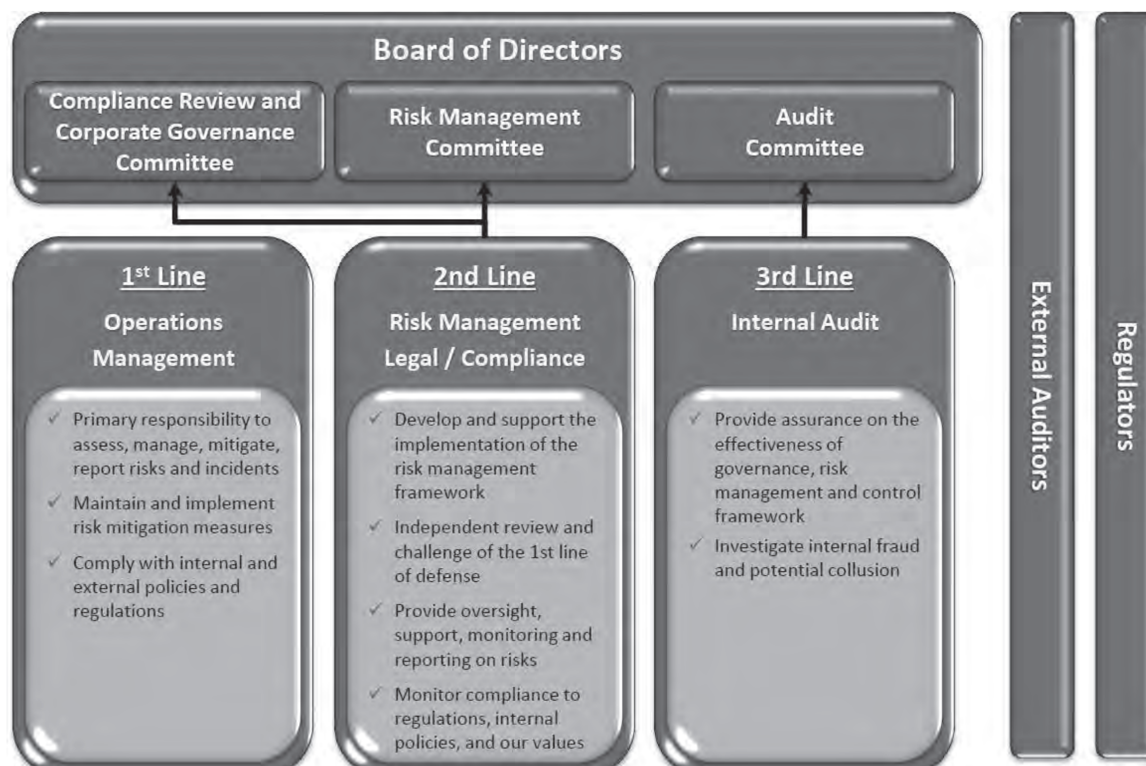
Our major risks are separated into four main categories: Strategic Risk, Insurance Risk, Financial Risk and Operational Risk.

19.2 Objectives

- 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.

19.3 A shared responsibility

Managing risk is a shared responsibility at Intact. The three lines of defence model is employed to clearly the identify the roles and responsibilities of those involved in the risk management process.



19.4 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:

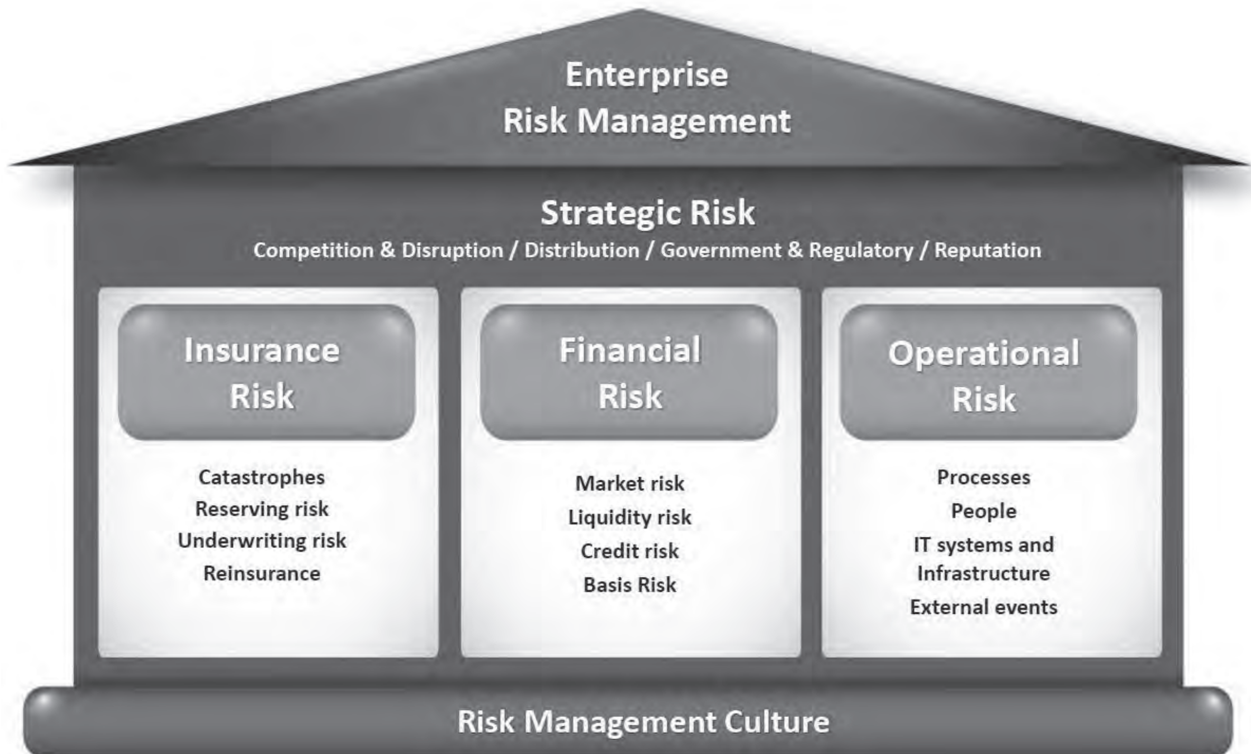
- we focus on our core competencies;
- we keep our overall risk profile in check;
- we protect ourselves against extreme events;
- we promote a strong risk management culture; and
- we maintain our ability to access capital markets at reasonable costs.

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

19.5 Main risk factors and mitigating actions

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.



19.6 Top and emerging risks that may affect future results

Each year the Enterprise Risk Management identifies the top risks that the Company faces. The following section presents the top and emerging risks identified with the most severe potential impact. In assessing the potential impact for each of the top risks, the presence and effectiveness of risk mitigation activities are taken into consideration. Our main risk factors together with our practices used to mitigate these risks are explained below.

Major earthquake in Canada — Insurance risk

Risk we are facing

The occurrence of a major earthquake in Canada may produce significant damage in large, heavily populated areas.

Potential impact

The occurrence of a major earthquake in Canada could have a significant impact on our profitability and financial condition and that of the entire P&C 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 P&C Insurance Compensation Corporation (PACICC) leading to further costs if other insurers are unable to meet their contractual obligations with their clients. With the acquisition of CDI in 2015, our gross exposure to an unlikely but possible earthquake in Western Canada has increased by approximately 14%.

How we manage this risk

Our risk management strategy consists of regular monitoring of insured value accumulation and concentration of risks. We use earthquake models to help assess our possible losses at various return periods and use reinsurance to transfer a material amount of risk. Consequently, the diversification of risk among an appropriate number of reinsurers is vital for us. See Section 13.6 – *Reinsurance* for more details on our reinsurance program.

Prior to 2015, our gross exposure to an earthquake in Western Canada had decreased materially over several years. Although the acquisition of CDI has increased our gross exposure to an earthquake in Western Canada, we have increased our reinsurance program levels accordingly to maintain a similar level of protection at the 1-in-500 year return period.

Catastrophe events risk — Insurance risk

Risk we are facing

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

Catastrophe events include natural disasters and unnatural events.

- There are a wide variety of natural disasters including but not limited to hurricanes, wind storms, hailstorms, rainstorms, ice storms, floods, severe winter weather and forest fires.
- Unnatural catastrophe events include but are not limited to hostilities, terrorist acts, riots, explosions, crashes and derailments, and wide scale cyber-attacks.

Despite the use of sophisticated models, the incidence and severity of catastrophe events are inherently unpredictable. The extent of losses from a catastrophe 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 catastrophe events are restricted to small geographic areas; however, hurricanes and other storms may produce significant damage in large, heavily populated areas. Catastrophe events can cause losses in a variety of P&C insurance lines.

Potential impact

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.

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.

In addition, we began offering cyber risk insurance to our commercial customers in 2015. Although it is unlikely, we may be adversely affected by a large scale cyber-attack that simultaneously compromises the systems of many of our insureds.

How we manage this risk

To address this issue, we have ongoing initiatives including pricing and product changes to reflect new climate realities, regular reviews of claims processes and a greater focus on consumer loss prevention. One example is the *Insurance is Evolving* website that focuses on educating consumers. Many initiatives have been implemented over the last several years including the expanded use of deductibles and sub-limits, and the introduction of depreciation schedules in personal property insurance across Canada. These initiatives should help mitigate, to some extent, P&C insurance losses resulting from water damage and harsh weather.

The Intact Centre on Climate Adaptation at the University of Waterloo will focus on research and building awareness for innovative adaptation solutions to climate change risks facing Canadian homeowners, communities, industries and governments. This is one of several initiatives that may help mitigate the impact of climate change on society as a whole.

In addition, our reinsurance program offers protection against many multi-risk events and catastrophes. We have also put in place an aggregate reinsurance treaty to protect for more frequent catastrophe events above $30 million. See Section 13.6 – *Reinsurance* for more details on our reinsurance program.

To help mitigate the risks associated with our cyber risk insurance product, we focus on small to medium size companies with relatively modest policy limits. In addition, we purchase reinsurance specifically to transfer some of the risk in the event a large scale cyber-attack occurs that triggers a high volume of claims.

Increased competition and disruption — Strategic risk

Risk we are facing

The P&C insurance industry is highly competitive and we believe that it will remain so for the foreseeable future.

We 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.

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. 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.

Potential impact

Intense competition for our insurance products could harm our ability to maintain or increase our profitability, premium levels and written insured risk volume.

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. telematics, the use of Big Data, etc.) has increased over the last several years and this trend is expected to continue in the near future. Competitors may use these technologies more effectively than us or there may be negative reputational consequences arising from our initiatives.

Demutualization and further consolidation in the Canadian P&C industry remains likely which may result in an erosion of our competitive advantage.

The rise of the sharing economy may have a material impact on overall premium volumes in the P&C insurance industry, particularly if there are fewer automobiles in circulation.

The evolution of customer preferences for different distribution channels could lead to a material decline in our market share. 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.

How we manage this risk

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. We have established close relationships with our independent distributors by providing them with advanced technology, as well as 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.

We also have a number of initiatives that we are pursuing to help mitigate the risk of competition and disruption including:

- Investing significantly in promoting our brands with an increasing focus on using web and mobile technology to reach consumers;
- Launching our own usage-based insurance (UBI) product to better meet customer needs;
- The acquisition of CDI to further strengthen our direct insurance distribution channel; and
- Entering into a cooperative agreement with Uber to help position ourselves strategically in the evolving transportation industry.

We also constantly seek to develop innovative and competitive products. We launched the Intact Lab, our center for digital excellence, in 2015 to accelerate innovation and explore advanced technology solutions.

Turbulence in financial markets — Financial risk

Risk we are facing

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. 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. Interest rates continued to be persistently low. In this context, purchases of fixed-income securities will likely be at lower yields than several years ago putting downward pressure on investment income. The significant and prolonged 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 a material amount of securities issued by companies in the energy sector. In 2015, our preferred share portfolio suffered declines in market value as a result of changes in interest rates and credit spreads.

Potential impact

Changes in the market variables mentioned above could adversely affect our investment income and/or the market value of our securities.

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

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.

Our preferred share portfolio may continue to depreciate in value as a result of further negative developments in interest rate and/or credit markets.

How we manage this risk

While our strategy is long-term in nature, it is regularly reviewed 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 our 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.

Regular stress testing of our investment risk exposures assists management in assessing the overall level of financial risk and helps to ensure that exposures remain within established risk tolerances.

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 in our Consolidated financial statements. Consult the following sections for more information.

Reference to our Consolidated financial statements

Market risk	Credit risk
Note 8.1	Note 8.3
Basis risk	**Liquidity risk**
Note 8.2	Note 8.5

Reserve and pricing inadequacy **Insurance risk**

Risk we are facing

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 ("LAE") incurred with respect to premiums collected or due on the insurance policies that we write. Reserves do not represent an exact calculation of a 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.

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.

Potential impact

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.

The following factors may have a substantial impact on our future actual losses and LAE 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 LAE 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 will decrease by a corresponding amount. In addition, increasing or strengthening reserves causes a reduction in our P&C insurance subsidiaries' capital and could cause a downgrading of the financial strength ratings of our P&C insurance subsidiaries. Any such downgrade could, in turn, adversely affect our ability to sell insurance policies. See Section 13.5 – *Claims liabilities* for more details on the claims reserve and prior year claims development.

Inadequate pricing may lead to material declines in underwriting income and/or deficient reserves.

How we manage this risk

Establishing an appropriate level of reserves is an inherently uncertain process. We continually refine our reserve estimates in an ongoing process as claims are reported and settled.

Our reserve review committee scrutinizes reserves by business segment, and analyzes trends and variations in losses to ensure that we maintain a sufficient level of claims reserve.

Our profitability committees review the results of each business line and determine if appropriate action is required in terms of product design or pricing to remediate poor underwriting performance.

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 and assumed risk-sharing pools in several automobile insurance markets including Ontario, Québec, Alberta, and the Maritimes.

In addition, on an annual basis, our external auditor provides an independent review of our reserves in the context of the audit of the Consolidated financial statements. This review includes establishing their own view of a reasonable range for the estimate.

Governmental and/or regulatory intervention **Strategic Risk**

Risk we are facing

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;
- are generally designed to protect policyholders and creditors, and are related to matters including:
    - requirements on privacy and the protection of personal information;
    - 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 upstream dividends from operating companies; and
    - transactions with affiliates.
- 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.

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. Solvency requirements are amended from time to time.

Governmental and/or regulatory intervention (cont'd) — **Strategic risk**

Potential impact

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

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 could materially adversely affect our business, results of operations and financial condition.

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.

In addition, our written premiums and profitability can be significantly affected by many factors, including:

- 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;
- forced reductions in premiums or additional costs imposed by governments that limit our ability to properly price our insurance products;
- modification of tax laws or a change in interpretation to existing tax laws, either retroactively or prospectively; and
- nationalization of one or more of our business lines.

Furthermore, a significant increase in solvency requirements would increase the possibility of regulatory intervention and may reduce our ability to generate attractive returns for shareholders. This may also negatively impact our ability to execute our growth strategy and attain our financial objectives.

How we manage this risk

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.

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.

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 reputation, profitability, and financial condition.

To reduce the risk of breaching the regulatory capital requirements, we have established an internal target capital ratio in excess of the supervisory target of 150% in our principal insurance subsidiaries. We operate above our internal target under normal circumstances to reduce the likelihood of regulatory intervention. Our Enterprise Risk Committee regularly review risks related to solvency and conducts stress testing to identify vulnerabilities and possibly areas for remediation. Our capital management 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 15.2 – *Own Risk and Solvency Assessment (ORSA).*

Failure of a major technology initiative — Operational risk

Risk we are facing

To maintain our performance levels we are required to regularly modernize our systems. Often significant time and investment is required for accomplishing these projects. Any unplanned delays, unforeseen costs, or unsuccessful execution of such projects could lead to a significant decline in service levels, impact employee morale negatively and reduce our competitiveness. There is no assurance that we will succeed in meeting our objectives for these projects.

Potential impact

Our technology strategy may take too long to execute or may not be adequate to maintain a competitive advantage. The complexity and interdependence of our infrastructure and applications may lead to higher costs and more errors. Implementation of new technology may introduce more complexity in the interim prior to simplification after decommissioning older systems.

We could decide to abandon one or more of our technology initiatives resulting in a material write down.

How we manage this risk

Senior management provides careful oversight and ensures that proper funding and resources are allocated to our key projects. Risk assessments are conducted to identify potential areas for remediation or the necessity for additional controls. A dedicated committee was created to ensure proper focus is devoted to major technology projects.

Information technology security failure — Operational risk

Risk we are facing

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 information security breaches.

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. In recent years, we witnessed an increase in the number of high profile information security breaches in well-established and sophisticated organizations including financial institutions, government agencies, and other established companies. Our systems and the third parties that provide services to us may be subject to information security breaches.

Potential impact

Despite our ongoing efforts to secure our systems, cyber risk remains a material risk and we may be the subject of a cyber-attack resulting in system unavailability, data corruption, or the disclosure of confidential information. Massive denial of service attacks and system intrusion attempts could compromise our ability to operate or we may be unable to safeguard confidential information from public disclosure. Other types of potential attacks we may face include ransomware, data theft or manipulation, and cyber-espionage.

These events may lead to financial loss, regulatory action, and reputational damage.

How we manage this risk

To ensure the security and resilience of our systems, the safeguard of our confidential information and the integrity of our information and databases, dedicated teams plan, test and execute our continuity and security plans. This includes threat and vulnerability assessments and the implementation of appropriate mitigation actions. Our security teams constantly monitor our systems and are 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 continuously upgrade our applications to better protect our systems and information. We regularly monitor trends in cyber risk to ensure we are able to rapidly mitigate known vulnerabilities.

Our Information Technology Security Committee oversees our security initiatives and ensures effective collaboration across teams. In 2015, we have increased our focus on employee information security awareness and training to enhance our ability to resist cyber-attacks.

Inability to contain fraud and/or abuse — Operational risk

Risk we are facing

As a property and casualty insurer, we may be subject to internal or external fraud. Our insureds may exaggerate claims for personal gain. Despite our efforts to control fraud and abuse, our staff, systems, and processes may be unable to accurately detect and prevent internal or external fraud.

Potential impact

Fraud may result in unanticipated losses and a negative impact on our reputation. Our written premiums and profitability can be significantly affected by regulatory regimes which limit our ability to detect and defend against fraudulent claims and fraud rings.

How we manage this risk

We have strong internal controls in place to prevent and detect potential internal fraud. Internal and external audits are performed to verify that the controls are followed.

Fraud detection software is used by our claims teams to detect potential external fraud and flag cases for further investigation.

Government authorities also have an incentive to help reduce fraud in the system and maintain affordable insurance for consumers. Ontario Bill 15 is one example of government action that aims to reduce auto insurance fraud.

Reputation risk — Strategic risk

Risk we are facing

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 claims handling or underwriting practices, thereby subjecting us or our subsidiaries to 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.

Potential impact

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.

Social media could amplify the impact of a reputational issue. It could result in further damage to our reputation and impair our future growth prospects.

How we manage this risk

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.

We have established escalation procedures within our claims operations to identify potential issues and ensure that management has had the opportunity to perform an additional review of potential problematic cases. In addition, our insurance policy wordings are reviewed periodically by management to detect and remediate potential issues before they arise.

New products and significant changes in existing products undergo a rigorous product development life-cycle including an independent review by the risk management function prior to launch. Potential reputational issues can be identified in the early stages of product development and, if required, changes are implemented prior to launch.

The emergence of autonomous vehicles	Emerging risk
Risk we are facing Commercialisation of autonomous vehicles could profoundly change the transportation and auto insurance industries. The speed at which autonomous vehicles are adopted will depend on a number of factors including, but not limited to, the success of the new technology, the legal and regulatory environment, and customer preferences. These vehicles may have a dramatically different risk profile than current modes of transportation.	
Potential impact If the potential of autonomous vehicles is fully realized, a number of changes may occur including a significant reduction in accident frequency and the emergence of new ways to provide automobile insurance coverage. This could cause a material decline in our written premiums.	***How we manage this risk*** We recognize the potential impact of this emerging technology and have been closely monitoring developments on this topic for some time. We devote part of our research agenda to include items such as the future of mobility insurance and autonomous vehicles. We believe it is crucial to understand this emerging technology and the possible implications to be able to adjust our corporate strategy accordingly.

19.7 Other risk factors that may affect future results

Legal Risk

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 actions relating to our current and past business operations. 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.

Reinsurance risk

We use reinsurance to help manage our exposure to insurance risk, including major catastrophe events. 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, profitability and regulatory capital position. Both worldwide and Canadian catastrophe losses have an impact on the reinsurance market in Canada. In recent years, the availability of alternative capital in the reinsurance market has helped maintain the supply of capital and added downward pressure on rates. However, 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. 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. In addition, the cost of reinsurance could increase significantly year over year impacting our profitability if we are unable to pass on these costs to consumers. Furthermore, a significant decline in the availability of reinsurance could impact our premium volume, our profitability and our regulatory capital position.

People Risk

Our success has been, and will continue to be, dependent on our ability to retain the services of key employees and to attract additional qualified personnel in the future. In addition, a significant decline in employee morale could materially affect our operations including an increase in the risk of human error or deliberate acts that harm the company. 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. Furthermore, our recent employee engagement survey reveals a high level of engagement among employees. IFC was recognized by multiple organizations as one of Canada's best employers. We believe that a high level of employee engagement helps mitigate some of the operational risks associated with people. However, there is no assurance that the Company will be successful in retaining and motivating our key talent across the organization.

Business interruption risk

We may 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) or a large scale cyber-attack. Our service levels may decline materially resulting in negative financial and reputational consequences. 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 Ebola virus outbreak in 2014, 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.

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"). See Section 14.2 – *Credit ratings* for more details.

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. This is more applicable to our commercial insurance where clients place a higher emphasis on such ratings. 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.

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 to 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 stress scenarios limitations on our subsidiaries' ability to pay dividends to IFC could have a material adverse effect on our ability to pay shareholder dividends and may result in a material decline in the price of securities we have issued.

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. From time to time we issue loans or take equity participation in certain brokers and consequently, we expose ourselves to other risks including financial risk and regulatory risk. 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. The acquisition of brokers by others or even by other insurers may impact our relationship with some of them and harm our ability to grow our business. 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 arising from loans to brokers 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.

ADDITIONAL INFORMATION

Section 20 – Key performance indicators

Our most relevant key performance indicators are outlined in the table below. DPW (underlying), Underlying current year loss ratio, NOI, NOIPS, OROE, ROE, AROE and AEPS are considered non-IFRS financial measures. See Section 22 – *Non-IFRS financial measures* for the reconciliation to the most comparable IFRS measures.

		2015	2014	2013	2012	2011
Growth	DPW (underlying) growth	6.2%	1.6%	7.2%	34.3%	14.0%
	Written insured risks growth	5.1%	(0.7)%	5.7%	32.3%	10.2%
Underwriting performance	Underlying current year loss ratio	66.1%	64.3%	64.9%	63.5%	64.2%
	Claims ratio	61.3%	62.6%	66.9%	61.6%	63.9%
	Expense ratio	30.4%	30.2%	31.1%	31.5%	30.5%
	Combined ratio	91.7%	92.8%	98.0%	93.1%	94.4%
Consolidated performance	Net investment income	424	427	406	389	326
	NOI	860	767	500	675	460
	NOIPS (in dollars)	6.38	5.67	3.62	5.00	3.91
	OROE	16.6%	16.3%	11.2%	16.8%	15.3%
	ROE	13.4%	16.1%	9.3%	13.5%	14.3%
	AROE	14.3%	16.8%	10.3%	16.1%	17.4%
	EPS (in dollars)	5.20	5.79	3.10	4.20	3.96
	AEPS (in dollars)	5.54	6.01	3.44	5.02	4.82
Financial strength	BVPS (in dollars)	39.83	37.75	33.94	33.03	29.73
	MCT	203%	209%	203%	205%	197%
	Total excess capital	625	681	550	599	435
	Debt-to-capital ratio	16.6%	17.3%	18.7%	18.9%	22.9%

Section 21 – Definitions of our key performance indicators

Our most relevant key performance indicators are defined below. Underlying current year loss ratio, NOI, NOIPS, ROE, OROE, AROE and AEPS are considered non-IFRS financial measures. See Section 22 - *Non-IFRS financial measures* for the reconciliation to the most comparable IFRS measures.

- **AEPS** and **AROE** are **Adjusted measures**, meaning that they exclude the after-tax impact of acquisition related items, such as amortization of intangible assets recognized in business combinations, and integration and restructuring costs.
- **NOI, NOIPS** and **OROE** are **operating measures**, meaning that they exclude non-operating items detailed in Section 23.
- **EPS** and **ROE** are **IFRS measures**, meaning that their definition is determined in accordance with IFRS.

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 10 – *Canadian P&C insurance industry* for more details on our performance versus the industry.

Growth				
	DPW growth for a specific period	(DPW for a specified period – DPW for the same period the previous year) / DPW for the same period the previous year	**Written insured risks growth** for a specific period	(# of vehicles in automobile insurance + # of premises in personal property insurance + # of policies in commercial P&C insurance - Total # for same period the previous year) / Total # for same period the previous year

Underwriting results				
	Underlying current year loss ratio for a specific period	Current year claims ratio excluding CAT losses and PYD / NEP before the impact of reinstatement premiums	**Expense ratio** for a specific period	Underwriting expenses (including commissions, premium taxes and general expenses related to underwriting activities) / NEP
	Claims ratio for a specific period	Claims incurred (net of reinsurance) / NEP	**Combined ratio** for a specific period	Claims ratio + Expense ratio

A combined ratio under 100% indicates a profitable underwriting result.
A combined ratio over 100% indicates an unprofitable underwriting result.

Consolidated performance	**Net investment income** for a specific period	As detailed in Table 9 – Net investment income	**ROE** for a 12-month period	Net income attributable to common shareholders[1] / Average common shareholders' equity[2]
	NOI for a specific period	As detailed in Table 1 – Consolidated performance	**AROE** for a 12-month period	Adjusted net income attributable to common shareholders / Average common shareholders' equity[2]
	NOIPS for a specific period	NOI attributable to common shareholders / WANSO[3]	**EPS** for a specific period	As reported in the accompanying Consolidated statements of comprehensive income
	OROE for a 12-month period	NOI attributable to common shareholders / Average common shareholders' equity[2] (excluding AOCI)	**AEPS** for a specific period	Adjusted net income attributable to common shareholders / WANSO[3]

Financial Strength	**BVPS** as at the end of a specific period	Common shareholders' equity[4] / Number of common shares outstanding at the same date	**Total excess capital** as at the end of a specific period	Excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries.
	MCT as at the end of a specific period	Minimum capital test, as defined by OSFI and AMF	**Debt-to-capital ratio** as at the end of a specific period	Total debt outstanding / Sum of the total shareholders' equity[4] and total debt outstanding as at the same date

[1] Net income is determined in accordance with IFRS.
[2] 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. Shareholder's equity is determined in accordance with IFRS.
[3] Weighted-average number of common shares outstanding during the same period.
[4] Shareholder's equity is determined in accordance with IFRS.

Section 22 – 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.

- **DPW (underlying)** represents the total amount of premiums for new and renewal policies billed (written) during the reporting period, excluding industry pools and normalized for the effect of multi-year policies. This measure matches DPW to the year in which coverage is provided, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.

- **Underlying current year loss ratio** represents our current year claims ratio excluding catastrophe losses, reinstatement premiums, and PYD. Catastrophe events are beyond our control, and as such, excluding them provides clearer insight into our analysis of current year 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.

- **ROE** excludes the dividends declared on preferred shares.

- **AEPS and AROE** exclude the impact of amortization of intangible assets recognized in business combinations and integration and restructuring costs, all on an after tax basis. We believe that these excluded items are not appropriate in assessing our underlying performance.

- **Cash flow available for investment activities** includes net cash flows from cash and cash equivalents and the investment portfolio. See Section 14.3 – *Understanding our cash flows* for a reconciliation of this non-IFRS financial measure.

- **Market-based yield** represents the annualized total pre-tax investment income (before expenses), divided by the mid-month average fair value of net equity and fixed-income securities held during the reporting period (average net investments). This calculation provides users with a consistent measure of our relative investment performance.

Table 28 – Reconciliation of DPW (underlying) and underlying DPW growth to DPW, as reported under IFRS

	Q4-2015	Q4-2014	2015	2014
DPW, as reported under IFRS	**1,890**	1,758	**7,893**	7,329
Less impact of industry pools	**(3)**	(7)	**(34)**	(26)
Add share of the results of jointly held insurance operations	**10**	9	**48**	46
DPW	**1,897**	1,760	**7,907**	7,349
Add impact of the normalization for multi-year policies	**11**	15	**15**	112
DPW (underlying)	**1,908**	1,775	**7,922**	7,461
Underlying DPW growth	**7.5%**	2.7%	**6.2%**	1.6%

Table 29 – Reconciliation of NEP before reinstatement premiums to NEP and of current year claims to net claims incurred, as reported under IFRS

	Q4-2015	Q4-2014	2015	2014
NEP, as reported under IFRS	**1,937**	1,819	**7,490**	7,164
Add share of the results of jointly held insurance operations	**11**	11	**45**	43
NEP	**1,948**	1,830	**7,535**	7,207
Less recovery of reinstatement premiums	**-**	-	**(2)**	-
NEP, before reinstatement premiums	**1,948**	1,830	**7,533**	7,207
Net claims incurred, as reported under IFRS	**1,126**	1,099	**4,659**	4,600
Less impact of MYA on underwriting results	**(6)**	(37)	**(58)**	(103)
Less difference between expected return and discount rate on pension assets allocated to net claims incurred	**(3)**	(2)	**(11)**	(8)
Add share of the results of jointly held insurance operations	**6**	6	**25**	26
Total net claims	**1,123**	1,066	**4,615**	4,515
Less current year catastrophes	**(2)**	(10)	**(116)**	(243)
Less favourable PYD	**75**	78	**477**	364
Current year claims	**1,196**	1,134	**4,976**	4,636
Current year claims	**1,196**	1,134	**4,976**	4,636
NEP, before reinstatement premiums	**1,948**	1,830	**7,533**	7,207
Underlying current year loss ratio	**61.4%**	62.0%	**66.1%**	64.3%

Table 30 – Reconciliation of NOIPS and OROE to net income

	Q4-2015	Q4-2014	2015	2014
Net income	**198**	205	**706**	782
Add income tax expense	**43**	60	**169**	175
Deduct net investment gains (losses)	**72**	3	**64**	(174)
Add negative impact of MYA on underwriting	**6**	37	**58**	103
Add difference between expected return and discount rate on pension assets	**7**	6	**30**	22
Add amortization of intangible assets recognized in business combinations	**11**	8	**46**	30
Add integration, restructuring and other costs	**3**	1	**18**	9
Pre-tax operating income	**340**	320	**1,091**	947
Tax impact	**(75)**	(73)	**(231)**	(180)
NOI	**265**	247	**860**	767
Less preferred share dividends	**(5)**	(5)	**(21)**	(21)
NOI to common shareholders	**260**	242	**839**	746
Divided by weighted-average number of common shares (in millions)	**131.5**	131.5	**131.5**	131.5
NOIPS, basic and diluted (in dollars)	**1.97**	1.84	**6.38**	5.67
Average common shareholders' equity, excluding AOCI			**5,041**	4,587
OROE for the last 12 months			**16.6%**	16.3%

Table 31 – Reconciliation of ROE to net income

	Q4-2015	Q4-2014	2015	2014
Net income	**198**	205	**706**	782
Less preferred share dividends	**(5)**	(5)	**(21)**	(21)
Adjusted net income attributable to common shareholders	**193**	200	**685**	761
Average common shareholders' equity			**5,103**	4,716
ROE for the last 12 months			**13.4%**	16.1%

Table 32 – Reconciliation of AEPS and AROE to net income

	Q4-2015	Q4-2014	2015	2014
Net income	**198**	205	**706**	782
Add amortization of intangible assets recognized in business combinations, net of tax	**8**	7	**37**	23
Add integration and restructuring costs, net of tax	**2**	1	**7**	7
Adjusted net income	**208**	213	**750**	812
Less preferred share dividends	**(5)**	(5)	**(21)**	(21)
Adjusted net income attributable to common shareholders	**203**	208	**729**	791
Divided by weighted-average number of common shares (in millions)	**131.5**	131.5	**131.5**	131.5
AEPS, basic and diluted (in dollars)	**1.54**	1.58	**5.54**	6.01
Average common shareholders' equity			**5,103**	4,716
AROE for the last 12 months			**14.3%**	16.8%

Table 33 – Reconciliation of underwriting income to underwriting income, as reported under IFRS

	Q4-2015	Q4-2014	2015	2014
Underwriting income, as reported under IFRS	**206**	174	**536**	393
Add (deduct) share of the results of jointly held insurance operations	**2**	(1)	**4**	1
Add difference between expected return and discount rate on pension assets	**7**	6	**30**	22
Add impact of MYA on underwriting results	**6**	37	**58**	103
Underwriting income	**221**	216	**628**	519

Section 23 – 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 34 – Non-operating results

	Q4-2015	Q4-2014	Change	2015	2014	Change
Net investment gains (losses)	**(72)**	(3)	(69)	**(64)**	174	(238)
Positive (negative) impact of MYA on underwriting	**(6)**	(37)	31	**(58)**	(103)	45
Difference between expected return and discount rate on pension assets	**(7)**	(6)	(1)	**(30)**	(22)	(8)
Integration, restructuring and other costs	**(3)**	(1)	(2)	**(18)**	(9)	(9)
Amortization of intangible assets recognized in business combinations	**(11)**	(8)	(3)	**(46)**	(30)	(16)
Non-operating gains (losses)	**(99)**	(55)	(44)	**(216)**	10	(226)

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 generally 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.

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 24 – Accounting and disclosure matters

Reference to our Consolidated financial statements		
Significant accounting judgments, estimates and assumptions	**Related-party transactions**	**Standards issued but not yet effective**
Note 3	Note 23	Note 27

24.1 New accounting standards effective January 1, 2015

There were no new accounting standards, applicable to us, effective January 1, 2015. Please refer to Note 2 – *Summary of significant accounting policies* in the Consolidated financial statements.

24.2 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;
- valuation of defined benefit obligation;
- business combinations;
- impairment;
- goodwill and intangible assets;
- financial assets; and
- measurement of income taxes.

24.3 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.

24.4 Financial instruments

An important portion of our Consolidated balance sheets is composed of financial instruments. For additional information, please refer our Consolidated financial statements.

Reference to our Consolidated financial statements		
Significant accounting policies	**Derivative financial instruments**	**Fair value measurement**
Note 2	Note 6	Note 7

24.5 Disclosure controls and procedures

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

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109- *Certification of Disclosure in Issuer's Annual and Interim Filings* 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, 2015. 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.

24.6 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.

Following the acquisition of CDI on May 1, 2015, management has limited the scope of design of our disclosure controls and procedures and ICFR reporting to exclude the controls, policies and procedures of CDI. CDI's contribution to our Consolidated financial statements for the quarter ended December 31, 2015 was 2% of DPW. Additionally, as at December 31, 2015, CDI's contribution to our consolidated total assets and total liabilities were both approximately 1%. Management is committed to removing this limitation within the timeframe permitted by regulation.

Management has evaluated the design and operating effectiveness of its ICFR as defined in National Instrument 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, 2015.

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 ICFR during 2015 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

Section 25 – Off-balance sheet arrangements

25.1 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 $1.9 billion as at December 31, 2015 ($1.6 billion as at December 31, 2014).

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 $2.0 billion as at December 31, 2015 ($1.7 billion as at December 31, 2014).

Section 26 – Share capital and LTIP information

26.1 Authorized share capital

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

26.2 Outstanding share data

The following table presents the outstanding share data.

Table 35 – Outstanding share data (number of shares)

As at February 9, 2016	
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 16 – *Common shares and preferred shares* to the accompanying Consolidated financial statements for additional information.

26.3 Long-term incentive plans

The following table shows the outstanding units and fair value for each of the performance cycles as at December 31, 2015.

Table 36 – 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 $)
2013-2015	**236,151**	**62.08**	**15**
2014-2016	**246,094**	**66.25**	**16**
2015-2017	**215,679**	**77.89**	**17**
Total	**697,924**	**68.44**	**48**

Refer to Note 22 – *Share-based payments* to the accompanying Consolidated financial statements for additional details.

Section 27 – Selected annual and quarterly information

27.1 Selected annual information

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

Table 37 – Selected annual information

	2015	2014	2013
Total revenues	**8,032**	7,915	7,434
Underwriting income[1]	**628**	519	142
Net income attributable to shareholders	**706**	782	431
EPS, basic and diluted (in dollars)	**5.20**	5.79	3.10
Cash dividends declared per share (in dollars)			
Common shares	**2.12**	1.92	1.76
Class A			
Series 1 Preferred Shares	**1.05**	1.05	1.05
Series 3 Preferred Shares	**1.05**	1.05	1.05

[1] Refer to Section 22 – *Non-IFRS financial measures*.

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

Table 38 – Selected annual information

As at December 31,	2015	2014	2013
Investments	**13,504**	13,440	12,261
Total assets	**21,236**	20,580	19,774
Debt outstanding	**1,143**	1,143	1,143
Shareholders' equity	**5,728**	5,455	4,954

27.2 Selected quarterly information

Table 39 – Selected quarterly information

				2015				2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
DPW[1]	**1,897**	**2,092**	**2,346**	**1,572**	1,760	1,913	2,173	1,503
DPW (underlying)[1]	**1,908**	**2,095**	**2,344**	**1,575**	1,775	1,941	2,212	1,533
Written insured risks (in thousands)	**1,680**	**2,021**	**2,259**	**1,459**	1,595	1,881	2,142	1,444
Total revenues	**2,027**	**2,003**	**1,975**	**2,027**	1,964	1,989	1,984	1,978
NEP[1]	**1,948**	**1,930**	**1,865**	**1,792**	1,830	1,826	1,801	1,750
Current year catastrophe losses	**2**	**81**	**22**	**11**	10	125	33	75
Favourable PYD	**(75)**	**(107)**	**(106)**	**(189)**	(78)	(80)	(65)	(141)
Underwriting income[1]	**221**	**131**	**158**	**118**	216	124	128	51
Combined ratio	**88.6%**	**93.2%**	**91.6%**	**93.4%**	88.2%	93.2%	92.9%	97.1%
Net investment income	**110**	**105**	**104**	**105**	111	106	105	105
NOI[1]	**265**	**199**	**210**	**186**	247	185	206	129
Net income	**198**	**131**	**199**	**178**	205	202	215	160
Per share measures, basic and diluted (in dollars)								
NOIPS[1]	**1.97**	**1.47**	**1.56**	**1.37**	1.84	1.37	1.53	0.94
EPS	**1.46**	**0.95**	**1.47**	**1.32**	1.52	1.49	1.60	1.17

[1] Refer to Section 22 – *Non-IFRS financial measures*.

See also the discussion on seasonality of the business hereafter.

27.3 Seasonality of the P&C insurance business

The P&C insurance business is seasonal in nature. While NEP are generally stable from quarter to quarter, underwriting results are mainly driven by weather conditions which may vary significantly between quarters. The underlying seasonality in our combined ratio is best illustrated by excluding the impact of CAT losses (see Table 41).

For instance, in 2015 our first and third quarters saw a higher combined ratio including CAT losses than the second and fourth quarters in 2015, meaning that underwriting results were relatively less profitable in Q1-2015 and Q3-2015. When CAT losses are excluded, the first quarter of 2015 saw a higher combined ratio than all the other quarters in 2015, meaning that the underwriting results were relatively less profitable in Q1-2015 than the rest of the year.

Table 40 – Seasonal indicator, including CAT losses

	2015	2014	2013	2012	2011	2010	2009	2008	Eight-year average
Q1	**1.02**	1.05	0.97	0.99	1.00	0.98	1.00	1.03	1.01
Q2	**1.00**	1.00	1.00	0.99	1.03	0.98	0.97	0.98	0.99
Q3	**1.02**	1.00	1.05	1.03	0.99	1.01	1.07	0.97	1.02
Q4	**0.96**	0.95	0.98	0.99	0.98	1.03	0.96	1.02	0.98

Table 41 – Seasonal indicator, excluding CAT losses

	2015	2014	2013	2012	2011	2010	2009	2008	Eight-year average
Q1	**1.03**	1.04	1.04	1.02	1.04	1.00	1.02	1.03	1.03
Q2	**1.01**	1.02	0.97	0.98	0.96	0.99	0.99	0.97	0.99
Q3	**0.98**	0.96	0.97	0.97	0.99	0.98	1.00	0.97	0.98
Q4	**0.98**	0.98	1.02	1.03	1.01	1.03	0.99	1.03	1.00

27.4 Expected issuance dates of our financial results

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

Q1-2016	Q2-2016	Q3-2016	Q4-2016
May 4, 2016	July 27, 2016	November 2, 2016	February 8, 2017

Intact Financial Corporation

Consolidated financial statements

For the year ended December 31, 2015

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.

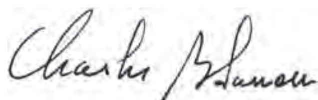
The Audit Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the Company employs an appropriate system of internal control, adheres to legislative and regulatory requirements and applies the Company's Code of Conduct. 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 9, 2016



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, 2015 and 2014, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
February 9, 2016

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

INTACT FINANCIAL CORPORATION

Consolidated financial statements
For the year ended December 31, 2015

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INTACT FINANCIAL CORPORATION

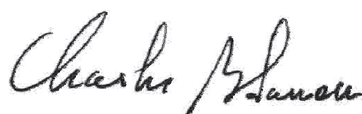
Consolidated balance sheets

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

As at December 31,	Note	2015	2014
Assets			
Investments	5		
Cash and cash equivalents		**$ 141**	$ 89
Debt securities		**8,709**	8,684
Preferred shares		**1,235**	1,268
Common shares		**2,971**	2,992
Loans		**448**	407
Investments		**13,504**	13,440
Accrued investment income		**67**	65
Premium receivables		**2,868**	2,711
Reinsurance assets	9	**274**	335
Income taxes receivable		**24**	5
Deferred tax assets	19	**171**	57
Deferred acquisition costs		**720**	669
Other assets	11	**655**	571
Investments in associates and joint ventures	13	**396**	313
Property and equipment	14	**104**	110
Intangible assets	12	**1,285**	1,202
Goodwill	12	**1,168**	1,102
Total assets		**$ 21,236**	$ 20,580
Liabilities			
Claims liabilities	9	**$ 8,094**	$ 8,021
Unearned premiums	9	**4,390**	4,110
Financial liabilities related to investments	5	**378**	432
Income taxes payable		**101**	105
Deferred tax liabilities	19	**107**	93
Other liabilities	11	**1,295**	1,221
Debt outstanding	15	**1,143**	1,143
		15,508	15,125
Shareholders' equity			
Common shares	16	**2,090**	2,090
Preferred shares	16	**489**	489
Contributed surplus		**119**	115
Retained earnings		**3,051**	2,616
Accumulated other comprehensive income (loss)		**(21)**	145
		5,728	5,455
Total liabilities and shareholders' equity		**$ 21,236**	$ 20,580

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 (loss)

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

For the years ended December 31,	Note		2015		2014
Direct premiums written	18	**$**	**7,893**	$	7,329
Net premiums earned	18		**7,490**		7,164
Other underwriting revenues	18		**122**		100
Total underwriting revenues			**7,612**		7,264
Net claims incurred	9		**(4,659)**		(4,600)
Underwriting expenses			**(2,417)**		(2,271)
Underwriting results			**536**		393
Net investment income	5		**423**		426
Net investment gains (losses)	5		**(64)**		173
Share of profit from investments in associates and joint ventures			**26**		19
Other revenues	18		**121**		98
Other expenses			**(103)**		(88)
Finance costs			**(64)**		(64)
Income before income taxes			**875**		957
Income tax expense	19		**(169)**		(175)
Net income attributable to shareholders		**$**	**706**	$	782
Weighted-average number of common shares outstanding (in millions)	20		**131.5**		131.5
Earnings per common share, basic and diluted (in dollars)	20	**$**	**5.20**	$	5.79
Dividends paid per common share (in dollars)		**$**	**2.12**	$	1.92
Net income attributable to shareholders		**$**	**706**	$	782
Other comprehensive income (loss)					
Available-for-sale securities:					
Net changes in unrealized gains (losses)			**(339)**		170
Reclassification to income of net losses (gains)			**123**		(125)
Derivatives designated as cash flow hedges:					
Net changes in unrealized gains (losses)			**(1)**		1
Income tax benefit (expense)	19		**54**		(12)
Share of other comprehensive loss from investments in associates and joint ventures			**(3)**		(1)
Items that may be reclassified subsequently to net income attributable to shareholders			**(166)**		33
Net actuarial gains (losses) on employee future benefits	21		**48**		(41)
Income tax benefit (expense)	19		**(13)**		11
Items that will not be reclassified subsequently to net income attributable to shareholders			**35**		(30)
Other comprehensive income (loss)			**(131)**		3
Total comprehensive income attributable to shareholders		**$**	**575**	$	785

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, 2015		**$ 2,090**	**$ 489**	**$ 115**	**$ 2,616**	**$ 145**	**$ 5,455**
Net income attributable to shareholders		**-**	**-**	**-**	**706**	**-**	**706**
Other comprehensive income (loss)		**-**	**-**	**-**	**35**	**(166)**	**(131)**
Total comprehensive income (loss)		**-**	**-**	**-**	**741**	**(166)**	**575**
Dividends declared on:							
Common shares	16	**-**	**-**	**-**	**(279)**	**-**	**(279)**
Preferred shares	16	**-**	**-**	**-**	**(21)**	**-**	**(21)**
Share-based payments	22	**-**	**-**	**4**	**(6)**	**-**	**(2)**
Balance as at December 31, 2015		**$ 2,090**	**$ 489**	**$ 119**	**$ 3,051**	**$ (21)**	**$ 5,728**
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	16	-	-	-	(255)	-	(255)
Preferred shares	16	-	-	-	(21)	-	(21)
Share-based payments	22	-	-	(1)	(7)	-	(8)
Balance as at December 31, 2014		$ 2,090	$ 489	$ 115	$ 2,616	$ 145	$ 5,455

See accompanying notes to the Consolidated financial statements.

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

For the years ended December 31,	Note	2015	2014
Operating activities			
Income before income taxes		**$ 875**	$ 957
Income taxes received (paid), net		**(265)**	293
Contributions to the pension plans	21	**(52)**	(55)
Share-based payment		**(7)**	-
Net investment losses (gains)	5	**64**	(173)
Adjustments for non-cash items	24	**189**	163
Changes in other operating assets and liabilities	24	**38**	48
Changes in net claims liabilities	9	**47**	179
Net cash flows provided by operating activities		**889**	1,412
Investing activities			
Proceeds from sale of investments		**6,499**	9,887
Purchases of investments		**(6,666)**	(10,722)
Business combinations, net of cash acquired	4	**(187)**	(13)
Purchases of brokerages and books of business, net of sales		**(77)**	(178)
Purchases of intangibles and property and equipment, net		**(89)**	(97)
Net cash flows used in investing activities		**(520)**	(1,123)
Financing activities			
Common shares repurchased for share-based payments	22	**(17)**	(23)
Dividends paid on common shares	16	**(279)**	(255)
Dividends paid on preferred shares	16	**(21)**	(21)
Net cash flows used in financing activities		**(317)**	(299)
Net increase (decrease) in cash and cash equivalents		**52**	(10)
Cash and cash equivalents, beginning of year		**89**	99
Cash and cash equivalents, end of year	24	**$ 141**	$ 89

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 through its operating subsidiaries principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses. The Company acquired all of the issued and outstanding shares of Canadian Direct Insurance Inc. ("CDI") on May 1, 2015. Further details of the acquisition are provided in *Note 4 – Business Combination.*

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, Jevco Insurance Company, Canadian Direct Insurance Inc., Trafalgar Insurance Company of Canada, Intact Farm Insurance Inc., Canada Brokerlink Inc., Equisure Financial Network Inc. and IB Reinsurance Inc.

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

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Glossary of abbreviations			
AFS	Available for sale	**IASB**	International Accounting Standards Board
AMF	Autorité des marchés financiers	**IBNR**	Insurance claims incurred but not reported by policyholders
AOCI	Accumulated other comprehensive income	**IFRS**	International Financial Reporting Standards
CGU	Cash generating unit	**LTIP**	Long-term incentive plans
CIA	Canadian Institute of Actuaries	**MCT**	Minimum capital test
DPW	Direct premiums written	**OCI**	Other comprehensive income
DSU	Deferred share unit	**OSFI**	Office of the Superintendent of Financial Institutions
EPS	Earnings per share to common shareholders	**P&C**	Property and casualty
ESPP	Employee share purchase plan	**PfAD**	Provision for adverse deviations
FA	Facility Association	**PSU**	Performance stock units
FVTOCI	Fair value through OCI	**RSP**	Risk sharing pools
FVTPL	Fair value through profit and loss	**RSU**	Restricted stock units

2.1 Basis of presentation

These Consolidated financial statements are prepared in accordance with IFRS, as issued by the 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 9, 2016.

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 in a subsidiary that do not result in the Company 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 and premium receivables

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. Premium receivables consist of the premiums due for the remaining months of the contracts.

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 received from external insurance providers by consolidated brokers 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 IBNR, as required by the 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 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 written off 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 FA. In addition, entities can choose to cede certain risks to the FA administered 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 OSFI guidelines, assumed and ceded RSP premiums are reported in DPW.

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:

- AFS;
- Financial assets and financial liabilities at 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 nor designated as FVTPL.
FVTPL		
Classified as FVTPL	Common shares	Purchased 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	A market neutral investment strategy, where the objective 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 backing the Company's claims liabilities and some common shares	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] – Corporate bonds[1] – Common shares and Preferred shares – Investments in mutual funds – Short-term notes – 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)	– Some Government bonds[1] – Corporate bonds[1] – Unsecured medium-term notes[2] – 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 Net investment gains (losses) as incurred; 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. Those financial assets are impaired according to either a debt, equity, or loans and receivables impairment model. The appropriate impairment model is determined based on the characteristics of each instrument, the capacity of the issuer to pay dividends or interest and the Company's intention to either hold the shares for the long term or sell them. As a result, as at December 31, 2015, the Company's preferred shares have been assessed using a debt impairment model, which determines that a security is impaired when it is probable that the future cash flows will not be recovered based on credit considerations rather than based on the fair value of that security. This impairment model is better aligned with the Company's business model of holding these securities for the long term to earn dividend income.

Debt impairment model

A financial asset is impaired if there is objective evidence of impairment, as a result of one or more loss events (a payment default for example) that occurred after initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset. The debt model is used to assess impairments for all debt securities, preferred shares that are redeemable at the option of the holder, and perpetual preferred shares which have been purchased with the intent of holding for the long-term.

Since the business model of the Company is to purchase preferred shares for the purpose of earning dividend income, with the intent of holding them for the long-term, virtually all perpetual preferred shares are assessed for impairment using a debt impairment model.

Equity impairment model

For securities impaired according to an equity impairment model, objective evidence of impairment includes a significant, a prolonged, or a significant and prolonged decline in the fair value of an investment below cost, as well as information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which an issuer operates, indicating that the cost of an equity instrument may not be recovered.

The equity model is used to assess impairment for the Company's common shares, as well as any perpetual preferred shares not impaired using the debt impairment model.

Table 2.5 – *Objective evidence of impairment for equity impairment model*

Unrealized loss position	Common shares	Perpetual preferred shares which are not evaluated for impairment under the debt model
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 for 9 consecutive months or more and unrealized loss of 25%	Unrealized loss for 12 consecutive months or more and unrealized loss of 25%

Loans and receivables impairment model

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.

Measurement and recognition of impairment losses

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
Debt impairment model	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.
Equity impairment model	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 impairment model	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.

g) Restricted funds

The Company has concluded reserve fund agreements with third parties whereby the use and profit sharing are subject to certain restrictions. These funds are presented as Restricted funds in Other assets.

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. 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 method and terms of intangible assets assessed as having finite useful lives are shown below.

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

Intangible assets	Method	Term
Distribution networks	Straight-line	25 years
Customer relationships	Straight-line	3 to 10 years
Internally developed software	Straight-line	3 to 10 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 terms are established to depreciate the cost of the assets over their estimated useful lives.

Depreciation method as well as terms are shown below.

Table 2.8 – *Depreciation method and terms of property and equipment*

Property and equipment	Method	Term
Computer equipment	Straight-line	2 to 3 years
Furniture and equipment	Straight-line	5 years
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 in reference to market yields on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments, determined at the beginning of the year;
- interest on the asset ceiling, when applicable; 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 plan experience;
- changes in actuarial methods and assumptions, such as discount rate; and
- changes in 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 plans

Certain key employees are entitled to a LTIP. Under this program, participants are awarded notional share units referred to as PSUs and 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, net of income taxes, is recorded in Retained earnings.

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. The amount to be settled in cash, based on confirmed elections by eligible participants, is reported in Other liabilities and the cumulative cost of units is 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 Directors' approval 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 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 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 after 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

Assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date. Revenues and expenses denominated in foreign currencies are translated at the average exchange rate prevailing during the year. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange gains and losses are recognized in income with the exception of AFS equity securities and foreign monetary items that form part of a net investment in a foreign operation and the results of hedging these positions. These foreign exchange gains and losses are recognized in OCI until such time that the foreign operation is disposed of, or control or significant influence over it is lost.

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. 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 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 10.4.

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 21.6.

3.3 Business combinations

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, 2015. 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, 2015 and 2014, 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 10.2% as at June 30, 2015 (June 30, 2014 – 12.5% 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, 2015 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 – Business combination

On February 10, 2015, the Company announced that it had entered into a definitive agreement with Canadian Western Bank for the acquisition of all of the issued and outstanding shares of its subsidiary CDI. The acquisition enhances the Company's product offering, thereby extending its direct-to-consumer operations from coast to coast.

The acquisition closed on May 1, 2015 and CDI became a wholly owned subsidiary of the Company. The results of operations are included in the Consolidated financial statements from that date.

The following table summarizes the consideration paid for CDI, and the amounts recognized for the assets acquired and liabilities assumed:

Table 4.1 – *Business combination – CDI*

As at December 31, 2015	
Purchase price – cash consideration paid (net of cash acquired of $2 million)	**187**
Provisional fair value of assets acquired and liabilities assumed	
Investments	**158**
Premium receivables	**35**
Deferred tax assets	**6**
Other assets	**27**
Customer relationships (net of deferred tax liabilities $21 million)	**58**
Claims liabilities	**(90)**
Unearned premiums	**(71)**
Other liabilities	**(6)**
Total identifiable net assets	**117**
Goodwill	**70**

The fair value of the acquired customer relationships is based on a preliminary discounted cash flow analysis. Their useful life has been assessed between 3 and 10 years and will be amortized on a straight-line basis over that period.

Goodwill reflects the strategic location of CDI activities, the workforce of the acquired business and the synergies expected following the integration of CDI. The goodwill is not expected to be deductible for tax purposes.

The determination of the fair value of identifiable assets and liabilities acquired is expected to be completed within the one-year permitted timeframe following the acquisition.

Note 5 – Financial instruments

5.1 Investments

The following tables summarize the Company's investments.

Table 5.1 – *Investments by classification*

	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, loans and receivables	Total
As at December 31, 2015					
Cash and cash equivalents	**-**	**-**	**-**	**141**	**141**
Short-term notes	**210**	**-**	**-**	**-**	**210**
Fixed income					
Investment grade					
Government	**1,868**	**-**	**3,047**	**-**	**4,915**
Corporate	**1,604**	**-**	**1,730**	**-**	**3,334**
Asset-backed[1]	**211**	**-**	**39**	**-**	**250**
Non-rated	**-**	**-**	**-**	**-**	**-**
Debt securities	**3,893**	**-**	**4,816**	**-**	**8,709**
Investment grade					
Retractable	**69**	**-**	**-**	**-**	**69**
Fixed-rate perpetual	**328**	**-**	**-**	**-**	**328**
Other perpetual	**838**	**-**	**-**	**-**	**838**
Preferred shares	**1,235**	**-**	**-**	**-**	**1,235**
Common shares	**1,886**	**327**	**758**	**-**	**2,971**
Loans	**-**	**-**	**-**	**448**	**448**
	7,014	**327**	**5,574**	**589**	**13,504**
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[1]	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

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

Table 5.2 – *Carrying value of investments*

	FVTPL investments			Other investments	Total investments
	At carrying value	Amortized cost	Net unrealized gains (losses)	At carrying value	At carrying value
As at December 31, 2015					
Cash and cash equivalents	**-**	**141**	**-**	**141**	**141**
Short-term notes	**-**	**210**	**-**	**210**	**210**
Fixed income					
Investment grade					
Government	**3,047**	**1,762**	**106**	**1,868**	**4,915**
Corporate	**1,730**	**1,591**	**13**	**1,604**	**3,334**
Asset-backed	**39**	**209**	**2**	**211**	**250**
Debt securities	**4,816**	**3,772**	**121**	**3,893**	**8,709**
Investment grade					
Retractable	**-**	**69**	**-**	**69**	**69**
Fixed-rate perpetual	**-**	**316**	**12**	**328**	**328**
Other perpetual	**-**	**961**	**(123)**	**838**	**838**
Preferred shares	**-**	**1,346**	**(111)**	**1,235**	**1,235**
Common shares	**1,085**	**1,898**	**(12)**	**1,886**	**2,971**
Loans	**-**	**448**	**-**	**448**	**448**
	5,901	**7,605**	**(2)**	**7,603**	**13,504**
As at December 31, 2014					
Cash and cash equivalents	-	89	-	89	89
Short-term notes	-	124	-	124	124
Fixed income					
Investment grade					
Government	2,942	1,965	78	2,043	4,985
Corporate	1,725	1,614	13	1,627	3,352
Asset-backed	43	169	3	172	215
Non-rated	1	7	-	7	8
Debt securities	4,711	3,879	94	3,973	8,684
Investment grade					
Retractable	-	88	2	90	90
Fixed-rate perpetual	-	271	43	314	314
Other perpetual	-	843	21	864	864
Preferred shares	-	1,202	66	1,268	1,268
Common shares	1,125	1,813	54	1,867	2,992
Loans	-	407	-	407	407
	5,836	7,390	214	7,604	13,440

The Company uses either a debt, equity or loans and receivables impairment model described in Note 2.4d). The AFS investments as at December 31, 2015 were subject to the following impairment models.

Table 5.3 – *Impairment models (AFS investments)*

	Impairment models		
As at December 31, 2015	**Debt**	**Equity**	**Total**
Fixed-income securities	**3,683**	**-**	**3,683**
Preferred shares	**1,235**	**-**	**1,235**
Common shares	**-**	**1,886**	**1,886**
	4,918	**1,886**	**6,804**

Refer to Table 5.8 – Net investment gains (losses) for the impairment losses recognized during the years.

The fair value of loans was $449 million as at December 31, 2015 (December 31, 2014 – $413 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 5.4 – *Terms to maturity of investments*

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2015					
Cash and cash equivalents	**141**	**-**	**-**	**-**	**141**
Short-term notes	**210**	**-**	**-**	**-**	**210**
Fixed-income securities	**1,023**	**4,286**	**3,190**	**-**	**8,499**
Preferred shares	**39**	**22**	**8**	**1,166**	**1,235**
Common shares	**-**	**-**	**-**	**2,971**	**2,971**
Loans	**1**	**51**	**396**	**-**	**448**
	1,414	**4,359**	**3,594**	**4,137**	**13,504**
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

5.2 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 5.5 – *Long and short positions*

	2015		2014	
As at December 31,	**Fair value**	**Debt securities pledged as collateral**	**Fair value**	**Debt securities pledged as collateral**
Long positions	**164**	**-**	150	-
Short positions	**(166)**	**172**	(151)	157

5.3 Financial liabilities related to investments

Table 5.6 – *Financial liabilities related to investments*

As at December 31,	**2015**	**2014**
Equities sold short positions ***(Table 5.5)***	**166**	151
Net asset value attributable to third party unit holders	**163**	175
Embedded derivatives ***(Note 6.3)***	**24**	58
Accounts payable to investment brokers on unsettled trades	**22**	45
Derivative financial liabilities ***(Table 6.2)***	**3**	3
	378	432

5.4 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 loaned securities with a fair value of $1.9 billion as at December 31, 2015 (December 31, 2014 – $1.6 billion) 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 $2.0 billion as at December 31, 2015 (December 31, 2014 – $1.7 billion), representing approximately 105% of the securities loaned fair value as at December 31, 2015 and 2014.

5.5 Net investment income

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

Table 5.7 – *Net investment income*

For the years ended December 31,	2015	2014
Interest income from:		
Financial instruments as FVTPL	**163**	168
AFS financial instruments	**96**	92
Loans and cash and cash equivalents	**21**	27
Interest income	**280**	287
Dividend income (expense) from:		
AFS financial instruments	**133**	124
Financial instruments as FVTPL, net	**50**	53
Equities sold short	**(5)**	(4)
Long-term investments, at cost	**1**	1
Dividend income	**179**	174
Expenses	**(36)**	(35)
	423	426

5.6 Net investment gains (losses)

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

Table 5.8 – *Net investment gains (losses)*

For the years ended December 31,	2015	2014
Net gains (losses) excluding foreign currency gains (losses) from:		
Financial instruments designated as FVTPL	**(211)**	(29)
AFS financial instruments	**21**	203
Derivative financial instruments	**183**	54
Financial instruments classified as FVTPL	**4**	4
Embedded derivatives	**38**	(3)
	35	229
Net foreign currency gains (losses) from:		
Fixed-income securities denominated in U.S. dollars:		
designated as FVTPL	**111**	43
classified as AFS	**68**	31
U.S. dollar foreign-currency forward contracts	**(179)**	(74)
	-	-
Common shares denominated in U.S. dollars classified as AFS	**19**	-
	19	-
Impairment losses from:		
Common shares	**(124)**	(68)
Preferred shares	**(38)**	(9)
	(162)	(77)
Net gains on investments in associates and joint ventures related to a change of control	**44**	21
	(64)	173

5.7 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, 2015 and 2014.

Note 6 – Derivative financial instruments

6.1 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 6.1 – *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
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

6.2 Fair value and notional amount of derivatives

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

Table 6.2 – *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, 2015						
Foreign currency contracts						
Forwards	**5**	**-**	**1,069**	**-**	**-**	**1,069**
Interest rate contracts						
Futures	**-**	**-**	**986**	**-**	**-**	**986**
Equity contracts						
Swap agreements	**48**	**2**	**751**	**-**	**-**	**751**
Futures	**-**	**-**	**142**	**-**	**-**	**142**
Credit contracts						
Swap agreements	**1**	**1**	**-**	**69**	**-**	**69**
Inflation contracts						
Options	**-**	**-**	**42**	**97**	**-**	**139**
	54	**3**				
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				

Derivative financial assets are presented on the consolidated balance sheets as part of Other assets and derivative financial liabilities are presented as part of Financial liabilities related to investments.

6.3 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 $24 million as at December 31, 2015 (December 31, 2014 – $58 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 $1,062 million as at December 31, 2015 (December 31, 2014 – $1,119 million). Embedded derivatives are reported in Financial liabilities related to investments.

Note 7 – Fair value measurement

7.1 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 7.1 – *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, 2015				
Short-term notes	**210**	**-**	**-**	**210**
Fixed income				
Investment grade				
Government	**3,643**	**1,272**	**-**	**4,915**
Corporate	**1,484**	**1,850**	**-**	**3,334**
Asset-backed	**-**	**250**	**-**	**250**
Debt securities	**5,337**	**3,372**	**-**	**8,709**
Preferred shares	**1,211**	**-**	**24**	**1,235**
Common shares	**2,971**	**-**	**-**	**2,971**
Derivative financial assets	**-**	**54**	**-**	**54**
Total financial assets measured at fair value	**9,519**	**3,426**	**24**	**12,969**
Total financial liabilities measured at fair value	**329**	**3**	**24**	**356**
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
Total financial assets measured at fair value	9,139	3,788	58	12,985
Total financial liabilities measured at fair value	326	3	58	387

7.2 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 7.2 – *Reclassifications of debt securities between Level 1 and Level 2*

As at December 31, 2015	
From Level 1 to Level 2	**320**
From Level 2 to Level 1	**440**

7.3 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 8 – 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 8.1 – *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 will not experience price changes that entirely offset 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 8.1***	***Note 8.2***	***Note 8.3***	***Note 8.5***

8.1 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 8.2 – *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 analyses hereafter reflect the impacts on Net income and OCI of a 10% variation applied to the price of all common shares, net of any equity hedges, including the impact of any impairment, as well as of a 5% variation applied to the price of all preferred shares and related embedded derivatives.

The analyses were 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 AOCI may, at some point in the future, be realized through sale.

Table 8.3 – *Sensitivity analysis to equity price risk – Common shares*

For the years ended December 31,	2015		2014	
	Net income	OCI	Net income	OCI
10% increase	**(2)**	**117**	1	111
10% decrease	**(5)**	**(110)**	1	(113)

Table 8.4 – *Sensitivity analysis to equity price risk – Preferred shares*

For the years ended December 31,	2015		2014	
	Net income	OCI	Net income	OCI
5% increase	**(7)**	**52**	(13)	57
5% decrease	**5**	**(50)**	9	(53)

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 in Table 8.6.

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 8.6 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 below 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 8.5 – *Sensitivity analysis to interest rate risk*

For the years ended December 31,	2015		2014	
	Net income	OCI	Net income	OCI
100 basis-point increase	**7**	**(159)**	18	(172)
100 basis-point decrease	**(7)**	**159**	(18)	172

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

Table 8.6 – *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, 2015						
Assets						
Cash and cash equivalents	**98**	**43**	**-**	**-**	**-**	**141**
Effective interest rate		***0.47%***				
Short-term notes	**-**	**210**	**-**	**-**	**-**	**210**
Effective interest rate		***0.45%***				
Fixed-income securities	**5**	**1,019**	**4,286**	**3,189**	**-**	**8,499**
Effective interest rate		***1.25%***	***1.45%***	***1.82%***		
Preferred shares	**52**	**39**	**728**	**336**	**80**	**1,235**
Effective interest rate		***5.02%***	***4.92%***	***5.36%***		
Common shares	**-**	**-**	**-**	**-**	**2,971**	**2,971**
Loans	**219**	**1**	**37**	**191**	**-**	**448**
Effective interest rate		***4.59%***	***5.57%***	***5.09%***		
Reinsurance assets	**-**	**110**	**109**	**55**	**-**	**274**
Effective interest rate		***1.67%***	***1.67%***	***1.67%***		
Other assets	**96**	**-**	**-**	**-**	**7,362**	**7,458**
	470	**1,422**	**5,160**	**3,771**	**10,413**	**21,236**
Liabilities and shareholders' equity						
Claims liabilities	**-**	**3,262**	**3,221**	**1,611**	**-**	**8,094**
Effective interest rate		***1.67%***	***1.67%***	***1.67%***		
Debt outstanding	**-**	**-**	**249**	**894**	**-**	**1,143**
Effective interest rate			***5.41%***	***5.47%***		
Financial liabilities related to investments	**2**	**-**	**13**	**12**	**351**	**378**
Effective interest rate			***4.92%***	***5.37%***		
Other liabilities	**-**	**-**	**-**	**-**	**5,893**	**5,893**
Shareholders' equity	**-**	**-**	**-**	**-**	**5,728**	**5,728**
	2	**3,262**	**3,483**	**2,517**	**11,972**	**21,236**
Net long (short) exposure	**468**	**(1,840)**	**1,677**	**1,254**	**(1,559)**	**-**
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)	-

c) Exposure to currency risk

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

Table 8.7 – *Net currency exposure on foreign-denominated investments and receivables*

As at December 31,	2015	2014
Investments and receivables denominated in U.S. dollars		
Fixed-income securities	**986**	1,012
Common shares	**594**	508
Other	**30**	41
Investments and receivables denominated in U.S. dollars	**1,610**	1,561
Less: U.S. dollar foreign-currency forward contracts, notional amount	**1,029**	1,055
Net currency exposure – U.S. dollar	**581**	506
Investment in Brazil denominated in Brazilian Real	**11**	16
Net currency exposure on foreign-denominated investments and receivables	**592**	522

Sensitivity analysis

The 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 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 equity securities in an unrealized gain or loss position, as reflected in AOCI may, at some point in the future, be realized through a sale.

Table 8.8 – *Sensitivity analysis to currency risk*

For the years ended December 31,	2015		2014	
	Net income	OCI	Net income	OCI
5% increase (strengthening of Canadian dollar)	**1**	**(22)**	1	(19)
5% decrease (strengthening of U.S. dollar)	**(1)**	**22**	(1)	19

8.2 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.

8.3 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 8.9 – *Maximum exposure to credit risk*

As at December 31,	2015	2014
Cash	**98**	87
Debt securities (excluding Government debt securities)	**3,794**	3,699
Preferred shares	**1,235**	1,268
Loans	**448**	407
Premium receivables	**2,868**	2,711
Reinsurance assets	**274**	335
Other financial assets[1]	**549**	485
On-balance sheet credit risk exposure	**9,266**	8,992
Structured settlements *(Note 8.4)*	**1,169**	1,067
Off-balance sheet credit risk exposure	**1,169**	1,067

[1]Include industry pools receivable, other receivables and recoverable, accrued investment income, income taxes receivable, restricted funds, 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 8.10 – *Investment breakdown by country of incorporation and by industry*

As at December 31,	2015	2014
By country of incorporation		
Canada	**87%**	86%
U.S.	**11%**	10%
Other	**2%**	4%
	100%	100%
By industry		
Government	**40%**	40%
Banks, insurance and diversified financial services	**32%**	33%
Energy	**7%**	8%
Other	**21%**	19%
	100%	100%

The Company has a significant concentration of its investments in the financial sector and in Canada; this risk concentration is closely monitored. As a means to provide geographic and sector diversification to its investment portfolio, the Company invests in high-quality non-financial U.S. corporate bonds and U.S. common shares.

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 federally 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 8.10).*** 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. There is no certainty that its reinsurers will pay all reinsurance claims on a timely basis or at all. As a result, the Company bears credit risk with respect to its reinsurers.

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 $133 million as at December 31, 2015 (December 31, 2014 – $166 million) as guarantees from unregistered reinsurers. This collateral is held in support of policy liabilities of $76 million as at December 31, 2015 (December 31, 2014 – $91 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 December 31, 2015.

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, or has a guarantee from a company rated 'A-' or better.

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 aggregate credit risk exposure was $133 million as at December 31, 2015 (December 31, 2014 – $123 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.

8.4 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.

8.5 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 15.3.***

The following table presents the carrying 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 8.11 – *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, 2015					
Claims liabilities	**3,262**	**3,221**	**1,611**	**-**	**8,094**
Financial liabilities related to investments	**25**	**-**	**-**	**353**	**378**
Income taxes payable	**101**	**-**	**-**	**-**	**101**
Debt outstanding	**-**	**249**	**894**	**-**	**1,143**
Other financial liabilities	**837**	**96**	**9**	**232**	**1,174**
	4,225	**3,566**	**2,514**	**585**	**10,890**
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

Note 9 – Claims liabilities and unearned premiums

9.1 Summary of claims liabilities

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

Table 9.1 – *Movements in claims liabilities*

	Direct	Ceded	Net
As at December 31, 2015			
Balance, beginning of year	**8,021**	**314**	**7,707**
Current year claims	**5,144**	**64**	**5,080**
Favourable prior-year claims development	**(503)**	**(24)**	**(479)**
Increase due to changes in discount rate	**59**	**1**	**58**
Total claims incurred	**4,700**	**41**	**4,659**
Claims paid	**(4,717)**	**(105)**	**(4,612)**
Business combination ***(Note 4)***	**90**	**3**	**87**
Balance, end of year	**8,094**	**253**	**7,841**
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

The following table presents claims liabilities by line of business.

Table 9.2 – *Claims liabilities by line of business*

	Direct	Ceded	Net
As at December 31, 2015			
Personal Auto	**4,638**	**64**	**4,574**
Personal Property	**581**	**10**	**571**
Personal lines	**5,219**	**74**	**5,145**
Commercial Auto	**731**	**8**	**723**
Commercial P&C	**2,144**	**171**	**1,973**
Commercial lines	**2,875**	**179**	**2,696**
	8,094	**253**	**7,841**
As at December 31, 2014			
Personal Auto	4,533	68	4,465
Personal Property	584	39	545
Personal lines	5,117	107	5,010
Commercial Auto	674	9	665
Commercial P&C	2,230	198	2,032
Commercial lines	2,904	207	2,697
	8,021	314	7,707

9.2 Summary of unearned premiums

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

Table 9.3 – *Movements in unearned premiums*

	Direct	Ceded	Net
As at December 31, 2015			
Balance, beginning of year	**4,110**	**21**	**4,089**
Business combination ***(Note 4)***	**71**	**-**	**71**
Premiums written	**7,893**	**194**	**7,699**
Premiums earned	**(7,684)**	**(194)**	**(7,490)**
Balance, end of year	**4,390**	**21**	**4,369**
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

The following table presents unearned premiums by line of business.

Table 9.4 – *Unearned premiums by line of business*

	Direct	Ceded	Net
As at December 31, 2015			
Personal Auto	**2,131**	**-**	**2,131**
Personal Property	**990**	**-**	**990**
Personal lines	**3,121**	**-**	**3,121**
Commercial Auto	**338**	**1**	**337**
Commercial P&C	**931**	**20**	**911**
Commercial lines	**1,269**	**21**	**1,248**
	4,390	**21**	**4,369**
As at December 31, 2014			
Personal Auto	1,983	-	1,983
Personal Property	900	-	900
Personal lines	2,883	-	2,883
Commercial Auto	319	1	318
Commercial P&C	908	20	888
Commercial lines	1,227	21	1,206
	4,110	21	4,089

9.3 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, 2015 and 2014.

Table 9.5 – *Carrying value of claims liabilities*

	Direct	Ceded	Net
As at December 31, 2015			
Undiscounted value	**7,754**	**244**	**7,510**
Effect of time value of money using a discount rate of 1.67%	**(303)**	**(7)**	**(296)**
Provision for adverse deviations (PfAD)	**643**	**16**	**627**
	8,094	**253**	**7,841**
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

9.4 Prior-year claims development

The following table presents the estimates of cumulative incurred claims, including IBNR, with subsequent developments during the periods and together with cumulative payments to date.

Table 9.6 – *Prior-year claims development – Net*

		Accident year								
	Total	2015	2014	2013	2012	2011	2010	2009	2008	Earlier
Undiscounted claims liabilities outstanding at end of accident year		2,489	2,456	2,519	2,370	2,305	2,037	1,799	1,626	4,294
Revised estimates										
One year later		-	2,386	2,457	2,338	2,207	1,922	1,739	1,625	4,136
Two years later		-	-	2,422	2,258	2,136	1,895	1,739	1,596	4,069
Three years later		-	-	-	2,215	2,052	1,860	1,715	1,586	3,985
Four years later		-	-	-	-	2,012	1,835	1,679	1,562	3,910
Five years later		-	-	-	-	-	1,791	1,656	1,525	3,821
Six years later		-	-	-	-	-	-	1,628	1,511	3,807
Seven years later		-	-	-	-	-	-	-	1,493	3,794
Eight years later		-	-	-	-	-	-	-	-	3,753
Current estimate		2,489	2,386	2,422	2,215	2,012	1,791	1,628	1,493	3,753
Claims paid in subsequent periods										
One year later		-	(911)	(959)	(885)	(827)	(554)	(568)	(607)	(1,137)
Two years later		-	-	(312)	(277)	(269)	(293)	(176)	(155)	(559)
Three years later		-	-	--	(268)	(219)	(239)	(212)	(144)	(462)
Four years later		-	-	--	-	(193)	(192)	(200)	(169)	(334)
Five years later		-	-	--	-	-	(173)	(167)	(95)	(317)
Six years later		-	-	--	-	-	-	(90)	(89)	(323)
Seven years later		-	-	--	-	-	-	-	(55)	(162)
Eight years later		-	-	--	-	-	-	-	-	(87)
Claims paid to date		-	(911)	(1,271)	(1,430)	(1,508)	(1,451)	(1,413)	(1,314)	(3,381)
Undiscounted claims liabilities	**7,510**	2,489	1,475	1,151	785	504	340	215	179	372
Discounting and PfAD	**331**									
Claims liabilities - Net	**7,841**									

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.

9.5 Net loss from reinsurance

The following table presents the net loss from reinsurance.

Table 9.7 – *Net loss from reinsurance*

For the years ended December 31,	2015	2014
Ceded earned premiums	**(194)**	(193)
Ceded claims incurred	**41**	16
Commissions earned on ceded reinsurance	**19**	23
	(134)	(154)

Note 10 – 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-term nature. Policies generally cover a 12-month period. The average duration of claims liabilities is approximately 2.4 years as at December 31, 2015 and 2014.

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

- underwriting and pricing ***(Note 10.1)***;
- fluctuation in the timing, frequency and severity of claims relative to expectations ***(Note 10.2)***;
- inadequate reinsurance protection ***(Note 8.3d)***; and
- large unexpected losses arising from a single event such as a catastrophe ***(Note 10.3)***.

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.

10.1 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.

Table 10.1 – *Concentration of insurance contracts on the basis of DPW*

For the years ended December 31,	2015	2014
By line of business		
Personal Auto	**45%**	46%
Personal Property	**23%**	21%
Commercial P&C	**23%**	24%
Commercial Auto	**9%**	9%
	100%	100%
By province		
Ontario	**41%**	42%
Québec	**27%**	27%
Alberta	**18%**	18%
British Columbia	**6%**	6%
Other	**8%**	7%
	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. Its 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.

10.2 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.

10.3 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.

Table 10.2 – *Company's reinsurance net retention and coverage limits by nature of risk*

As at December 31,	**2015**	**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	**3,450**	3,100

Single risk events

For certain special classes of business or types of risks, the retention may be lower through specific treaties or the use of facultative reinsurance.

Multi-risk events and catastrophes

Following the integration of the CDI exposure in the Company's reinsurance program, the coverage limit has been increased to $3,450 million on August 1, 2015. The Company retains participations averaging 5.5% as at December 31, 2015 (December 31, 2014 – 8%) on reinsurance layers between the retention and coverage limits.

Effective January 1, 2015, the Company entered into an aggregate reinsurance treaty to protect for frequency of multi-risk events and catastrophes of $30 million or more. The above retention and coverage limits exclude this aggregate reinsurance treaty.

10.4 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 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 10.3 – *Sensitivity analysis (claims liabilities)*

Sensitivity factors	Change in assumptions	Impact on Net income
As at December 31, 2015		
Average claim costs (severity)	**+5%**	**(271)**
Average number of claims (frequency)	**+5%**	**(53)**
Discount rate	**+1%**	**134**
As at December 31, 2014		
Average claim costs (severity)	+5%	(267)
Average number of claims (frequency)	+5%	(53)
Discount rate	+1%	131

Note 11 – Other assets and other liabilities

11.1 Components of other assets

Table 11.1 – *Components of other assets*

As at December 31,	2015	2014
Industry pools receivable	**229**	232
Other receivables and recoverable	**123**	127
Employee future benefit assets ***(Table 21.1)***	**93**	69
Financial assets related to investments	**64**	56
Restricted funds	**42**	-
Investments, at cost	**41**	44
Prepaids	**31**	26
Other	**32**	17
	655	571

During 2015, there were no events or changes in circumstances that indicated that the carrying values of Investments at cost may not be recoverable.

11.2 Components of other liabilities

Table 11.2 – *Components of other liabilities*

As at December 31,	2015	2014
Commissions payable	**237**	210
Industry pools payable	**230**	237
Premium and sale taxes payable	**192**	158
Accrued salaries and other short-term benefits	**136**	115
Employee future benefit liabilities ***(Table 21.1)***	**112**	113
Accrued expenses	**56**	52
Deferred income	**54**	-
Deposits received from reinsurers	**15**	34
Other payables	**263**	302
	1,295	1,221

Note 12 – Goodwill and intangible assets

12.1 Summary of goodwill and intangible assets

Table 12.1 – *Reconciliation of the carrying value of goodwill and intangible assets*

		Intangible assets			
	Goodwill	Distribution networks	Customer relationships	Internally developed software	Total intangible assets
Cost					
Balance as at January 1, 2015	**1,102**	**909**	**258**	**364**	**1,531**
Acquisitions and costs capitalized	**74**	**-**	**89**	**62**	**151**
Business combination *(Note 4)*	**70**	**1**	**78**	**-**	**79**
Disposals	**(78)**	**-**	**(80)**	**-**	**(80)**
Balance as at December 31, 2015	**1,168**	**910**	**345**	**426**	**1,681**
Accumulated amortization					
Balance as at January 1, 2015	**-**	**(8)**	**(119)**	**(202)**	**(329)**
Amortization expense	**-**	**(3)**	**(33)**	**(40)**	**(76)**
Disposals	**-**	**-**	**9**	**-**	**9**
Balance as at December 31, 2015	**-**	**(11)**	**(143)**	**(242)**	**(396)**
Net carrying value	**1,168**	**899**	**202**	**184**	**1,285**
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

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, 2015 and 2014. Intangible assets under development amounted to $70 million as at December 31, 2015 (December 31, 2014 – $85 million). These intangible assets are not subject to amortization, but are tested for impairment on an annual basis.

Note 13 – Investments in associates and joint ventures

The following table presents the Company's investments in associates and joint ventures, all of which are investments in private entities.

Table 13.1 – *Investments in associates and joint ventures*

As at December 31,	2015	2014
Associates	**207**	232
Joint ventures	**189**	81
	396	313

During 2015, the Company acquired investments in associates and joint ventures accounted for using the equity method for a total purchase price of $123 million (2014 – $78 million). During 2015, there were no events or changes in circumstances that indicated that the carrying values of these investments may not be recoverable.

Note 14 – Property and equipment

14.1 Net carrying value of property and equipment

Table 14.1 – *Net carrying value of property and equipment*

As at December 31,	2015	2014
Computer equipment	**10**	11
Furniture and equipment	**44**	51
Leasehold improvements	**50**	48
	104	110

Note 15 – Debt outstanding

15.1 Unsecured medium term notes ("term notes")

Table 15.1 – *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

15.2 Summary of debt outstanding

The following table presents the summary of debt outstanding.

Table 15.2 – *Fair value and carrying value of debt outstanding*

	2015		2014	
As at December 31,	Carrying value	Fair value	Carrying value	Fair value
Series 1	**249**	**280**	249	283
Series 2	**248**	**319**	248	326
Series 3	**99**	**129**	99	135
Series 4	**298**	**336**	298	336
Series 5	**249**	**279**	249	288
	1,143	**1,343**	1,143	1,368

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.

15.3 Credit facility

The Company has a $300-million five-year unsecured revolving term credit facility, which matures on December 5, 2020. 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, 2015 and 2014.

As part of the covenants of the loans under the credit facility, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2015 and 2014.

Note 16 – Common shares and preferred shares

16.1 Authorized

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

16.2 Issued and outstanding

Table 16.1 – *Issued and outstanding shares, by class*

As at December 31, 2015 and 2014	Number of shares	Amount
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 common shares.

The holders of Series 1 Preferred shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of the Company, on a quarterly basis for the initial fixed-rate period ending on December 31, 2017, based on an annual rate of 4.20%. The dividend rate will be reset on December 31, 2017 and every five years thereafter at a rate equal to the 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.

The holders of Series 3 Preferred shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of the Company, on a quarterly basis, for the initial fixed-rate period ending on September 30, 2016, based on an annual rate of 4.20%. The dividend rate will be reset on September 30, 2016 and every five years thereafter at a rate equal to the 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.

16.3 Dividends declared per share

During the year ended December 31, 2015, the Company declared dividends on its Common shares of $2.12 per share (December 31, 2014 – $1.92 per share) and of $1.05 per share on its Preferred shares Series 1 and Series 3 (December 31, 2014 – $1.05 per share).

Note 17 – Capital management

17.1 Capital management objectives

The Company's objectives when managing capital consist of:

- ensuring policyholders are well protected while maintaining strong regulatory capital levels (see *Regulatory capital* section below); and
- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company.

The Company seeks 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 the Company's evaluation of risks and their potential impact on capital.

The Company also keeps higher levels of excess capital when it foresees growth or actionable opportunities in the near term. Furthermore, the Company intends to return excess capital to shareholders through annual dividend increases and, when excess capital levels permit, through share buybacks.

Regulatory capital

The Company manages regulatory capital on an aggregate basis, as well as individually for each regulated entity. Its federally chartered P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the *Insurance Companies Act,* while its Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the *Act respecting insurance.*

Federal and Québec regulated P&C insurers are required, at a minimum, to maintain a MCT ratio of 100%. OSFI and the AMF have also established an industry-wide supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement. To ensure that there is minimal risk of breaching the supervisory target, the Company has established a higher internal threshold in its principal insurance subsidiaries in excess of which, under normal circumstances, the Company will maintain its capital.

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, net of related deferred tax liabilities. Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. It is further increased by an operational risk margin, based on the overall riskiness of a P&C insurer (its capital required) and its premium volume. Capital required is then reduced by a credit for diversification between investment risk and insurance risk.

MCT Guidelines

In September 2014, OSFI released the final MCT guidelines outlining changes to the MCT framework. The new guidelines came into effect on January 1, 2015 and their impact on the Company's regulatory capital ratios will be positive, with the benefits phasing in over three years. The positive impact from the 2015 MCT guidelines phase in was approximately eight points as at December 31, 2015.

On November 30, 2015, OSFI issued a final 2016 MCT Guideline, which amends regulatory capital requirements, beginning January 1, 2016. The most significant changes are the addition of capital requirements for equity derivatives and equity instruments sold short, as well as the recognition of equity hedging strategies. These modifications will be phased in over a two-year period.

17.2 Capital position

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

Table 17.1 – *Capital position of the Company's P&C insurance subsidiaries*

As at December 31,	2015	2014[1]
Total capital available	**3,840**	3,933
Total capital required	**1,889**	1,878
MCT %	**203%**	209%
Excess capital at 100%	**1,951**	2,055
Excess capital at 150%	**1,007**	1,116
Excess capital at 170%	**629**	740

[1] Comparative figures are presented under the MCT guidelines in effect as at December 31, 2014.

As at December 31, 2015 and 2014, the Company's P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements.

Including net liquid assets outside of the P&C insurance subsidiaries, the Company's total estimated excess capital at an MCT of 170% was $625 million as at December 31, 2015 (December 31, 2014 – $681 million).

Annually, the Company performs Dynamic Capital Adequacy Testing (DCAT) 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 2015 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 18 – Revenues

Table 18.1 – *Revenues*

For the years ended December 31,	2015	2014
Net premiums earned	**7,490**	7,164
Other underwriting revenues	**122**	100
Interest income ***(Table 5.7)***	**280**	287
Dividend income ***(Table 5.7)***	**179**	174
Net investment gains (losses) ***(Table 5.8)***	**(64)**	173
Share of profit from investments in associates and joint ventures	**26**	19
Other revenues	**121**	98
	8,154	8,015

Table 18.2 – *Premiums written and net premiums earned*

For the years ended December 31,	2015	2014
Premiums written		
Direct	**7,893**	7,329
Ceded	**(194)**	(187)
Net	**7,699**	7,142
Changes in unearned premiums	**(209)**	22
Net premiums earned	**7,490**	7,164

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,	2015	2014
Current income tax expense	**211**	158
Prior-year adjustment expense	**1**	(19)
Deferred income tax expense (benefit)	**(43)**	36
	169	175

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,	2015	2014
Reclassification to income of net losses (gains) on AFS instruments	**31**	(29)
Net change in unrealized gains (losses) on AFS instruments	**(85)**	41
Net actuarial gains (losses) on employee future benefits	**13**	(11)
	(41)	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,	2015	2014
Income tax expense calculated at statutory tax rates	**26.7%**	26.5%
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	**(5.2)%**	(4.9)%
Prior-year adjustments	**0.1%**	(1.1)%
Resolution of specific tax matters	**-**	(0.8)%
Non-taxable accounting gains	**(1.1)%**	(0.7)%
Non-taxable income	**(0.9)%**	(0.6)%
Equity pick-up net of tax	**(0.8)%**	(0.5)%
Non-deductible expenses	**0.7%**	0.5%
Other	**(0.2)%**	(0.1)%
Effective income tax rate	**19.3%**	18.3%

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 (loss) Expense (benefit)	
As at December 31,	**2015**	**2014**	**2015**	**2014**
Net claims liabilities	**106**	101	**(5)**	(7)
Deferred loss for tax purposes	**64**	-	**(64)**	-
Difference between market value and book value of investments	**7**	-	**(7)**	-
Deferred expenses for tax purposes	**66**	69	**4**	(1)
Losses available for carry forward	**7**	15	**8**	36
Defined benefit plans	**6**	12	**6**	(10)
Other	**1**	3	**2**	2
Deferred tax assets	**257**	200	**(56)**	20
Intangible assets	**(158)**	(144)	**(2)**	(13)
Deferred income for tax purposes	**-**	(58)	**(58)**	19
Deferred gains and losses on specified debt obligations	**(14)**	(16)	**(2)**	(2)
Property and equipment	**(21)**	(18)	**(1)**	5
Difference between market value and book value of investments	**-**	-	**-**	(2)
Deferred tax liabilities	**(193)**	(236)	**(63)**	7
Net deferred tax asset (liability)/ expense (benefit)	**64**	(36)	**(119)**	27
Reported in:				
Deferred tax assets	**171**	57		
Deferred tax liabilities	**(107)**	(93)		
Net income			**(60)**	34
OCI			**(59)**	(7)
Business combination	**(16)**			
Balance sheet	**(3)**	(5)		

The Company had allowable capital losses of $24 million as at December 31, 2015 and 2014, 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, 2015 and 2014.

Note 20 – Earnings per share

EPS was 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 EPS is the same as basic EPS.

Table 20.1 – *Earnings per share*

For the years ended December 31,	**2015**	**2014**
Net income attributable to shareholders	**706**	782
Less: Dividends declared on preferred shares, net of tax	**21**	21
Net income attributable to common shareholders	**685**	761
Weighted-average number of common shares outstanding (in millions) during the year	**131.5**	131.5
EPS – basic and diluted (in dollars)	**5.20**	5.79

Note 21 – 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. As at the date of the latest actuarial valuation, the defined benefit obligation for the pension plans comprises 64% in respect of active members, 29% in respect of pensioners and beneficiaries and 7% in respect of deferred members. Effective January 1, 2014, the Company provides active employees a choice between a defined benefit and a defined contribution pension plan.

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, 2014 or 2012 depending on the plan.

21.1 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 21.1 – *Funded status*

	Defined benefit plans	
As at December 31,	**2015**	**2014**
Defined benefit obligation	**(1,831)**	(1,772)
Fair value of plan assets	**1,812**	1,728
Net defined benefit liability	**(19)**	(44)
Reported in:		
Other assets	**93**	69
Other liabilities[1]	**(112)**	(113)

[1] As at December 31, 2015, the amount reported in Other liabilities is composed of $82 million relating to pension plans (December 31, 2014 – $83 million) and $30 million relating to post-retirement and post-employment benefit plans (December 31, 2014 – $30 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 $52 million for the year ended December 31, 2015 (December 31, 2014 – $55 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 $67 million in 2016. The contributions will vary depending on the results of the December 31, 2015 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.

21.2 Defined benefit obligation

The movement of the defined benefit obligation is as follows:

Table 21.2 – *Movement of the defined benefit obligation*

	Defined benefit plans	
As at December 31,	**2015**	**2014**
Balance, beginning of year	**1,772**	1,423
Current service cost	**67**	49
Past service cost	**-**	1
Interest expense on defined benefit obligation	**73**	70
Re-measurements arising from actuarial losses (gains) from changes in:		
demographic assumptions	**24**	24
financial assumptions	**(68)**	235
Employee contributions	**25**	25
Benefit payments	**(62)**	(55)
Balance, end of year	**1,831**	1,772

21.3 Fair value of plan assets

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

Table 21.3 – *Movement of the fair value of plan assets*

	Defined benefit plans	
As at December 31,	**2015**	**2014**
Balance, beginning of year	**1,728**	1,425
Employer contributions	**52**	55
Employee contributions	**25**	25
Interest income on plan assets	**70**	69
Re-measurements recognized in OCI – return on plan assets	**4**	214
Benefit payments	**(62)**	(55)
Other	**(5)**	(5)
Balance, end of year	**1,812**	1,728

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, 2015 was a gain of $74 million (December 31, 2014 – $283 million).

The following table shows the composition of the Company's pension plan assets, at fair value. Plan assets are essentially all quoted in an active market.

Table 21.4 – *Composition of pension plan assets*

	2015		2014	
As at December 31,	**Fair value**	**% of total**	**Fair value**	**% of total**
Cash and short-term notes	**45**	**2%**	24	1%
Fixed income				
Investment grade				
Government	**756**	**42%**	755	44%
Corporate	**354**	**20%**	310	18%
Asset-backed	**8**	**-**	8	-
Debt securities	**1,118**	**62%**	1,073	62%
Common shares	**611**	**34%**	604	35%
Derivative financial instruments	**38**	**2%**	27	2%
	1,812	**100%**	1,728	100%

21.4 Employee future benefit expense recognized in Net income

Table 21.5 – *Components of employee future benefit expense recognized in Net income*

	Defined benefit plans	
For the years ended December 31,	**2015**	**2014**
Current service cost	**67**	49
Net interest expense on the net defined benefit obligation	**3**	1
Actuarial gains from changes in demographic assumptions	**-**	(2)
Other	**5**	5
	75	53

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

21.5 Actuarial gains (losses) recognized in OCI

Table 21.6 – *Actuarial gains (losses) recognized in OCI*

	Defined benefit plans	
For the years ended December 31,	**2015**	**2014**
Balance, beginning of year[1]	**(100)**	(59)
Re-measurements related to:		
increase (decrease) in discount rate	**32**	(235)
return on plan assets	**4**	214
actuarial gains from changes in other financial assumptions	**36**	-
actuarial losses from changes in experience	**(24)**	(20)
actuarial losses from changes in life expectancy	**-**	(6)
decrease in asset reserve	**-**	6
Actuarial gains (losses) recognized in OCI	**48**	(41)
Balance, end of year[1]	**(52)**	(100)

[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.

21.6 Assumptions used and sensitivity analysis

The following table summarizes the key weighted-average assumptions used in measuring the Company's pension plans.

Table 21.7 – *Assumptions used*

	Pension plans	
As at December 31,	**2015**	**2014**
To determine benefit obligation at end of period		
Discount rate	**4.1%**	4.0%
Rate of increase in future compensation	**2.75%**	3.0%
Rate of inflation	**1.75%**	2.0%
Life expectancy for pensioners at the age of 65 – male	**21.6**	21.5
Life expectancy for pensioners at the age of 65 – female	**24.0**	24.0
To determine benefit expense for the period		
Discount rate	**4.0%**	4.8%
Rate of increase in future compensation	**3.0%**	3.0%
Life expectancy for pensioners at the age of 65 – male	**21.5**	21.3
Life expectancy for pensioners at the age of 65 – female	**24.0**	23.5

Mortality rates as at December 31, 2015 and 2014 have been established in accordance with the final table and improvement scale published in February 2014 by the Canadian Institute of Actuaries.

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

Table 21.8 – *Impact of changes in key assumptions*

	Pension plans	
As at December 31,	**2015**	**2014**
Discount rate		
1% increase	**(292)**	(266)
1% decrease	**391**	351
Rate of compensation increase		
1% increase	**79**	71
1% decrease	**(75)**	(68)
Rate of inflation		
1% increase	**68**	64
1% decrease	**(65)**	(61)
Life expectancy		
One-year increase	**45**	40

The effect on the defined benefit pension 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.

21.7 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 based on estimates of market yields of ‘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. The Investment policy of the pension plan assets (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.

The Company regularly monitors compliance with investment policies.

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 21.9 – *Pension plan assets by country of incorporation and industry*

As at December 31,	2015	2014
By country of incorporation		
Canada	**84%**	84%
U.S.	**8%**	8%
Other	**8%**	8%
	100%	100%
By industry		
Government	**46%**	46%
Banks, insurance and diversified financial services	**23%**	24%
Energy	**6%**	7%
Other	**25%**	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 70% as at December 31, 2015 (December 31, 2014 – 68%).

A portion of the pension plan liabilities contain an indexation provision linked to the consumer price index (CPI). During 2015, the Company invested in inflation sensitive assets to partially mitigate the risk of an unanticipated increase in inflation. As at December 31, 2015, 10% of pension plan assets were invested in Canada Government Real Return Bonds (December 31, 2014 - nil).

Note 22 – Share-based payments

22.1 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 22.1 – *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, 2015			
2013–2015	**236,151**	**62.08**	**15**
2014–2016	**246,094**	**66.25**	**16**
2015–2017	**215,679**	**77.89**	**17**
	697,924	**68.44**	**48**
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

The following table shows the movements in LTIP share units.

Table 22.2 – *Movements in LTIP share units*

For the years ended December 31,	2015 (in units)	2014 (in units)
Outstanding, beginning of year	**726,455**	739,789
Awarded	**188,106**	193,167
Net change in estimate of units outstanding	**46,347**	105,397
Units settled	**(262,984)**	(311,898)
Outstanding, end of year	**697,924**	726,455

The cumulative cost of the units that vested during the year and were settled through the plan administrator purchasing common shares on the market and remitting them to the participants was removed from Contributed surplus. The difference between the market price of the shares and the cumulative cost for the Company of these vested units, net of income taxes, was recorded in Retained earnings on the Consolidated balance sheets.

Table 22.3 – *Settlement in shares*

As at December 31,	2015	2014
Value of common shares repurchased for share-based payments	**17**	23
Cumulative cost of the units for the Company	**11**	15
Excess of market price over the cumulative cost for the Company	**6**	8

The LTIP expense was $18 million for the year ended December 31, 2015 (December 31, 2014 – $20 million).

22.2 Employee share purchase plan

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

Table 22.4 – *Movements in restricted common shares*

For the years ended December 31,	2015 (in units)	2014 (in units)
Outstanding, beginning of year	**161,434**	167,883
Awarded	**146,236**	155,730
Vested or forfeited	**(149,717)**	(162,179)
Outstanding, end of year	**157,953**	161,434

The ESPP expense was $13 million for the year ended December 31, 2015 (December 31, 2014 – $11 million).

22.3 Deferred share unit plan

The DSU provision amounted to $6 million as at December 31, 2015 (December 31, 2014 – $7 million). The DSU expense was $1 million for the year ended December 31, 2015 (December 31, 2014 – $2 million).

Note 23 – 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.

23.1 Transactions with associates and joint ventures

Table 23.1 – *Income and expenses with associates and joint ventures*

For the years ended December 31,	2015	2014
Reported in:		
Net investment income	**7**	5
Underwriting expenses	**190**	172

Table 23.2 – *Assets and liabilities with associates and joint ventures*

As at December 31,	2015	2014
Reported in:		
Loans	**178**	91
Other liabilities	**36**	32

23.2 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 $15 million for the year ended December 31, 2015 (December 31, 2014 – $13 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.

23.3 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 $6 million for the year ended December 31, 2015 (December 31, 2014 – $5 million). The Company made contributions to pension plans of $52 million for the year ended December 31, 2015 (December 31, 2014 – $55 million).

Note 24 – 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 24.1 – *Additional information on the Consolidated statements of cash flows*

For the years ended December 31,	2015	2014
Depreciation of property and equipment	**34**	33
Amortization of intangible assets	**76**	63
Net premiums on debt securities classified as AFS	**13**	17
Defined benefit pension expense	**75**	53
Share-based payments expense	**18**	20
Share of profit from investments in associates and joint ventures	**(26)**	(19)
Other	**(1)**	(4)
Adjustments for non-cash items	**189**	163
Unearned premiums, net	**209**	(22)
Deferred acquisition costs, net	**(44)**	15
Premium receivables, net	**(122)**	55
Other operating assets	**(36)**	32
Other operating liabilities	**16**	(51)
Dividends received from investments in associates and joint ventures	**15**	19
Changes in other operating assets and liabilities	**38**	48
Composition of cash and cash equivalents		
Cash	**98**	87
Cash equivalents	**43**	2
Cash and cash equivalents, end of year	**141**	89
Other relevant cash flow disclosures		
Interest paid	**64**	64
Interest received	**281**	284
Dividends received	**191**	193

Note 25 – Commitments and contingencies

25.1 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 15 years with renewal options included in the contracts.

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

Table 25.1 – *Operating lease commitments*

As at December 31,	2015
Less than 1 year	**157**
From 1 to 5 years	**426**
Over 5 years	**230**
	813

25.2 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 26 – 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 26.1 – *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. For the years ended December 31, 2015 and 2014, automobile DPW in these provinces totalled $4 billion, which represent approximately 99% of automobile DPW.

Table 26.2 – *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, 2015 and 2014, the Company had no significant regulatory asset or liability.

Note 27 – Standards issued but not yet effective

27.1 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”). 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 on the business model and the cash flows characteristics.

Table 27.1 – *Classification of financial instruments*

Amortized cost	FVTOCI	FVTPL
Default classification when the objective of the business model is uniquely to receive contractual cash flows of principal and interest.	Default classification when the objective of the business 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, or election to measure them as FVTPL instead of amortized cost or FVTOCI.

An entity can also elect on initial recognition to present fair value changes on an equity investment that is not held for trading directly and permanently in OCI, thus gains or losses are not recognized in income when the investment is disposed of.

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 (under IAS 39, hedging non-financial components is not permitted). It will enable more entities to:

- apply hedge accounting to reflect their actual risk management activities; and
- 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 amortized cost and those that are classified by default as FVTOCI. Under the expected credit loss model, a loss allowance will be established for all financial assets impaired based on a 12-month expected credit losses or a life-time expected credit losses if the credit risk increases significantly.

27.2 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. This new standard specifies how and when to recognize revenue and additional relevant disclosure requirements. IFRS 15 applies to nearly all contracts with customers, except for insurance contracts, financial instruments and leases.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect significant impacts upon adoption of this standard.

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FIVE-YEAR FINANCIAL HISTORY

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

	2015	2014	2013	2012	2011
Consolidated performance					
Written insured risks (thousands)	7,419	7,062	7,115	6,729	5,084
Direct premiums written	7,907	7,349	7,319	6,868	5,099
Net premiums earned	7,535	7,207	7,014	6,571	4,880
Favourable prior year claims development	(477)	(364)	(374)	(372)	(223)
Underwriting income (loss)	628	519	142	451	273
Combined ratio	91.7%	92.8%	98.0%	93.1%	94.4%
Net investment income	424	427	406	389	326
Net investment gains (losses)	(64)	174	(83)	37	204
Income before income taxes	875	957	465	712	594
Effective tax rate	19.3%	18.3%	7.3%	19.8%	23.1%
Net operating income	860	767	500	675	460
Net income attributable to shareholders	706	782	431	571	465
Net operating income per share ($)	6.38	5.67	3.62	5.00	3.91
Earnings per share ($)	5.20	5.79	3.10	4.20	3.96
Weighted-average number of common shares outstanding (millions)	131.5	131.5	132.4	130.8	115.3
Operating return on equity	16.6%	16.3%	11.2%	16.8%	15.3%
Return on equity	13.4%	16.1%	9.3%	13.5%	14.3%
Personal lines – total					
Written insured risks (thousands)	6,453	6,092	6,123	5,809	4,465
Direct premiums written	5,448	4,973	4,994	4,655	3,627
Net premiums earned	5,244	5,004	4,868	4,539	3,535
Combined ratio	92.3%	92.7%	96.7%	95.0%	95.0%
Underwriting income (loss)	405	363	162	226	179
Personal auto					
Written insured risks (thousands)	4,159	3,900	3,902	3,584	2,723
Direct premiums written	3,584	3,376	3,373	3,093	2,419
Net premiums earned	3,508	3,387	3,349	3,077	2,406
Combined ratio	95.4%	94.5%	93.2%	95.7%	90.9%
Underwriting income (loss)	161	186	228	132	219
Personal property					
Written insured risks (thousands)	2,294	2,192	2,221	2,225	1,742
Direct premiums written	1,864	1,597	1,621	1,562	1,208
Net premiums earned	1,736	1,617	1,519	1,462	1,129
Combined ratio	85.9%	89.0%	104.4%	93.5%	103.5%
Underwriting income (loss)	244	177	(66)	94	(40)
Commercial lines – total					
Written insured risks (thousands)	966	970	992	920	619
Direct premiums written	2,459	2,376	2,325	2,213	1,472
Net premiums earned	2,291	2,203	2,146	2,032	1,345
Combined ratio	90.3%	92.9%	100.9%	88.9%	93.0%
Underwriting income (loss)	223	156	(20)	225	94
Commercial auto					
Written insured risks (thousands)	523	520	526	477	325
Direct premiums written	670	632	612	552	396
Net premiums earned	651	615	603	536	384
Combined ratio	99.0%	89.6%	93.3%	81.5%	86.5%
Underwriting income (loss)	7	64	40	99	52
Commercial P&C					
Written insured risks (thousands)	443	450	466	443	294
Direct premiums written	1,789	1,744	1,713	1,661	1,076
Net premiums earned	1,640	1,588	1,543	1,496	961
Combined ratio	86.8%	94.2%	103.9%	91.6%	95.6%
Underwriting income (loss)	216	92	(60)	126	42
Financial condition					
Total excess capital (over 170% MCT)	625	681	550	599	435
MCT %	203%	209%	203%	205%	197%
Cash provided by (used in) operating activities	889	1,378	185	723	532
Debt-to-capital ratio	16.6%	17.3%	18.7%	18.9%	22.9%
Book value per share ($)	39.83	37.75	33.94	33.03	29.73
Investments					
Performance					
Market-based yield	3.55%	3.65%	3.68%	3.63%	4.01%
Total investments	13,504	13,440	12,261	12,959	11,828
Portfolio mix (net of hedging positions)					
Short-term notes, including cash and cash equivalents	4%	3%	2%	3%	4%
Fixed-income securities	71%	72%	73%	74%	73%
Preferred shares	9%	9%	10%	10%	11%
Common shares	13%	13%	12%	10%	9%
Loans	3%	3%	3%	3%	3%

THREE-YEAR QUARTERLY REVIEW

(Excluding MYA. In millions of Canadian dollars, except as noted)	2015				2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance												
Written insured risks (thousands)	1,680	2,021	2,259	1,459	1,595	1,881	2,142	1,444	1,589	1,899	2,165	1,462
Direct premiums written	1,897	2,092	2,346	1,572	1,760	1,913	2,173	1,503	1,702	1,911	2,182	1,524
Net premiums earned	1,948	1,930	1,865	1,792	1,830	1,826	1,801	1,750	1,804	1,784	1,723	1,703
Favourable prior year claims development	(75)	(107)	(106)	(189)	(78)	(80)	(65)	(141)	(66)	(103)	(95)	(110)
Underwriting income (loss)	221	131	158	118	216	124	128	51	67	(50)	42	83
Combined ratio	88.6%	93.2%	91.6%	93.4%	88.2%	93.2%	92.9%	97.1%	96.3%	102.8%	97.5%	95.1%
Net investment income	110	105	104	105	111	106	105	105	104	104	102	96
Net investment gains (losses)	(72)	(64)	(29)	101	(3)	30	44	103	(29)	(3)	(94)	43
Income before income taxes	241	161	254	219	265	244	252	196	130	41	121	173
Effective tax rate	17.8%	18.6%	21.7%	18.7%	22.6%	17.2%	14.7%	18.3%	17.6%	(14.6)%	14.9%	(0.6)%
Net operating income	265	199	210	186	247	185	206	129	143	59	123	175
Net income attributable to shareholders	198	131	199	178	205	202	215	160	107	47	103	174
Net operating income per share ($)	1.97	1.47	1.56	1.37	1.84	1.37	1.53	0.94	1.05	0.41	0.89	1.27
Earnings per share ($)	1.46	0.95	1.47	1.32	1.52	1.49	1.60	1.17	0.77	0.32	0.73	1.27
Weighted-average number of common shares outstanding (millions)	131.5	131.5	131.5	131.5	131.5	131.5	131.5	131.5	131.5	131.6	133.0	133.3
Operating return on equity	16.6%	16.9%	16.8%	17.2%	16.3%	14.3%	11.6%	9.9%	11.2%	12.7%	14.4%	16.0%
Return on equity	13.4%	14.2%	15.4%	16.1%	16.1%	14.5%	11.1%	8.7%	9.3%	11.2%	12.4%	12.9%
Personal lines – total												
Written insured risks (thousands)	1,446	1,786	1,971	1,250	1,354	1,645	1,858	1,235	1,354	1,656	1,870	1,243
Direct premiums written	1,253	1,513	1,635	1,047	1,129	1,354	1,492	998	1,108	1,367	1,516	1,003
Net premiums earned	1,362	1,347	1,296	1,239	1,262	1,266	1,256	1,220	1,255	1,237	1,196	1,180
Combined ratio	88.9%	95.4%	91.1%	93.8%	87.1%	96.4%	92.2%	95.3%	94.6%	102.9%	95.2%	93.9%
Underwriting income (loss)	151	62	116	76	162	46	98	57	68	(35)	57	72
Personal auto												
Written insured risks (thousands)	899	1,135	1,307	818	840	1,034	1,220	806	836	1,035	1,226	805
Direct premiums written	801	986	1,094	703	739	909	1,031	697	734	911	1,037	691
Net premiums earned	909	903	868	828	847	857	853	830	861	849	831	808
Combined ratio	96.9%	94.4%	90.3%	100.3%	93.7%	95.8%	91.5%	97.0%	98.4%	93.0%	87.2%	94.1%
Underwriting income (loss)	28	51	85	(3)	53	36	72	25	14	60	106	48
Personal property												
Written insured risks (thousands)	547	651	664	432	514	611	638	429	518	621	644	438
Direct premiums written	452	527	541	344	390	445	461	301	374	456	479	312
Net premiums earned	453	444	428	411	415	409	403	390	394	388	365	372
Combined ratio	72.7%	97.4%	92.7%	80.7%	73.6%	97.7%	93.5%	91.8%	86.4%	124.7%	113.3%	93.5%
Underwriting income (loss)	123	11	31	79	109	10	26	32	54	(95)	(49)	24
Commercial lines – total												
Written insured risks (thousands)	234	235	288	209	241	236	284	209	235	243	295	219
Direct premiums written	644	579	711	525	631	559	681	505	594	544	666	521
Net premiums earned	586	583	569	553	568	560	545	530	549	547	527	523
Combined ratio	88.0%	88.2%	92.6%	92.5%	90.5%	86.0%	94.7%	101.1%	100.1%	102.5%	102.9%	98.0%
Underwriting income (loss)	70	69	42	42	54	78	30	(6)	(1)	(15)	(15)	11
Commercial auto												
Written insured risks (thousands)	125	127	162	109	128	126	159	107	124	127	165	110
Direct premiums written	167	161	203	139	163	148	192	129	150	144	186	132
Net premiums earned	168	166	162	155	159	157	151	148	154	155	149	145
Combined ratio	107.9%	97.0%	94.4%	96.4%	99.5%	89.4%	79.5%	89.3%	100.4%	86.0%	89.6%	97.3%
Underwriting income (loss)	(13)	5	9	6	1	16	32	15	(1)	21	16	4
Commercial P&C												
Written insured risks (thousands)	109	108	126	100	113	110	125	102	111	116	130	109
Direct premiums written	477	418	508	386	468	411	489	376	444	400	480	389
Net premiums earned	418	417	407	398	409	403	394	382	395	392	378	378
Combined ratio	80.1%	84.6%	91.8%	90.9%	87.1%	84.7%	100.5%	105.6%	100.0%	109.0%	108.2%	98.2%
Underwriting income (loss)	83	64	33	36	53	62	(2)	(21)	–	(36)	(31)	7
Financial condition												
Total excess capital (over 170% MCT)	625	389	564	763	681	497	657	670	550	515	486	744
MCT %	203%	195%	200%	213%	209%	203%	208%	213%	203%	199%	197%	214%
Cash provided by (used in) operating activities	240	419	281	(51)	300	647	486	(21)	(27)	413	275	(476)
Debt-to-capital ratio	16.6%	17.3%	16.8%	16.9%	17.3%	17.8%	17.8%	18.4%	18.7%	19.0%	19.0%	18.5%
Book value per share ($)	39.83	37.84	39.23	38.95	37.75	36.44	36.29	34.80	33.94	33.25	33.15	34.15
Investments												
Performance												
Market-based yield	3.62%	3.55%	3.62%	3.41%	3.61%	3.57%	3.69%	3.76%	3.70%	3.83%	3.76%	3.44%
Total investments	13,504	13,339	13,394	13,443	13,440	13,199	12,913	12,371	12,261	12,285	12,283	12,532
Portfolio mix (net of hedging positions)												
Short-term notes, including cash and cash equivalents	4%	5%	4%	3%	3%	3%	4%	2%	2%	5%	3%	1%
Fixed-income securities	71%	70%	70%	72%	72%	73%	72%	72%	73%	71%	73%	74%
Preferred shares	9%	8%	9%	9%	9%	9%	9%	10%	10%	9%	10%	10%
Common shares	13%	13%	13%	13%	13%	12%	12%	13%	12%	11%	11%	12%
Loans	3%	4%	4%	3%	3%	3%	3%	3%	3%	4%	3%	3%

GLOSSARY

Actuarial gains (losses) Effect of changes in actuarial assumptions and experience adjustments (the effect 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.

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.

Associates Entities over which the Company has the power to participate in the decisions over the relevant activities of the investee, but does not have control. These investments are accounted for using the equity method.

Average shareholders' equity Mean of shareholders' equity at the beginning and end of the period, adjusted for significant capital transactions, if appropriate. Shareholder's equity is determined in accordance with IFRS.

Basis risk Basis risk is the risk that offsetting investments in an economic hedging strategy will not experience price changes that entirely offset 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.

Cash flow available for investment activities A non-IFRS financial measure, which includes net cash flows from cash and cash equivalents and the investment portfolio.

Catastrophe losses Any one claim, or group of claims, equal to or greater than $7.5 million related to a single event.

Claims liabilities Technical accounting provisions comprising 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, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date.

Claims ratio Claims incurred, net of reinsurance, 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.

Credit risk Possibility that counterparties may not be able to meet payment obligations when they become due.

Currency forwards Contractual obligations to exchange one currency for another on 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 financial instruments A financial contract settled at a future date that requires little or no initial investment, and whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. 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 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.

Direct premiums written ("DPW") The total amount of premiums for new and renewal policies billed (written) during a specific period, as reported under IFRS.

Direct premiums written (underlying) A non-IFRS financial measure calculated as the total amount of premiums for new and renewal policies billed (written) during a specific period, excluding industry pools and normalized for the effect of multi-year policies. This measure matches direct premiums written to the year in which coverage is provided, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.

Earnings per share to common shareholders ("EPS"), basic 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 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.

Embedded derivatives A component of a hybrid (combined) instrument that also includes a non-derivative host contract. 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.

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 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").

Expense ratio Underwriting expenses, including commissions, premium taxes and general expenses related to underwriting activities for a specific period and expressed as a percentage of net earned premiums 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.

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 Financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price. Futures are 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.

Hedge ratio A ratio calculated by the Company as the dollar-duration of the pension asset portfolio divided by the dollar-duration of the funded pension plan's obligation. A lower hedge ratio increases the Company's exposure to changes in interest rates.

Incurred but not reported ("IBNR") claims reserve Reserves for estimated claims that have been incurred but not yet reported by policyholders, including a reserve for future developments on claims that 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. Insurers can choose to cede risks to the RSP. The risks ceded are aggregated and assumed by the entities in the Canadian P&C insurance industry, generally in proportion to market share and the volume of business ceded to the RSP. These pools are managed by the Facility Association, except for the Québec RSP.

Interest rate futures contracts Contractual obligations to buy or sell interest-rate-sensitive financial instruments on a predetermined future date at a specified price.

Interest rate risk Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates or spreads.

Joint venture Joint arrangements whereby the parties have joint control of the arrangements, requiring unanimous consent of the parties sharing control of strategic and operating decision-making. The parties sharing control also have rights to the net assets of the arrangements. These investments are accounted for using the equity method.

Large loss A single claim larger than $0.25 million but smaller than the catastrophe threshold of $7.5 million.

Liquidity risk The risk that an entity will encounter difficulty in raising funds to meet obligations associated with financial liabilities.

Market risk 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.

Market yield adjustment ("MYA") The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets.

Market-based yield Non-IFRS financial measure defined as the annualized total pre-tax investment income (before expenses) divided by the mid-month average fair value of net equity and fixed-income securities held during a period (average net investments).

Master netting agreement An agreement between a 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, as defined by the Office of the Superintendent of Financial Institutions ("OSFI") and Autorité des marchés financiers ("AMF").

Net earned premiums Net premiums written recognized for accounting purposes as revenue during a period.

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 written Direct premiums written for a given period less premiums ceded to reinsurers during the same period.

Non-catastrophe weather event A group of claims that is considered significant but is smaller than the CAT threshold of $7.5 million, related to a single weather event.

Non-operating results A non-IFRS financial measure, which includes elements that are not representative of our operating performance because they relate to special items, bear significant volatility from one period to another or are not part of our normal activities.

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 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 a 12-month period less preferred share dividends, divided by the average shareholders' equity (excluding preferred shares and accumulated other comprehensive income) over the same 12-month period.

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.

Over-the-counter derivatives Contracts that are negotiated directly between two parties, without going through a formal exchange or other intermediaries.

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 catastrophe coverage. 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.

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.

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.

Swap agreements Over-the-counter contracts in which two counterparties exchange a series of cash flows based on a basket of stocks, applied to a contract notional amount.

Total excess capital Includes excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries.

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 direct premiums written normalized for the effect of multi-year policies. This measure matches direct premiums written 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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Yves Brouillette [1,4]
President, Placements Beluca Inc.

Robert W. Crispin [1,4]
Corporate Director

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

Claude Dussault
Chairman of the Board of Intact Financial Corporation
and President of ACVA Investing Corporation

Robert G. Leary [1,4]
Chief Executive Officer,
TIAA Global Asset Management

Eileen Mercier [1,4]
Corporate Director

Timothy H. Penner [2,3]
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]
Chief Executive Officer, Echo360

Stephen Snyder [2,3]
Corporate Director

Carol Stephenson [2,3]
Corporate Director

EXECUTIVE COMMITTEE MEMBERS

Charles Brindamour
Chief Executive Officer

Patrick Barbeau
Senior Vice President, Personal Lines

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

Alan Blair
Senior Vice President, Atlantic Canada

Jean-François Blais
President, Intact Insurance

Sonya Côté
Senior Vice President and Chief Internal Auditor

Frédéric Cotnoir ***
Senior Vice President, Legal Services

Debbie Coull-Cicchini
Senior Vice President, Ontario

Jean-François Desautels
Senior Vice President, Québec

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

Karim Hirji
Senior Vice President, International and Ventures

Mathieu Lamy
Senior Vice President, Claims

Alain Lessard
Senior Vice President, Commercial Lines

Louis Marcotte
Senior Vice President and Chief Financial Officer

Lucie Martel
Senior Vice President and Chief Human
Resources Officer

Benoit Morissette **
Senior Vice President and Chief Risk Officer

Jennie Moushos
Senior Vice President, Western Canada

Werner Muehlemann
Senior Vice President and Managing Director of
Intact Investment Management

Jack Ott
Senior Vice President and Chief Information Officer

Lilia Sham
Senior Vice President, Corporate Development

Mark A. Tullis
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

* Until December 31, 2015
** Chief Risk Officer as of January 1, 2016
*** As of January 18, 2016

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

	A.M. Best	DBRS	Fitch	Moody's
IFC long-term issuer credit ratings	a-	A	A-	Baa1
IFC's principal P&C insurance subsidiaries' financial strength ratings	A+	AA (low)	AA-	A1

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

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

Annual Meeting of Shareholders
Date: Wednesday, May 4, 2016
Time: 11:30 a.m. ET
Location/ Venue: Montréal Museum of Fine Arts
Maxwell-Cummings Auditorium
1379 Sherbrooke Street West
Montréal, Québec H3G 1J5

Version française
Il existe une version française du présent rapport annuel à la section Relations investisseurs de notre site Web www.intactcf.com. Les personnes intéressées peuvent obtenir une version imprimée en appelant au 1 866 778 0774 ou en envoyant un courriel à ir@intact.net.

Transfer agent and registrar
Computershare Investor Services Inc.
100 University Avenue, 8th Floor, North Tower
Toronto, Ontario M5J 2Y1
1 800 564 6253

Auditors
Ernst & Young LLP

Earnings release dates
Q1 – Wednesday, May 4, 2016
Q2 – Wednesday, July 27, 2016
Q3 – Wednesday, November 2, 2016
Q4 – Wednesday, February 8, 2017

Investor inquiries
Samantha Cheung
Vice President, Investor Relations
416 344 8004
samantha.cheung@intact.net

Media inquiries
Stephanie Sorensen
Director, External Communications
416 344 8027
stephanie.sorensen@intact.net

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 dividend history

Record	Payable	Amount
Dec. 15, 2015	**Dec. 31, 2015**	**$ 0.53**
Sept. 15, 2015	**Sept. 30, 2015**	**$ 0.53**
June 15, 2015	**June 30, 2015**	**$ 0.53**
Mar. 16, 2015	**Mar. 31, 2015**	**$ 0.53**
Dec. 15, 2014	Dec. 31, 2014	$ 0.48
Sept. 15, 2014	Sept. 30, 2014	$ 0.48
June 16, 2014	June 30, 2014	$ 0.48
Mar. 17, 2014	Mar. 31, 2014	$ 0.48
Dec. 16, 2013	Dec. 31, 2013	$0.44
Sept. 16, 2013	Sept. 30, 2013	$0.44
June 14, 2013	June 28, 2013	$0.44
Mar. 14, 2013	Mar. 28, 2013	$0.44

Common share prices and volume

	High	Low	Close	Volume
Q1	**$ 95.77**	**$ 81.74**	**$ 95.42**	**18,432,707**
Q2	**$ 95.36**	**$ 85.42**	**$ 86.79**	**15,894,652**
Q3	**$ 95.82**	**$ 86.30**	**$ 93.72**	**14,672,799**
Q4	**$ 96.77**	**$ 85.81**	**$ 88.68**	**19,056,349**
Year 2015	**$ 96.77**	**$ 81.74**	**$ 88.68**	**68,056,507**
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

Source: Toronto Stock Exchange

WHY INVEST WITH INTACT

We are the largest provider of P&C insurance in Canada with almost $8 billion in annual direct premiums written. We have consistently outperformed the industry due to our disciplined approach to underwriting, our scale advantage and our in-house claims expertise. Our record of strong capital generation and disciplined deployment has allowed us to pursue our growth objectives while also returning capital to shareholders. Our financial strength is reinforced by prudent risk management, resulting in a consistent track record of favourable reserve development.

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