Intact Financial Corporation

Annual Report 2019

Building a Resilient Future

Company profile

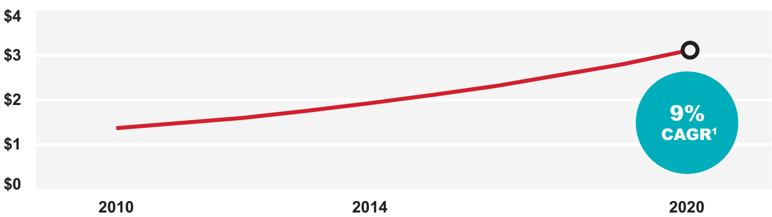
Intact Financial Corporation (TSX: IFC) is the largest provider of property and casualty (P&C) insurance in Canada and a leading provider of specialty insurance in North America, with over $11 billion in total annual premiums. The Company has approximately 16,000 employees who serve more than five million personal, business and public sector clients through offices in Canada and the U.S.

In Canada, Intact distributes insurance under the Intact Insurance brand through a wide network of brokers, including its wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect. Frank Cowan brings a leading managing general agent (MGA) platform to manufacture and distribute public entity insurance products in Canada.

In the U.S., OneBeacon Insurance Group, a wholly-owned subsidiary, provides specialty insurance products through independent agencies, brokers, wholesalers and managing general agencies.

Annual dividend

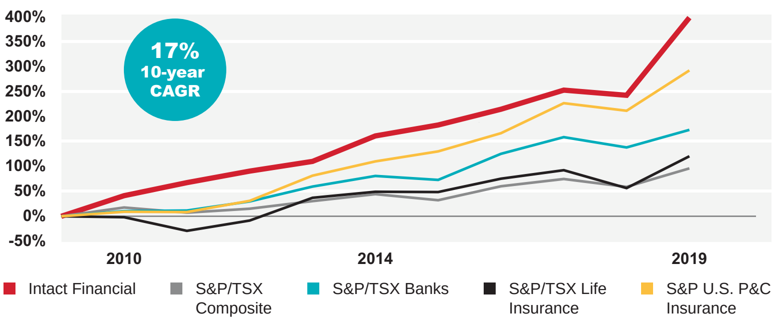
We are proud of our dividend growth track period, including a CAGR of 9% since 2010.



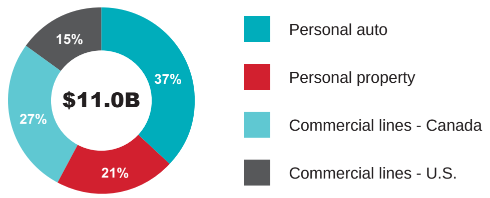
1. Annual dividend for 2020 is projected.

Total shareholder return vs peers

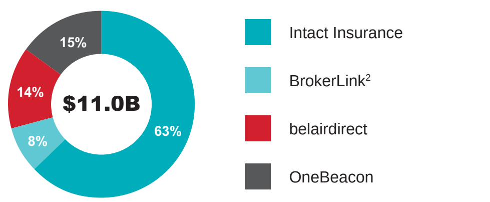
On a total shareholder return basis (including dividends), our 17% CAGR over the past 10 years compares very favourably versus peers.



DPW by business line¹



DPW by brand¹



Number of employees

Approximately 16,000

1. This is a non-IFRS financial measure. See glossary on page 179 for definition.
2. Intact's DPW only.

Certain statements made in this annual report are forward-looking statements. These statements include, without limitation, statements relating to the company's strategy, new products and services, lines of business, revenue, underwriting and investment performance, profitability and growth projections, use of technology, data and artificial intelligence, funding of projects, position within the industry and markets where it operates, return on equity, net operating income per share and improved cross-border efficiencies, as well as the sharing economy, climate change, market conditions and the impact on the Company of the occurrence of and response to the coronavirus (COVID-19) pandemic and ensuing events. All such forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities laws.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements as a result of various factors, including those discussed in the Company's most recently filed Annual Information Form and annual MD&A. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against unduly relying on any of these forward-looking statements. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this annual report, whether as a result of new information, future events or otherwise. Please read the cautionary note at the beginning of the annual MD&A.

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i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

Our purpose, values and core belief

Our purpose is to help people, business and society prosper in good times and be resilient in bad times. We built a business with help in mind – it's why we exist.

Our values guide how we work with customers, employees, shareholders and defines our role in society.

Our core belief is that insurance is about people, not things. This is why we've created a customer-driven approach and set clear expectations for our leaders with our leadership success factors.

Our values

Our values guide our decision making and emphasize our commitment to excel in all aspects of our business. We won't compromise on our values because our values matter as much as our results.

Integrity
- Be honest, open and fair
- Set high standards
- Stand up for what is right

Respect
- Be kind
- See diversity as a strength
- Be inclusive and collaborate

Customer-driven
- Listen to our customers
- Make it easy, find solutions
- Deliver second-to-none experiences

Excellence
- Act with discipline and drive to outperform
- Embrace change, improve every day
- Celebrate success, yet remain humble

Generosity
- Help others
- Protect the environment
- Make our communities more resilient

Our leadership success factors

Live our values | Care for people | Be open and honest | Take accountability | Drive change

Our objectives

Our customers are our advocates
- 3 out of 4 customers are our advocates
- 3 out of 4 customers actively engage with us digitally

Our people are engaged
- Be a best employer
- Be a destination for top talent and experts

Our company is one of the most respected
- Exceed industry ROE by 500 bps
- Grow NOIPS 10% yearly over time

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

2019 Financial highlights

DPW[1]
$11.0B ↑ 9%

NOIPS[1]
$6.16 ↑ 7%

OROE[1]
12.5% ↑ 0.4%

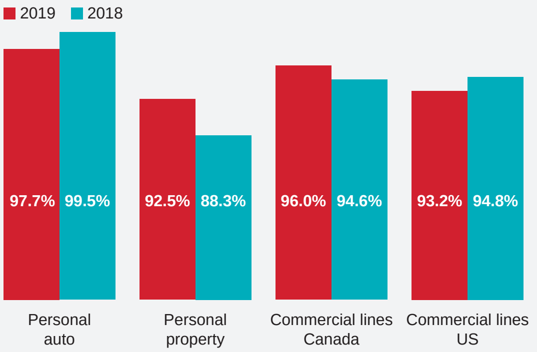
Underwriting income[1]
$465M ↓ 2%

Net investment income
$576M ↑ 6%

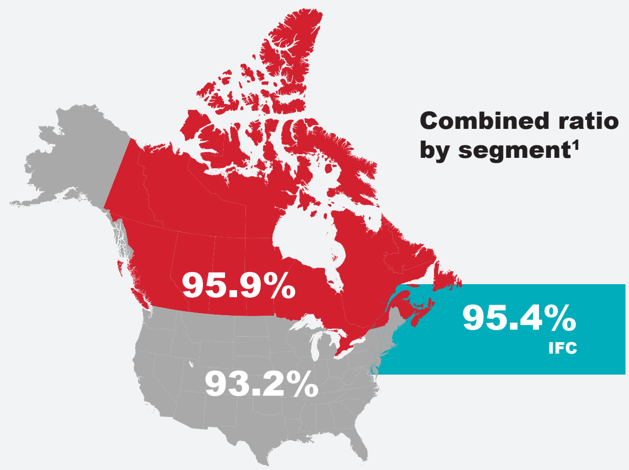
Distribution EBITA and other[1]
$209M ↑ 19%

Underwriting performance

Combined ratio by line of business[1]

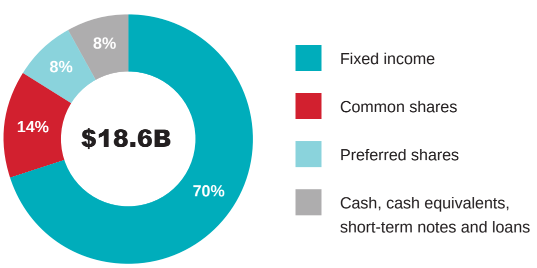


Combined ratio by segment[1]



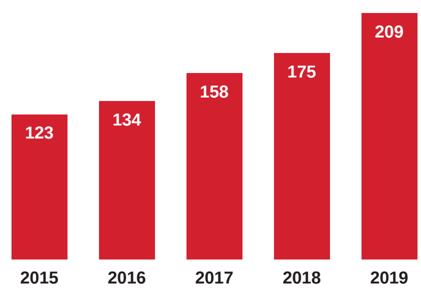
Investment portfolio

Investment mix (net exposure)



Distribution EBITA and other[1]

(in $ millions)



Financial strength

Book value per share
$53.97

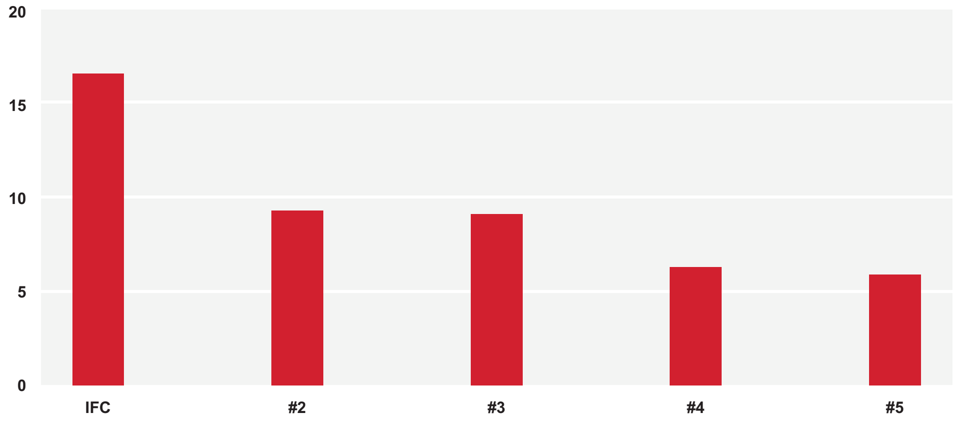
Debt-to-total capital ratio
21.3%

Total capital margin
$1.2B

1. These are non-IFRS financial measures. See glossary on page 179 for definitions.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

Canadian industry outperformance

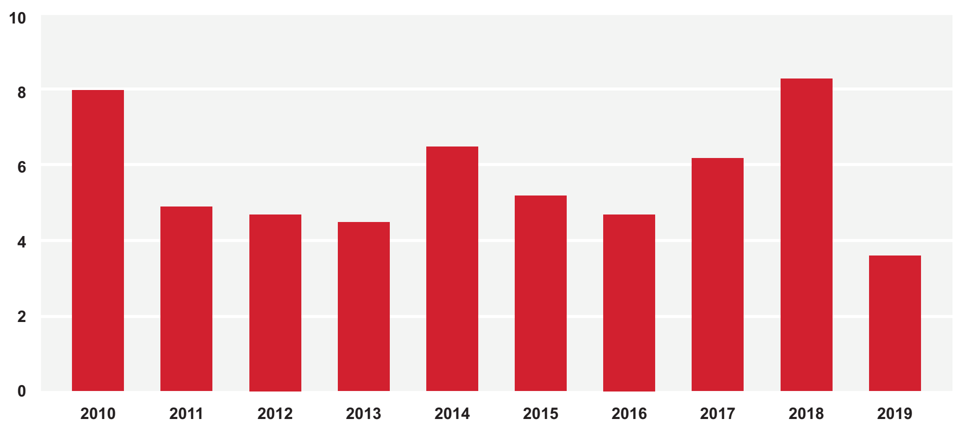


Market share by company (%)[1]

With a market share of 17%, we are 17 times the size of the average P&C insurer in Canada.

17%
Market share

1. Market share data is based on the latest available data from MSA Research Inc. (FY 2019).

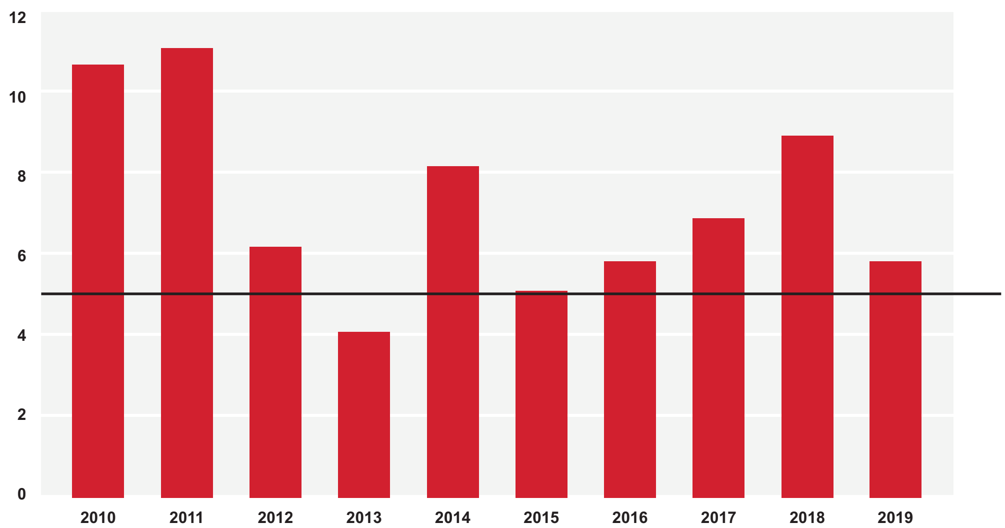


Canadian combined ratio outperformance (in pts)[1]

Our sophisticated pricing, underwriting discipline and in-house claims expertise have enabled us to outperform the industry benchmark's (top 20) combined ratio.

5.7 pts
10-yr average outperformance

1. Including MYA. Combined ratio is a non-IFRS financial measure. See glossary on page 179 for the definition.



Return on equity outperformance (in pts)[1]

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

7.3 pts
10-yr average outperformance

1. IFC's ROE is the consolidated adjusted return on equity ("AROE"), a non-IFRS financial measure. See glossary on page 179 for the definition.

Building a resilient future

Dear shareholders,

Charles Brindamour
Chief Executive Officer

Introduction

When I sat down to write the first draft of this letter in February, I planned to share my thoughts with you on Intact Financial Corporation's (IFC) milestone year in 2019, where we were headed in the next decade, and how we could build a resilient future.

Then the world changed with the onset of the COVID-19 pandemic. As I publish this letter, we are in the midst of extraordinary and unprecedented times. Despite the current disruption and market volatility, I believe this situation is temporary, and I remain optimistic that we will pull through this together.

At Intact, our success has always been guided by our values and rooted in why we built our business – to help people. That matters now more than ever. Our values, clear purpose, and belief that insurance is about people, not things, grounds us and gives us a solid footing as we work our way through this crisis.

The priority in the short term is to ensure the safety and well-being of our employees, while supporting our customers, brokers and communities. Insurance is essential to society and we play an important role in helping to protect people from the impacts of accidents, natural disasters and catastrophes.

It's not just us. It's also thousands of brokers across North America, as well as auto body shops, rental car companies and home restoration services to name a few that help our customers through adversity and get them back on track.

I strongly believe that we will see a recovery within 18 to 24 months. We will be ready. While there may be some short-term adjustments, our strategic roadmap for the next decade is largely in place. We will be focused on four big ideas: strengthening our leadership position in Canada; building a leading North American Specialty insurer; transforming our competitive advantages and; investing in people to sustain our strong culture and engaged workforce.

As the world recovers from this major shock, we will still need to navigate a world where data is exploding, technology is changing how we live, and the effects of climate change are becoming irreversible.

COVID-19

At this time, dealing with the COVID-19 pandemic is our number one priority. It is a difficult time for communities in Canada, the United States and the rest of the world. We are working around the clock to remain as responsive as possible.

Our operations are strong, and our robust infrastructure means we are open for business and continue to serve customers across North America. Over 98% of our employees are working from home, with no impact in our IT systems or ability to deliver service. We are leveraging our digital platforms even more now as customers adapt to physical distancing.

While the financial markets are extremely volatile, our operations and capital position are strong. We are well-positioned to continue to serve our customers and brokers and support communities through this stressful period. We will come out the other side of this stronger.

2019 year in review

Although the beginning of 2020 is clearly challenging, we are facing the crisis from a very strong footing. Overall, 2019 marked a successful year. We saw strong premium growth across all business lines, and solid growth in net operating income per share (NOIPS), while achieving a mid-90s combined ratio, despite elevated catastrophe events. Our balance sheet remained strong and market conditions were favourable.

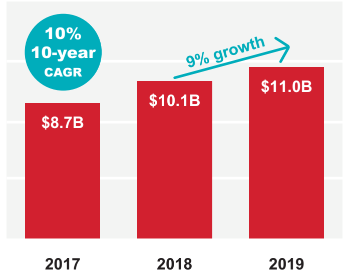
Direct Premiums Written (DPW)[1] grew by 9%, driven by rate increases across all lines of business. NOIPS grew by 7% to $6.16, with solid underwriting performance on both sides of the border and we had good growth in both net investment income and distribution earnings.

We completed two strategic acquisitions in the year, The Guarantee Company of North America and Frank Cowan Company, and On Side Restoration, expanding our customer reach and widening our competitive advantage.

The combined ratio for Canada was 95.9%. While underlying performance in personal auto improved, it was offset by lower favourable prior year claims development (PYD) and higher non-catastrophe weather-related losses. Despite these headwinds, our personal auto business is well-positioned, and we are growing by double-digits. We have a strong focus on quality and on sustaining a mid-90s performance in this segment moving forward.

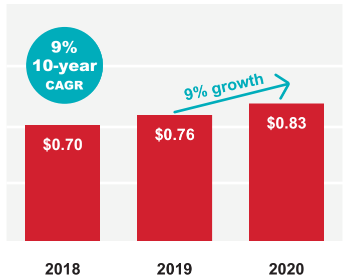
We are pleased with our performance in personal property despite catastrophe losses well above historical averages, which is a testament to the success of our actions over time. Canadian commercial lines had a difficult year as large losses including catastrophes were elevated and we strengthened prior year reserves in commercial auto.

DPW[1]



NOIPS[1]

Quarterly dividend per common share



1. These are non-IFRS financial measures. See glossary on page 179 for definitions.

Overall, 2019 marked a successful year. We saw strong premium growth across all business lines, and solid growth in net operating income per share (NOIPS), while achieving a mid-90s combined ratio.

In our U.S. commercial segment, we have made substantial progress on our strategy. Premiums grew a strong 8% in constant currency in 2019, despite the mid-year exit from the healthcare business. Our action plans to improve profitability delivered results. The combined ratio was strong at 93.2%.

Operating ROE was 12.5% in 2019. We outperformed the industry by 580 basis points (bps), a significant margin and above our 500 bps AROE objective.

We ended the year in a strong financial position with total capital margin in excess of $1.2 billion. Our debt-to-capital ratio was 21.3% – only slightly above our 20% target level following the acquisition of The Guarantee and Frank Cowan. With a strong balance sheet and confidence in our outlook for growth and profitability, we were pleased to raise our quarterly dividend by 9% to $0.83 per share. This marks the 15th consecutive annual dividend increase since our 2004 IPO, a testament to the quality of our business model.

Industry Outlook

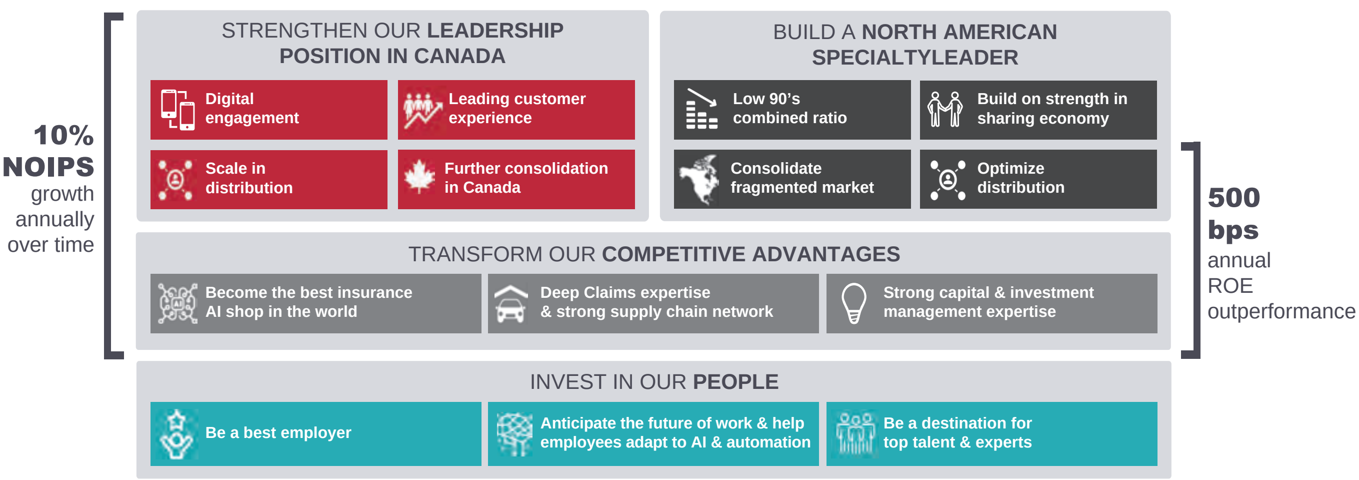
2019 continued to be a challenging year for the P&C industry. Claims inflation and elevated weather-related damages contributed to Industry ROE for full year 2018 & 2019 of 2.80% and 5.6% respectively, well short of a longer-term average closer to 10%. This has led to the hard market conditions which prevailed through late 2019 and into 2020.

We expect the industry will respond to help customers through the dislocation created by COVID19, which may temper pricing conditions. We expect the pricing environment will return to pre-crisis levels once the COVID-19 pandemic is behind us. This would be a necessary condition to see the industry return to reasonable profitability levels.

Strategy and a roadmap for the next decade

Our achievements in 2019, along with our strategy and roadmap for the next decade, provide a plan to deliver strong results for all stakeholders. I would like to walk you through our four big ideas.

Our strategic roadmap for the next decade



1. Strengthen our leadership position in Canada:

We are the recognized leader in the Canadian marketplace. While we are close to 80% bigger than the second largest player and approximately 17 times larger than the average P&C insurer, the market remains fragmented and that creates opportunities to strengthen our position in Canada.

We are transforming the customer experience to fuel organic growth. We aim to have three out of four customers as advocates and three out of four digitally engaged. We have made substantial progress this year with two out of four customers now advocates.

With 80% of the modernization of our technology systems complete, we are leveraging our platforms to advance the digitization of our business and improve the customer experience. We have been rolling out digital tools to customers in all distribution channels across the country, including digital proof of insurance last fall. Two-thirds of our mobile app users have already used this feature.

With the contribution of our design thinking and software engineering practices, we are creating active digital relationships with one out of four customers and half of new customers. A growing number of people are engaging monthly with our Usage Based Insurance (UBI) program to get feedback on their driving behaviours and safety score.

We offer multiple options to buy our products – from full advice-based support through our broker channels, to simplified, online convenience through belairdirect. We are continuing to build scale by investing in our distribution network. In 2019, BrokerLink acquired 23 brokerages across Canada – a new record.

In 2019, we strengthened our position through the acquisition of The Guarantee Company of North America and Frank Cowan Company – adding approximately $490 million in premiums and a new high net worth segment to our business.

Built on the success of Guarantee Gold, we launched Intact Prestige in March 2020 to reposition and elevate our high net worth, full-service solution. Under the new brand, we will expand this product line to compete with best-in-class providers and offer an effortless customer experience to this segment. Our objective is to quadruple our high net worth penetration by 2025 and become a key player in this segment.

2. Build a North American Specialty Leader:

We are on track to meet our goal to build a leading North American specialty lines insurer with premiums close to $3 billion and a low 90s combined ratio.

We set ambitious targets with the acquisition of OneBeacon in 2017. We wanted to reduce the combined ratio to low 90s by repositioning the business and improving the claims experience, creating a resilient platform to scale

The needle is moving on all our targets. Our industry-leading segments grew significantly at 8% in constant currency in 2019. We exited the non-performing healthcare business this year. Targeted run rate savings have been achieved and important synergies have been realized.

We have leveraged Intact's deep distribution relationships to grow our Canadian specialty operations by roughly 15% annually since the OneBeacon acquisition. We have also expanded our North American portfolio to technology, entertainment, financial institutions, surety and marine.

The Guarantee acquisition in 2019 gave us a key opportunity to enhance our surety platform. The Guarantee writes $190 million of surety business and when combined with our existing portfolio makes IFC the sixth largest surety provider in North America. We now have a team of individuals with recognized industry experience across multiple segments – including contract, commercial, and developer surety with a proven track record of profitable premium growth in Canada and U.S.

The North American specialty market over the next decade has roughly $175 billion of available premium, with no carrier having more than 10% market share. Over 50% of the brokers we deal with only do business with one or two of our current product lines. We can broaden and deepen those distribution relationships.

In this environment we plan to achieve compounded double-digit premium growth organically and through acquisitions. We are aiming to double the size of North American specialty operations over the next five years to $6 billion in DPW while delivering top quartile underwriting performance with a sustainable low 90s combined ratio.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

3. Transform our competitive advantages:

We made tremendous progress in the past decade, but we cannot stand still. We will continue to transform our competitive advantages.

The first – and its an advantage that generates one-third of our outperformance – is in **risk selection**. Data is fundamental to extending our leadership in this area and we have moved quickly to integrate machine learning into how we price for and choose risks and how we are building sustainable operations.

Our Data Lab has more than 140 experts who have developed over 60 AI algorithms now in production in our business.

Through Telematics and UBI we have collected about one trillion data points — 20 data points for every second of every car trip and growing at about 45 billion data points every month. With this data we are leveraging our AI expertise to create proprietary algorithms for pricing, while providing value added services for customers like distracted driving scores.

As a large user and custodian of data we recently adopted a set of data governance principles to ensure the responsible use of data and AI. Our principles are based in the following areas: security; helping society; data quality; scientific excellence; and, accountability.

Our goal is to be recognized as the best AI insurance shop in the world. We continue to stay connected to cutting edge research through our university partnerships and we recently launched our Hong Kong Data Lab to tap into a new talent pipeline and get exposed to new ways of thinking.

The second element is ensuring we continue to leverage scale in **claims** to the fullest extent – particularly as it relates to supply chain pricing and data use. And, while digital options are important, our customers' claims experience happens in the physical world.

We have almost 4,000 dedicated employees helping more than 500,000 people with their claims each year. We are progressively internalizing our claims services. As of this year, 99% of adjusting and 70% of legal work is done in house. This ensures we get our customers back on track as quickly as possible.

We are serving 15,000 auto customers per year at our four one-stop claims service centres. We have been able to reduce repair and resolution times for customers by 40% and our Net Promoter Score (NPS) is nine points higher this year.

On the digital front, we see about 60% of our digital claims coming from a mobile device and 40% of those are coming with photos. Customers are seeing a 15% faster claims process because we are digitally pre-filling policy information.

To improve the experience in property claims we acquired On Side Restoration this year. Our goal is to provide a faster, simpler customer claims experience by increasing capacity in this fragmented market. This deal was also financially attractive and brings diversification to our property insurance results.

For our customers, we aim to reduce total resolution time in property claims by 50%. We have started deploying video capabilities in the estimation process, repair planning and real-time monitoring. And in the event of a catastrophe, On Side can mobilize teams between regions for faster results.

The third element is to build on our proven strengths in **investment and capital management**.

Our Montreal-based Intact Investment Management team has delivered close to 150 bps of annual ROE outperformance since 2010. This team is among the best in Canada and they continue to create sustainable value while actively managing a $19 billion international investment portfolio.

We continue to maintain a clear and simple capital management philosophy: capital should always be available in good times and in bad. Our ability to maintain a strong capital ratio provides us with flexibility to invest in opportunities while being able to manage large unexpected events. This strength has helped fuel NOIPS growth over the last decade and it will remain our approach going forward.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

4. Invest in our people:

Our people are at the heart of everything we do, and our 16,000 employees are essential to our success.

We are focused on three elements to support a strong culture and engaged employees. The first is to remain a best employer – a place with energized people who enjoy coming to work. The second is to be a destination for top talent – we need the best people in North America to fuel growth and outperformance. Third, we need to prepare our people for the evolving future of work driven by technology and automation.

Our employee engagement score increased again this year and we remain well above our peers; 10 points higher than the Canadian insurance industry and 17 points higher than the U.S. industry.

We ask our people to live our values, bring their best selves to work every day and have pride in what they do. And we commit to providing an inspiring, diverse and inclusive work environment where everyone has a voice at the table.

Our diversity and inclusion journey began a decade ago with a commitment to gender equality. We focused on the development of talented women through mentorship and challenging assignments to build a strong talent pool.

Those efforts are paying off. Currently 54% of all management positions in North America are held by women. We aim at replicating this at the executive level. We've also made concerted efforts to diversify our board over the last 15 years and today 42% of our board members are women.

As we navigate how technology changes the future of work, we have tapped current and future leaders at Intact to help us develop a people-centric plan. The team provided research and recommendations across five key areas that included a rethink of our people development approach. We will be investing in new ways to train and develop our people with a focus on behaviors. At the leadership level we have already started to enhance our development programs to prepare leaders for a future that is more dynamic, collaborative and focused on innovation.

Change in our business is a constant. We are committed to supporting employees by providing opportunities to develop skills, expand knowledge and learn more about our business. In return, we ask our employees to be customer-driven, open to change and be willing to invest in themselves and their careers.

Social Impact:

We have a commitment to our customers, employees, and communities to be financially strong and achieve our financial objectives. We won't compromise on our values of integrity and respect to achieve this because they matter as much as results.

Intact was founded on those values and a clear purpose – to be here to help people, businesses and society prosper in good times and be resilient in bad times. This matters more now then ever as we help our employees, customers and communities manage through and recover from the severe impacts of a global pandemic.

One of our values is Generosity and it drives our efforts to care for people and to give our time, financial resources and talent. We are challenging ourselves to raise the bar by helping others through the current COVID-19 crisis, protecting the environment and making our communities more resilient. I encourage you to read more about this in our 2019 Social Impact Report.

While our current efforts are focused on how we support our communities to navigate the COVID-19 crisis, I want to address the importance of our longer-term efforts around climate adaptation.

We have a commitment to our customers, employees, and communities to be financially strong and achieve our financial objectives. We won't compromise on our values of integrity and respect to accomplish this because they matter as much as results.

Climate change is an existential threat to our industry and a defining trend of the 21st century – the effects are irreversible. We need to mitigate the impact of human influence but more importantly as a society we need to protect our communities and our businesses against the changes we continue to face.

Four years ago, we committed to take a leading position on climate adaptation. We made a substantial investment in the Intact Centre on Climate Adaptation at the University of Waterloo. The Intact Centre works with homeowners, communities, governments and businesses to identify and reduce the impacts of extreme weather and climate change.

This year the Intact Centre released two new reports: *Ahead of the Storm: Developing Flood-Resilient Guidance for Canada's Commercial Real Estate*; and, *Water on the Rise: Protecting Canadian Homes from the Growing Threat of Flooding.* The Centre's work also informed a flood resilient design standard for new communities that was released by the Canadian Standards Association in December.

We had productive discussions with the federal and provincial governments on the importance of infrastructure and other adaptation measures in 2019. We were pleased to see a commitment in the federal government's platform to help prepare communities for climate risks and realities, including the development of a national flood insurance program.

While this is a large, multi-year undertaking, we are hopeful some immediate steps can be taken such as: working with provinces and territories to complete all flood maps in Canada; developing a national action plan to assist homeowners with potential relocation for those at the highest risk of repeat flooding; and, investing in natural infrastructure solutions, like grasslands and wetlands, that act to reduce the impacts of floods.

We welcome the opportunity to work with governments to develop these policies and share our expertise. We will also continue to engage with shareholders directly and work with academia and other businesses to build a resilient future by finding solutions to protect, adapt, restore and manage climate-related risks.

The challenges are big, and I remain optimistic. I see governments, people and businesses focusing on the solutions. That's good because we need all hands on deck.

Conclusion:

We have laid out a strategic roadmap for the next decade and outlined what we believe are the components necessary to continue to outperform and build a resilient future for our customers, employees, communities and our business.

Our roadmap may have some short-term detours as the global economy finds it footing and recovers from the pandemic. With the best team in the business, robust operating platforms and solid fundamentals, we are well positioned to manage through this crisis. Our dedicated and talented people are stepping up and making a difference every day in the face of many challenges.

I want to thank our customers, employees, brokers, shareholders and our board of directors for your support in achieving another successful year in 2019. Your continued confidence in what we have set out to achieve, and in the team we have built to lead us there, will serve us well as we manage through 2020 and enter the next decade.

Charles Brindamour
Chief Executive Officer

Accelerating our growth in the next decade

Dear shareholders,

At the time this report is issued, we have barely entered the next decade and the resiliency of the world and our Company has been tested. The Board, including our Risk Management Committee, has been monitoring and providing risk oversight throughout the COVID-19 pandemic. We have been working closely with management to activate the Company's business continuity and risk management procedures. We believe the current situation has demonstrated Intact's commitment to its customers and shareholders, while prioritizing the health and safety of its employees and partners.

Looking back at 2019, it was a milestone year for Intact, capping 10 years of success and setting us up for outperformance over the next decade.

In 2019, Intact delivered strong results across the board. Direct premiums written grew 9% and net operating income per share was up 7%, with solid underwriting results on both sides of the border, and solid net investment income and distribution EBITA and other performances.

In 2019, Intact completed two highly strategic acquisitions: On Side Restoration to provide simpler, faster and superior customer claims experiences; and The Guarantee Company of North America and Frank Cowan Company to bolster Intact's leadership position in Canada and bring its North American specialty lines platform close to $3 billion in annual DPW.

For Intact, acquisitions must align to the business strategy – strengthen our position, contribute to outperformance and accelerate growth. Intact's strategic choices to deploy capital have rewarded shareholders with solid returns in the past decade. Drawing on the experience of its past acquisitions, Intact is well-positioned to capitalize on more growth opportunities and create greater value for shareholders.

As we enter into the next decade, the Board's focus continues to be on governance priorities including strategy oversight, corporate development, executive compensation, corporate culture, risk management and shareholder engagement. The Board is pleased that Intact has consistently been recognized as one of Canada's most respected companies, reflecting strong and sound governance principles and a high standard of compliance and ethics.

The Company's highly engaged employees are committed to deliver second to none experiences to customers and brokers every day. They know Intact is committed to investing in them, supporting a diverse and inclusive environment and creating an energizing workplace. The results speak for themselves.

Just as Intact protects people and businesses by assuming their everyday risks, the Board oversees and monitors Intact's principal risks affecting the business – ensuring that its strategies and capital allocation are aligned with its risk appetite and framework. During the year, the Board actively engaged, reviewed and evaluated Intact's compliance with key risk policies and limits, ensuring that it has effective programs and practices in place as it executes its business strategy in a rapidly changing business environment.

Claude Dussault
Chairman of the Board

We support and encourage an open and transparent dialogue and exchange of ideas between shareholders, the Board and management. This year, I met with shareholders representing 20% of our investor base. Shareholders can contact the Board of Directors at any time through the office of the Corporate Secretary.

Intact was founded on its values, a clear purpose, and a belief that insurance is about people, not things. The business is built to help people, businesses and society prosper in good times and be resilient in bad times. This purpose extends to Intact's role in society, aligning closely with Environment, Social, Governance (ESG) principles and the Company's objectives and corporate strategy.

Intact has a responsibility to customers, employees, shareholders and communities to be financially strong and achieve its financial objectives while living its values. Intact's commitment to climate change adaptation meets corporate and societal objectives and demonstrates how Intact lives its value of generosity. As a leader in climate adaptation, Intact pledges to operate its business in a sustainable manner. We invite you to read more about Intact's ESG disclosure in the Social Impact Report, Management Proxy Circular and MD&A.

Your Board of Directors is strong – comprising members with a broad diversity of experience and expertise. Their leadership has guided Intact's management team well over the past decade. I thank Eileen Mercier who is retiring from the Board in 2020 after serving for 16 years and Robert W. Crispin who retired from the Board in 2019 after serving as a Director since 2004. Both Robert and Eileen have been instrumental in building and growing Intact into what it is today. We are grateful for their commitment and leadership. I am pleased to share the proposed nomination of Stuart J. Russell, a recognized leader in artificial intelligence and governance, for election to the Board at the Annual General Meeting of Shareholders.

For over a decade, Charles Brindamour and his executive team have done an outstanding and tremendous job leading and growing Intact. I am proud of the Intact team – your dedication, passion and striving for excellence continue to set the customer experience bar high in the marketplace.

To customers, brokers and shareholders, thank you for your trust and support in the last decade. As Intact continues to grow, outperform and build a resilient future in the next decade, we will be here for you, make it easy for you to do business with us and bring you greater value and attractive returns.

Claude Dussault
Chairman of the Board

First in Board Shareholder Confidence Index 2019 for the quality of its corporate governance practices among Canadian public companies for a fourth consecutive year.

Second out of 242 publicly traded companies in The Globe and Mail's annual "Board Games" report for the fourth consecutive year.

A top 3 finalist in the category of Best Governance – International at the 2019 Corporate Governance Awards organized by Corporate Secretary magazine.

Board of Directors

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

Charles Brindamour
Chief Executive Officer

Janet De Silva [2,3]
President & CEO of Toronto Region Board of Trade

Robert G. Leary [1,4]
Corporate Director

Eileen Mercier [1,4]
Corporate Director

Sylvie Paquette [1,4]
Corporate Director

Timothy H. Penner [2,3]
Corporate Director

Frederick Singer [2,4]
CEO of Echo360

Stephen G. Snyder [1,3]
Corporate Director

Carol Stephenson [2,3]
Corporate Director

William L. Young [2,3]
Corporate Director

Jane Kinney [1,4]
Corporate Director

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

Complete biographies of the members of the Board of Directors available on www.intactfc.com.

Executive Committee Members*

Charles Brindamour
Chief Executive Officer

Louis Gagnon
President, Canadian Operations

T. Michael Miller
President, U.S. and Specialty Solutions

Patrick Barbeau
Senior Vice President, Claims

Martin Beaulieu
Senior Vice President and Chief Risk Officer

Paul Brehm
Senior Vice President Specialty Solutions

Sonya Côté
Senior Vice President and Chief Internal Auditor

Frédéric Cotnoir
Senior Vice President, Corporate and Legal Services and Secretary

Debbie Coull-Cicchini
Executive Vice President, Intact Insurance

Luisa Currie
Senior Vice President, Western Canada

Danny Da Costa
Senior Vice President, Ontario

Joe D'Annunzio
Senior Vice President, BrokerLink

Jean-François Desautels
Senior Vice President, Québec and Digital Distribution, Intact Insurance

Monika Federau
Senior Vice President and Chief Strategy Officer

Anne Fortin
Senior Vice President, Direct Distribution and Chief Marketing Officer

Darren Godfrey
Senior Vice President, Personal Lines

Natalie Higgins
Senior Vice President, Atlantic Canada

Karim Hirji
Senior Vice President & Managing Director, Intact Ventures

Mathieu Lamy
Executive Vice President and Chief Operating Officer

Tracy Laughlin
Senior Vice President, Intact Prestige

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

Christian Menkens
Senior Vice President and Chief Technology Officer

Benoit Morissette
Senior Vice President and Group Chief Actuary

Werner Muehlemann
Senior Vice President and Managing Director, Intact Investment Management Inc.

Lynn O'Leary
Chief Operations Officer, U.S.

Carla Smith
Senior Vice President, Corporate Development

Mark A. Tullis
Vice Chairman

Peter Weightman
Senior Vice President, Specialty Solutions and Surety (Canada)

* As at December 31, 2019
As of January 1, 2020, Alain Lessard retired, and the following appointments took effect: Darren Godfrey – Senior Vice President, Commercial Lines; Isabelle Girard – Senior Vice President, Personal Lines; Ken Anderson – Senior Vice President, Investor Relations & Corporate Development; Carla Smith – Senior Vice President, Specialty Solutions, Canada; and, Peter Weightman – Senior Vice President and Chief Underwriting Officer, Specialty Solutions, North America. No further changes have occurred as of March 1, 2020.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

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 87;
Financial Statements – pages 1 to 73.

INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the year ended December 31, 2019

(in millions of Canadian 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, 2019. 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, 2019, compared to the corresponding periods in 2018. It should be read in conjunction with our Consolidated financial statements for our fiscal year ended December 31, 2019. This MD&A is dated February 4, 2020.

"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.

Table of contents

OVERVIEW **5**
Section 1 - About Intact Financial Corporation 5
Section 2 - Building sustainable competitive advantages 6
Section 3 - Consolidated performance 7
SEGMENTS **10**
Section 4 - Overview 10
Section 5 - Segment performance 11
Section 6 - Canada 12
Section 7 - U.S. 18
Section 8 - Corporate and Other 21
ENVIRONMENT & OUTLOOK **24**
Section 9 - Insurance industry at a glance 24
Section 10 - Outlook 29
STRATEGY **31**
Section 11 - What we are aiming to achieve 31
Section 12 - Progress on our strategic initiatives 31
Section 13 - Introducing our strategic roadmap for the next decade 34
Section 14 - Climate change 35
Section 15 - Social impact 37
FINANCIAL CONDITION **39**
Section 16 - Financial position 39
Section 17 - Investments 40
Section 18 - Claims liabilities and reinsurance 43
Section 19 - Capital management 46
Section 20 - Treasury management 51
Section 21 - Employee future benefit programs 52
RISK MANAGEMENT **53**
Section 22 - Overview 53
Section 23 - Risk management structure 53
Section 24 - Corporate governance and compliance program 55
Section 25 - Enterprise Risk Management 56
Section 26 - Off-balance sheet arrangements 71
Section 27 - Sensitivity analyses 72
ADDITIONAL INFORMATION **73**
Section 28 - Financial KPIs and definitions 73
Section 29 - Presentation changes 76
Section 30 - Non-operating results 77
Section 31 - Non-IFRS financial measures 78
Section 32 - Accounting and disclosure matters 82
Section 33 - Shareholder information 85
Section 34 - Selected annual and quarterly information 86

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

Management's Discussion and Analysis for the year ended December 31, 2019

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

Non-IFRS financial measures

We use both IFRS and non-IFRS financial measures to assess our performance. 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. The non-IFRS measures included in this MD&A are: change or growth in constant currency, direct premiums written (DPW), underwriting income (loss), combined ratio, net earned premiums (NEP), total net claims, underlying current year loss ratio, PYD and PYD ratio, underwriting expenses and expense ratio, distribution EBITA and Other, finance costs, other income (expense), total income taxes, income before income taxes, net operating income (NOI), net operating income per share (NOIPS), operating return on equity (OROE), adjusted net income, adjusted earnings per share (AEPS) and adjusted return on equity (AROE). ***See Section 31 – Non-IFRS financial measures for the definition and reconciliation to the most comparable IFRS measures.*** These measures and other insurance-related terms used in this MD&A are defined in the glossary available in the "Investors" section of our web site at www.intactfc.com.

Important notes

- Unless otherwise noted, DPW refer to DPW normalized for the effect of multi-year policies, excluding industry pools, fronting and exited lines (referred to as "DPW" in this MD&A). ***See Section 30 for details on exited lines and Table 29 for the reconciliation to DPW, as reported under IFRS.*** All underwriting results and related ratios exclude the MYA and the results of our U.S. Commercial exited lines, unless otherwise noted. The expense and general expense ratios are presented herein net of other underwriting revenues.
- When relevant, we present measures on a proforma basis. Combined ratio (proforma) for the U.S. exclude the impact of the Healthcare business in both years to enhance the analysis of trends ***(see Section 7.2 – P&C U.S.).*** Market share reflects the impact of announced or completed acquisitions and are therefore presented on a *proforma* basis.
- When relevant, we present changes in constant currency, which exclude the impact of fluctuations in foreign exchange rates from one period to the other, to enhance the analysis of our results with comparative periods. ***See Section 31 – Non-IFRS financial measures.***
- Unless otherwise noted, market share and market related data for P&C Canada are based on the latest available annual market data (2018) from MSA Research Inc. ("MSA") and excludes Lloyd's Underwriters Canada, Insurance Corporation of British Columbia, Saskatchewan Government Insurance, Saskatchewan Auto Fund, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company. MSA data excludes certain Québec regulated entities.
- Effective in Q1-2019, we improved the way we report the performance of our distribution channel and investment/other expenses, to better align our reporting with how management views the results of our business. We have reclassified comparative figures in order to ensure comparability and consistency with this new presentation. ***For further details, see Section 29 – Presentation changes.***
- Regulatory Capital Ratios refer to MCT (as defined by OSFI and the AMF in Canada) and RBC (as defined by the NAIC in the U.S.). All references to "total capital margin" in this MD&A include the aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC and other CALs in other jurisdictions) plus available cash in unregulated entities.
- 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%.

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. Unless otherwise indicated, all forward-looking statements in this MD&A are made as at December 31, 2019, and are subject to change after that date. This MD&A contains forward-looking statements with respect to the financing structure for the acquisition of The Guarantee and Frank Cowan Company Limited ("Frank Cowan") (together referred to as the "Acquisition").

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:

- expected competition and regulatory processes and outcomes in connection with the Acquisition;
- 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, floating rate securities 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 and severity, including in the personal auto line of business;
- 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 and provide services to the Company;
- 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;
- the terms and conditions of the Acquisition;
- the Company's expectations in relation to synergies, future economic and business conditions and other factors in relation to the Acquisition and resulting impact on growth and accretion in various financial metrics;
- the Company's financing plans for the Acquisition, including the availability of equity and debt financing in the future;
- various other actions to be taken or requirements to be met in connection with the Acquisition and integration post-closing of the Acquisition;
- the Company's profitability following the acquisition (the "OB Acquisition") of OneBeacon Insurance Group, Ltd. ("OneBeacon");
- the Company's ability to improve its Combined Ratio in the United States in relation to the OB Acquisition and the Acquisition;
- the Company's ability to retain business and key employees in the United States in relation to the OB Acquisition and the Acquisition;
- undisclosed liabilities in relation to the OB Acquisition and the Acquisition;
- 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 and frequency of catastrophe events, including a major earthquake;
- catastrophe losses caused by severe weather and other weather-related losses, as well as the impact of climate change;
- the Company's ability to maintain its financial strength and issuer credit ratings;
- the Company's access to debt and equity financing;
- 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 ability to contain fraud and/or abuse;
- the Company's reliance on information technology and telecommunications systems and potential failure of or disruption to those systems, including in the context of evolving cybersecurity risk;
- the impact of developments in technology and use of data on the Company's products and distribution;
- the Company's dependence on and ability to retain 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 and the ability of the Company's subsidiaries to pay dividends;
- the volatility of the stock market and other factors affecting the trading prices of the Company's securities;
- the Company's ability to hedge exposures to fluctuations in foreign exchange rates;
- future sales of a substantial number of its common shares; and
- changes in applicable tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof.

All of the forward-looking statements included in this MD&A and the quarterly earnings press release dated February 4, 2020 are qualified by these cautionary statements and those made in the section entitled Risk management (Sections 22-27) of our MD&A for the year ended December 31, 2019. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's Discussion and Analysis for the year ended December 31, 2019

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

Glossary of abbreviations

	Description		Description
AEPS	Adjusted EPS	**MD&A**	Management's Discussion and Analysis
AFS	Available for sale	**Moody's**	Moody's Investor Service Inc.
AMF	Autorité des marchés financiers	**MGA**	Managing general agent
AOCI	Accumulated OCI	**MYA**	Market yield adjustment
AROE	Adjusted ROE	**NAIC**	National Association of Insurance Commissioners
BVPS	Book value per share	**NEP**	Net earned premiums
CAD	Canadian Dollar	**NOI**	Net operating income
CAGR	Compound annual growth rate	**NOIPS**	NOI per share
CAL	Company action level	**OCI**	Other comprehensive income
CAN	Canada	**OROE**	Operating ROE
CAT	Catastrophe	**OSFI**	Office of the Superintendent of Financial Institutions
DBRS	Dominion Bond Rating Services	**P&C**	Property & Casualty
DPW	Direct premiums written	**P&E**	Property and equipment
EPS	Earnings per share to common shareholders	**PTOI**	Pre-tax operating income
F/S	Financial Statements	**PYD**	Prior year claims development
Fitch	Fitch Ratings Inc.	**RBC**	Risk-based capital
FVTPL	Fair value through profit and loss	**Repo**	Repurchase agreeement
IFRS	International Financial Reporting Standards	**ROE**	Return on equity
KPI	Key performance indicator	**S&P**	Standard & Poor's
M&A	Mergers and acquisitions	**U.S.**	United States
MCT	Minimum capital test (Canada)	**USD**	U.S. Dollar

This icon represents data relevant to environmental, social and governance (ESG) disclosure including its impact on our results where applicable.

Definitions of selected key terms used in our MD&A:

- Catastrophe claims are any one claim, or group of claims, equal to or greater than $7.5 million for P&C Canada (US$5 million for P&C U.S.) before reinsurance related to a single event (referred to as the "CAT threshold"), and can either be weather-related or not weather-related ('other than weather-related').
- A non-catastrophe weather event is a group of claims, which is considered significant but that is smaller than the CAT threshold, related to a single weather event.
- A large loss is defined as a single claim larger than $0.25 million for P&C Canada (US$0.25 million for P&C U.S.) but smaller than the CAT threshold.
- Non-CAT weather-related losses represent claims which we attribute to weather conditions. We estimate the impact of weather on our results by matching increases in frequency with specific weather events, and also by considering the underlying cause of claims.

These measures and other insurance-related terms used in this MD&A are defined in the glossary available in our Annual report, as well as the "Investors" section of our web site at www.intactfc.com.

OVERVIEW

Section 1 - About Intact Financial Corporation

1.1 Why we exist

Intact was founded on our values, a clear purpose, and a belief that insurance is about people, not things. That purpose is to be here to help people, businesses and society prosper in good times and be resilient in bad times.

We built our business with help in mind – it's why we exist. And, it extends to our role in society. That role aligns closely with Environment, Social, Governance (ESG) principles and our purpose, objectives and corporate strategy.

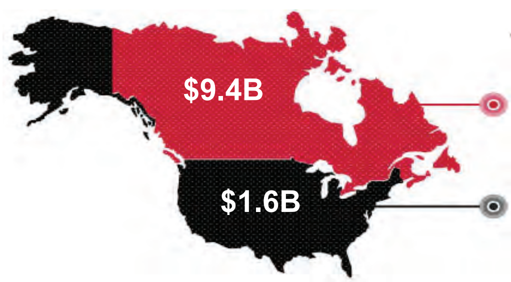
We have a responsibility to our customers, employees, shareholders and communities to be financially strong and achieve our financial objectives while living our values.

Our leadership success factors set an expectation for our leaders to live our values and foster a customer driven environment with respect, integrity and excellence at its core.

Our commitment to climate change adaptation meets corporate and societal objectives and is a demonstration of how we live our value of generosity.

We are focused on leading in climate adaptation and we are committed to operating our business in a sustainable fashion.

1.2 Who we are



2019 DPW by segment (above)

- Largest provider of P&C insurance in Canada and a leading provider of specialty insurance in North America, with over $11 billion in annual DPW.
- Best employer in Canada and the U.S, with approximately 16,000 employees who serve more than five million personal, business and public sector customers through offices in Canada and the U.S.
- In Canada, 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. Frank Cowan brings a leading MGA platform to manufacture and distribute public entity insurance products in Canada.
- In the U.S., OneBeacon, a wholly-owned subsidiary, provides specialty insurance products through independent agencies, brokers, wholesalers and MGAs.
- Proven industry consolidator with a track record of 17 successful P&C acquisitions since 1988.

Section 2 - Building sustainable competitive advantages

We have many unique advantages which have enabled us to consistently outperform other P&C insurers in Canada. These advantages are described below

Leading North American P&C Operator

Scale in distribution

- Our multi-channel distribution strategy includes the most recognized broker and direct-to-consumer brands in Canada. Full advice-based support is provided through our broker channels and simplified, online convenience is available through belairdirect.
- We have close to 2,000 broker relationships across Canada and the U.S. for customers who value advice, and the specialized and community-based services that only an insurance broker can provide.
- We provide our brokers with a variety of digital distribution service platforms, alongside sales training and financing to enable them to continue to grow and develop their businesses.

Digital engagement

- Our industry leading mobile and fully integrated digital solutions distinguish us from our peers. Our ability to design, deliver and iterate on new experiences for brokers and customers makes us a preferred company to deal with. Speed, simplicity and transparency are core tenets of our customer driven digital focus.

Investing in people

- Our people are the cornerstone to execution of our strategy. As a best employer, we benefit from attracting, retaining and engaging some of the best talent both within and outside our industry. We have highly engaged employees and our strong set of values and leadership success factors guide decision making and provide a strong moral compass.

Diversified business mix

- Our business is well diversified across segments (Canada and the U.S.) and lines of business (personal, commercial and specialty).

Sophisticated AI and machine learning capabilities

- Our AI and machine learning expertise combined with our scale in data allows us to create sophisticated algorithms that price for risk more accurately than the market. In turn this establishes a model that will both attract and retain customers with profitable profiles.

Deep claims expertise & strong supply chain network

- The majority of our claims are handled in house with the support of our preferred network of suppliers. This provides a faster and simpler experience for the customer and translates into an advantage that means claims settle at a lower cost.

Strong capital and investment management expertise

- In-house investment 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 returns, while preserving capital and limiting volatility. We achieve this through an appropriate asset allocation and active management of investment strategies.

Proven consolidator & integrator

- We are a proven industry consolidator with 17 successful acquisitions since 1988.
- We are focused on strengthening our leadership position in Canada and building a North American specialty leader. Acquisitions play an important role in accelerating execution on the strategy.
- Our successful track record on acquisitions is driven by three key factors: thorough due diligence to assess all the risks and opportunities; swift and effective integration that is seamless to our customers; and financial benefit from significant synergies due to our scale.

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

Section 3 - Consolidated performance

3.1 Consolidated performance

We completed the acquisitions of The Guarantee and Frank Cowan on December 2, 2019 and On Side Developments Ltd. ("On Side") on October 1, 2019. The results of operations and balance sheet are included in our consolidated financial reports from the closing dates. These acquisitions were accretive to NOIPS in Q4-2019. *See Section 5 – Segment performance for further details.*

Table 1 – Consolidated performance[1, 2]

	Q4-2019	Q4-2018	Change	2019	2018	Change
DPW *(growth in constant currency)*	**2,670**	2,392	12%	**11,049**	10,090	9%
Canada	**2,328**	2,067	13%	**9,399**	8,601	9%
U.S.	**342**	325	5%	**1,650**	1,489	8%
NEP	**2,692**	2,509	7%	**10,211**	9,715	5%
Operating income						
Underwriting income	**229**	210	9%	**465**	474	(2)%
Net investment income	**142**	143	(1)%	**576**	541	6%
Distribution EBITA and Other	**45**	42	7%	**209**	175	19%
Finance costs	**(28)**	(30)	nm	**(120)**	(114)	nm
Other income (expense)	**(2)**	(9)	nm	**(23)**	(30)	nm
PTOI	**386**	356	8%	**1,107**	1,046	6%
NOI	**303**	281	8%	**905**	839	8%
Pre-tax non-operating gains (losses)	**(109)**	(44)	nm	**(257)**	(147)	nm
Net income	**240**	244	(2%)	**754**	707	7%
Effective income tax rates						
Operating	**21.5%**	21.1%	0.4 pts	**18.3%**	19.8%	(1.5) pts
Total	**13.4%**	21.8%	(8.4) pts	**11.3%**	21.4%	(10.1) pts
Per share measures, basic and diluted (in dollars)						
NOIPS	**2.08**	1.93	8%	**6.16**	5.74	7%
EPS	**1.63**	1.67	(2%)	**5.08**	4.79	6%
BVPS	**53.97**	48.73	11%			
Return on equity for the last 12 months						
OROE	**12.5%**	12.1%	0.4 pts			
ROE	**10.0%**	9.9%	0.1 pts			
Total capital margin	**1,222**	1,333	(111)			
Debt-to-total capital ratio	**21.3%**	22.0%	(0.7) pts			

[1] *See Section 29 – Presentation changes.*
[2] *See Section 31 – Non-IFRS financial measures.*

Table 2 – Underwriting ratios

	Section	Q4-2019	Q4-2018	Change	2019	2018	Change
Claims ratio		**62.6%**	62.7%	(0.1) pts	**66.0%**	65.3%	0.7 pts
Expense ratio		**28.9%**	29.0%	(0.1) pts	**29.4%**	29.8%	(0.4) pts
Combined ratio		**91.5%**	91.7%	(0.2) pts	**95.4%**	95.1%	0.3 pts
Canada	*6*	**92.0%**	90.8%	1.2 pts	**95.9%**	95.2%	0.7 pts
U.S.	*7.2*	**88.8%**	96.7%	(7.9) pts	**93.2%**	94.8%	(1.6) pts

Approximately 15% of our DPW is denominated in USD. The impact of fluctuations in foreign exchange rates was not material to our consolidated performance for the year ended December 31, 2019. *See Section 7.2 – U.S. for the impact on our U.S. results.*

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

3.2 Financial highlights

2019

DPW growth	NOIPS growth	OROE	Total capital margin	BVPS
9%	7%	12.5%	$1.2 billion	+11%

- **Net operating income per share up 8% to $2.08 in Q4-2019** driven by strong underwriting and distribution results
- **Premiums growth of 12% in the quarter and 9% for the full year** led by rate increases
- **Combined ratio of 91.5% in Q4-2019** with solid performance in all lines, despite elevated catastrophe losses
- **Full year EPS of $5.08 drove BVPS up 11% to $53.97**
- **Operating ROE of 12.5%** with $1.2 billion of total capital margin
- **Quarterly dividend increased by 9% to $0.83 per common share**
- **Recent closed transactions were accretive to NOIPS in the quarter**; integration is well underway.

On January 8, 2020, we announced estimated CAT losses for Q4-2019 of $115 million on a pre-tax basis ($0.60 per share after-tax). CAT losses were concentrated in Canada property lines with impacts of $54 million and $48 million in commercial and personal property respectively. *See Section 9.4 and 9.5 for more details on weather conditions in Canada and CAT losses.*

3.3 Analysis of results

<table>
<tr><th></th><th>Q4-2019 vs Q4-2018</th><th>2019 vs 2018</th></tr>
<tr><td rowspan="3">DPW growth[1]
in constant currency</td><td colspan="2">• Premiums grew 12% in the quarter and 9% for the full year, with strong growth across all lines of business. The acquisition of The Guarantee, which closed on December 2, 2019, contributed 1.5 points of growth in the quarter.</td></tr>
<tr><td colspan="2">• In Canada, premium growth was 13% in the quarter and 9% for the full year, reflecting continued average rate increases of 8% overall and improving unit growth. We continue to see hard market conditions in all lines of business.</td></tr>
<tr><td>• In the U.S., growth of 5% was lower than recent quarters mostly due to the impact of exiting the Healthcare businesss. We continue to see strong growth in lines not undergoing profitability improvement plans.</td><td>• In the U.S., growth of 8% was driven by rate increases and strong growth in lines not undergoing profitability improvement plans.</td></tr>
<tr><td>Underwriting performance[2]</td><td>• Strong overall combined ratio of 91.5% despite 4.3 points of CAT losses with solid performances in all lines.
• Combined ratio for Canada was solid at 92.0%. Improvement in underlying performances across all lines was more than offset by elevated CAT losses.
• Combined ratio in the U.S. was strong at 88.8% driven by our profitability actions.</td><td>• Overall combined ratio of 95.4% was 0.3 points above last year, as improved underlying performance and expense ratio were offset by lower favourable PYD.
• Combined ratio for Canada of 95.9% was 0.7 points higher last year, as the improvement in personal auto underlying performance was more than offset by lower favourable PYD and higher non-CAT weather-related losses.
• Combined ratio in the U.S. improved 1.6 points to 93.2%, reflecting a strong performance in lines not undergoing profitability improvement plans. After exiting the U.S. Healthcare business, we are getting closer to our goal of achieving a sustainable low-90s combined ratio by the end of 2020.</td></tr>
</table>

[1] *Includes the DPW of The Guarantee of $36 million from December 2, 2019 to December 31, 2019.*

[2] *Excludes underwriting results of The Guarantee of $7 million, which were included in Other income (Corporate) in Q4-2019.*

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

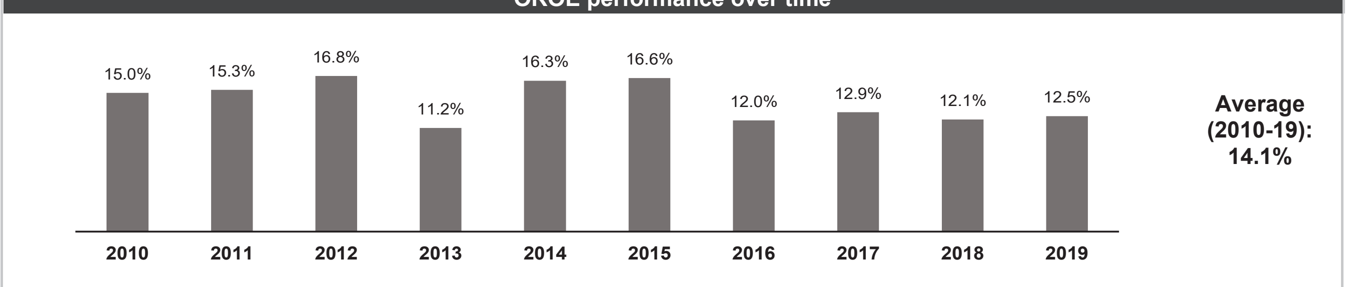
i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

	Q4-2019 vs Q4-2018	2019 vs 2018
Net investment income	• **Net investment income of $142 million was essentially unchanged**, as the impact of higher invested assets was offset by lower reinvestment yields.	• **Net investment income was up 6% to $576 million,** driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, and higher invested assets. We expect 4% growth in 2020 driven by the addition of The Guarantee's investments.
Distribution EBITA and Other	• **Distribution EBITA and Other grew 7% to $45 million,** comprising the performance of our broker network and the acquisitions of On Side and Frank Cowan.	• **Distribution EBITA and Other grew 19% to $209 million,** bolstered by rate momentum across regions, as well as broker acquisitions. We expect 20% growth in 2020, taking into account the impact of broker acquisitions, Frank Cowan and On Side.
NOIPS	• **NOIPS increased 8% to $2.08**, driven by strong underwriting and distribution results.	• **NOIPS of $6.16** was up 7%, driven by growth in net investment income and distribution EBITA and other.
Effective income tax rates[1]	• **Operating effective income tax rate of 21.5%** was in line with expectations. • **Total effective income tax rate of 13.4%** reflected the impact of an income tax recovery of $22 million in Q4-2019.	• **Operating effective income tax rate of 18.3%** reflected an income tax benefit of $17 million in Q1-2019. • **Total effective income tax rate of 11.3%** reflected the impact of a non-taxable $72 million broker gain in Q1-2019 and income tax recoveries of $39 million in 2019.
EPS	• **EPS was down 2% to $1.63**, driven by non-operating results namely those of U.S. exited lines and integration costs offset by an income tax recovery[1] of $22 million in Q4-2019 ***(see Section 30 – Non-operating results for more details).***	• **EPS was up 6% to $5.08**, driven by improving operating performance and a non-operating broker gain in Q1-2019.
Return on equity	• **Operating ROE for the last 12 months was 12.5%** and below our 10-year average due to severe winter weather in the early part of the year and unfavourable PYD in personal auto in Q2-2019. We continue to outperform the industry on ROE by 8 points YTD Q3-2019.	
Financial condition	• **BVPS increased 11% from a year ago to $53.97**, mainly driven by our earnings, net of common share dividends, and the share issuance to partly finance the acquisitions of The Guarantee and Frank Cowan. • **Our debt-to-total capital ratio stood at 21.3%** as at December 31, 2019, slightly above our 20% target level following the recent acquisition of The Guarantee and Frank Cowan. • **We ended the quarter in a strong financial position, with over $1.2 billion of total capital margin.**	

[1] ***See Note 24.1 – Effective income tax rate of the Consolidated financial statements for further details.***

Over the past 10 years, OROE performance averaged 14.1%, though in recent years it has been affected by severe weather and weak auto results. We expect to return to mid-teens OROE in the near term.

OROE performance over time



SEGMENTS

Section 4 - Overview

The composition of our segments is aligned with our management structure and internal financial reporting based on geography and nature of our activities. We report our financial results under the business segments and lines of business set out below.

Reportable segments	
CANADA	**Underwriting of automobile, home and business insurance contracts** to individuals and businesses in Canada. Underwriting results in Canada, reported under three lines of business. **Distribution and other activities** include the operating resuls of: • our wholly-owned broker, BrokerLink and our share of operating results of broker affiliates; • Frank Cowan, a specialty MGA in Canada; and • On Side, a Canadian restoration firm.
U.S.	**Underwriting of specialty insurance contracts** mainly to small and midsize businesses in the U.S.
Corporate and Other	**Comprised of the following activities, which are managed at the Corporate level** • Investment management • Treasury and capital management • Other corporate activities, including internal reinsurance • Operating results include net investment income, finance costs (other than those related to our Canadian broker associates), as well as other income and expenses (including corporate expenses and ancillary income).

Lines of business	
	• **Personal auto** – We offer various levels of coverage to our customers for their vehicles including accident benefits, third party property and physical damage. Our coverage is also available for motor homes, recreational vehicles, motorcycles, snowmobiles, and all terrain vehicles.
	• **Personal property** – Our customers can get protection for their homes and contents from risks such as fire, theft, vandalism, water damage and other damages, as well as personal liability coverage. Property coverage is also available for tenants, condominium owners, non-owner-occupied residences and seasonal residences.
	• **Commercial lines Canada** – We provide a broad range of coverages tailored to the needs of a diversified group of small and medium sized businesses, including commercial landlords, manufacturers, contractors, wholesalers, retailers, transportation businesses, agriculture businesses and service providers. Commercial property coverages protect the physical assets of the business and include business interruption insurance. Liability coverages include commercial general liability, product liability, professional liability as well as cyber endorsement. Commercial vehicle coverages provide protection for commercial auto, fleets, garage operations, light trucks, public vehicles and the specific needs of the sharing economy.
	• **Commercial lines U.S.** – Through our 13 business units, we provide a broad range of specialty insurance solutions tailored to meet the unique needs of specific industry segments or product/customer groups. Businesses serving targeted industry segments include accident and health (transportation, specialty health, and sharing economy), technology, ocean marine, inland marine (construction, transportation, and fine arts), government risks (public entities), entertainment, financial services, and financial institutions. Businesses offering distinct specialty products to broad customer groups include specialty property, surety, tuition reimbursement, management liability, and environmental.

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

Section 5 - Segment performance

We measure our consolidated performance mainly based on NOIPS and segment performance based on PTOI. In Q4-2019, the underwriting income (included in Other income) of The Guarantee of $7 million was reported under Corporate. Starting in Q1-2020, the related underwriting results will be reported by segment and included in the various lines of business. The operating results of Frank Cowan and On Side totalling $4 million were included in Distribution and Other under the Canada segment.

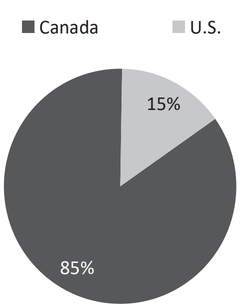
Table 3 – Operating performance by segment[1]

For the quarters ended Dec. 31,	CAN	U.S.	Corporate	2019 Total	CAN	U.S.	Corporate	2018 Total
DPW	**2,328**	**342**	**-**	**2,670**	2,067	325	-	2,392
Growth in constant currency	***13%***	***5%***	**-**	***12%***	*4%*	*2%*	*nm*	*4%*
NEP	**2,302**	**389**	**1**	**2,692**	2,129	379	1	2,509
Operating income								
Underwriting income	**184**	**44**	**1**	**229**	196	13	1	210
Net investment income	**-**	**-**	**142**	**142**	-	-	143	143
Distribution EBITA and Other	**45**	**-**	**-**	**45**	42	-	-	42
Finance costs	**(2)**	**-**	**(26)**	**(28)**	(3)	-	(27)	(30)
Other income (expense)	**-**	**-**	**(2)**	**(2)**	-	-	(9)	(9)
Pre-tax operating income (PTOI)	**227**	**44**	**115**	**386**	235	13	108	356
Net operating income (NOI)				**303**				281
NOIPS (in dollars)				**2.08**				1.93

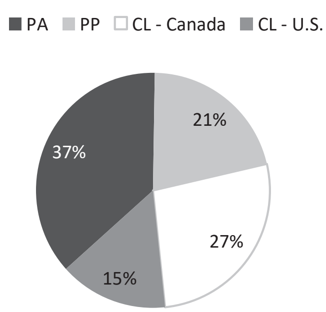
For the years ended Dec. 31,	CAN	U.S.	Corporate	2019 Total	CAN	U.S.	Corporate	2018 Total
DPW	**9,399**	**1,650**	**-**	**11,049**	8,601	1,489	-	10,090
Growth in constant currency	***9%***	***8%***	**-**	***9%***	*2%*	*nm*	-	*16%*
NEP	**8,775**	**1,431**	**5**	**10,211**	8,332	1,380	3	9,715
Operating income								
Underwriting income	**363**	**97**	**5**	**465**	400	71	3	474
Net investment income		**-**	**576**	**576**	-	-	541	541
Distribution EBITA and Other	**209**	**-**	**-**	**209**	175	-	-	175
Finance costs	**(10)**	**-**	**(110)**	**(120)**	(11)	-	(103)	(114)
Other income (expense)	**-**	**-**	**(23)**	**(23)**	-	-	(30)	(30)
Pre-tax operating income (PTOI)	**562**	**97**	**448**	**1,107**	564	71	411	1,046
Net operating income (NOI)				**905**				839
NOIPS (in dollars)				**6.16**				5.74

[1] *See Section 31 – Non-IFRS financial measures.*

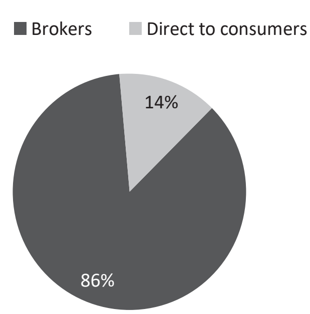
2019 DPW by business segment



2019 DPW by line of business



2019 DPW by distribution channel

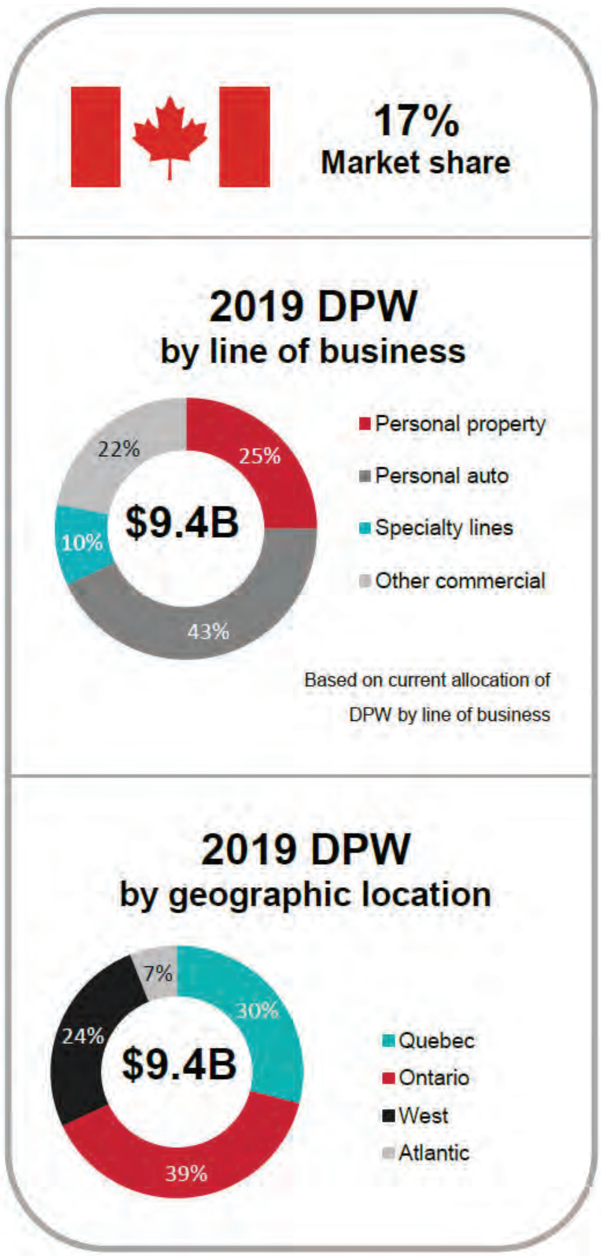


PA: Personal auto; PP: Personal property: CL: Commercial lines

Section 6 - Canada

6.1 Canada's largest home, auto and business insurer

- Largest P&C insurer in Canada, with over $9 billion in annual DPW and an approximate market share of 17%.
- We underwrite automobile, home and business insurance contracts to individuals and businesses in Canada, which are reported under three lines of business: personal auto, personal property and commercial lines.
- The acquisition of the Canadian operations of The Guarantee bolsters our leadership position by adding approximately $490 million in annual premiums, including new products tailored to high-net-worth individuals, as well as specialty insurance products.
- We distribute insurance in Canada under the Intact Insurance brand through a wide network of brokers, including our wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect. With the acquisition of Frank Cowan, we now have a new MGA platform to distribute public entity insurance products in Canada.
- Largest private sector provider of P&C insurance in most provinces.



6.2 Distribution and other activities

- We provide our brokers with a variety of digital distribution service platforms, alongside sales training and financing to enable them to continue to grow and develop their businesses.
- BrokerLink is a leading distributor of P&C products in Canada, with $1.8 billion of written premiums in 2019.
- Distribution and other activities are reported on a pre-tax and pre-interest basis and include the operating results of:
  - our wholly-owned broker, BrokerLink; as well as our share of operating results of broker affiliates;
  - Frank Cowan, a specialty MGA in Canada; and
  - On Side, a Canadian restoration firm.

  (see Sections 12.3 and 12.4 for more details on the acquisitions of Frank Cowan and On Side)
- Distribution EBITA and Other reached $209 million in 2019, more than double the level achieved five years ago.
- We will continue to grow distribution earnings by supporting our brokers as they expand and grow their businesses, while actively participating in broker consolidation through BrokerLink and partners.

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

6.3 P&C Canada

DPW of The Guarantee are reported by line of business from the closing date. In Q4-2019, the related underwriting income (included in Other income) was reported under Corporate *(see Section 5 – Segment performance)*.

Table 4 – Underwriting results for P&C Canada[1,2]

	Q4-2019	Q4-2018	Change	2019	2018	Change
DPW	**2,328**	2,067	13%	**9,399**	8,601	9%
NEP	**2,302**	2,129	8%	**8,775**	8,332	5%
Current year claims (excluding CAT claims)	**1,399**	1,356	43	**5,577**	5,411	166
Current year CAT claims	**111**	33	78	**362**	308	54
(Favourable) unfavourable PYD	**(32)**	(56)	24	**11**	(181)	192
Total net claims	**1,478**	1,333	145	**5,950**	5,538	412
Underwriting expenses	**640**	600	40	**2,462**	2,394	68
Underwriting income	**184**	196	(12)	**363**	400	(37)
Underwriting ratios						
Underlying current year loss ratio	**60.8%**	63.7%	(2.9) pts	**63.6%**	65.0%	(1.4) pts
CAT loss ratio	**4.8%**	1.6%	3.2 pts	**4.1%**	3.7%	0.4 pts
(Favourable) unfavourable PYD ratio	**(1.4%)**	(2.7)%	1.3 pts	**0.1%**	(2.2)%	2.3 pts
Claims ratio	**64.2%**	62.6%	1.6 pts	**67.8%**	66.5%	1.3 pts
Commissions	**14.9%**	14.9%	- pts	**15.3%**	15.3%	- pts
General expenses	**9.4%**	9.6%	(0.2) pts	**9.2%**	9.6%	(0.4) pts
Premium taxes	**3.5%**	3.7%	(0.2) pts	**3.6%**	3.8%	(0.2) pts
Expense ratio	**27.8%**	28.2%	(0.4) pts	**28.1%**	28.7%	(0.6) pts
Combined ratio	**92.0%**	90.8%	1.2 pts	**95.9%**	95.2%	0.7 pts

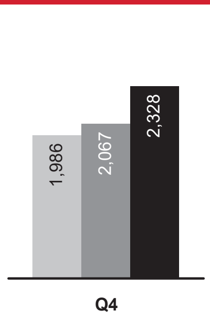
Table 5 - Performance by line of business for P&C Canada [1,2]

	Section	Q4-2019	Q4-2018	Change	2019	2018	Change
DPW growth							
Personal auto	*6.4*	**941**	818	15%	**4,067**	3,750	8%
Personal property	*6.5*	**566**	517	9%	**2,337**	2,186	7%
Commercial lines	*6.6*	**821**	732	12%	**2,995**	2,665	12%
		2,328	2,067	13%	**9,399**	8,601	9%
Combined ratio							
Personal auto	*6.4*	**96.5%**	97.3%	(0.8) pts	**97.7%**	99.5%	(1.8) pts
Personal property	*6.5*	**82.0%**	78.5%	3.5 pts	**92.5%**	88.3%	4.2 pts
Commercial lines	*6.6*	**93.5%**	91.6%	1.9 pts	**96.0%**	94.6%	1.4 pts
		92.0%	90.8%	1.2 pts	**95.9%**	95.2%	0.7 pts

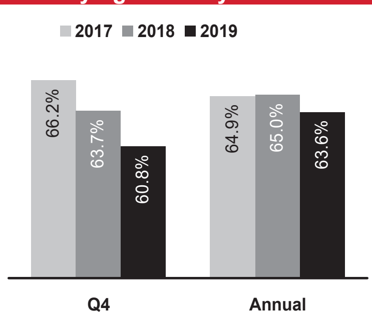
[1] *Refer to Section 31 – Non-IFRS financial measures.*

[2] Include DPW of The Guarantee from the closing date amounting to $31 million.

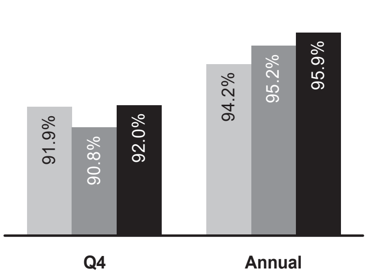
DPW



Underlying current year loss ratio



Combined ratio



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

Q4-2019 vs Q4-2018	2019 vs 2018
• **Premium growth was very strong at 13% in the quarter and 9% for the full year,** reflecting continued average rate increases of 8% overall and improving unit growth. We continue to see hard market conditions. The acquisition of The Guarantee, which closed on December 2, 2019, contributed 1.5 points of growth in the quarter.	
• **Solid underlying current year loss ratio of 60.8%** reflected a strong performance across all lines of business.	• **Underlying current year loss ratio** improved by 1.4 points **to 63.6**%, driven by significant progress in personal auto.
• **CAT losses were elevated at $111 million in Q4-2019** and above expectations for a fourth quarter.	• **CAT losses were elevated**, mainly due to severe weather conditions in Central Canada.
• **PYD ratio was favourable at 1.4%,** in line with expectations, while it can vary from quarter to quarter.	• **PYD ratio was minimal** and lower than our expectations of a 1-3% range over the long-term, driven by the Q2-2019 adjustment in personal auto.
• **Expense ratio of 27.8% for the quarter and 28.1% year-to-date** improved across all lines, mainly driven by expense management and earned premium growth.	
• **Combined ratio was solid at 92.0%,** despite 4.8 points of CAT losses, roughly two times above expectations.	• **Combined ratio of 95.9%** reflected elevated level of CAT losses and minimal PYD, obscuring an improved underlying performance and lower expense ratio.

6.4 Personal auto

Table 6 – Underwriting results for personal auto

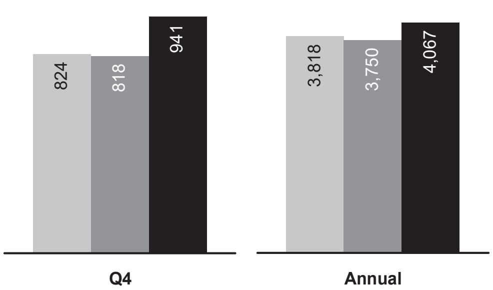
	Q4-2019	Q4-2018	Change	2019	2018	Change
DPW	**941**	818	15%	**4,067**	3,750	8%
Written insured risks (in thousands)	**886**	866	2%	**4,150**	4,159	-
NEP	**1,007**	934	8%	**3,818**	3,727	2%
Underwriting income (loss)	**35**	26	35%	**86**	19	nm
Underlying current year loss ratio	**73.0%**	74.4%	(1.4) pts	**71.7%**	74.7%	(3.0) pts
CAT loss ratio	**0.8%**	- %	0.8 pts	**0.7%**	0.6%	0.1 pts
(Favourable) unfavourable PYD ratio	**-%**	0.3%	(0.3) pts	**2.9%**	1.3%	1.6 pts
Claims ratio	**73.8%**	74.7%	(0.9) pts	**75.3%**	76.6%	(1.3) pts
Expense ratio	**22.7%**	22.6%	0.1 pts	**22.4%**	22.9%	(0.5) pts
Combined ratio	**96.5%**	97.3%	(0.8) pts	**97.7%**	99.5%	(1.8) pts

Q4-2019 vs Q4-2018	2019 vs 2018
• **DPW growth accelerated to a strong 15%,** driven by rate increases across all regions, continued unit growth and change in mix.	• **DPW were up 8%,** driven by rate increases. Our competitive position is improving and driving unit momentum, as the industry continues to raise rates. Market conditions remain hard.

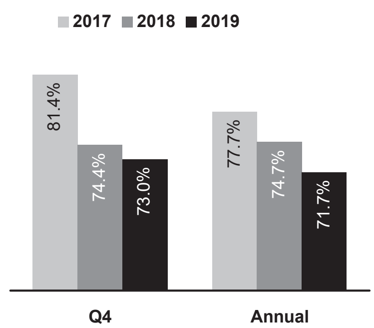
- **Underlying current year loss ratio improved to a strong 73.0% in the quarter and 71.7% for the full year,** driven by rate increases net of claims cost inflation and claims actions.

Q4-2019 vs Q4-2018	2019 vs 2018
• **PYD ratio was in line with expectations.**	• **Unfavourable PYD ratio of 2.9%** was higher than expectations, mainly due to the Q2-2019 adjustment.
• **Given the Q4 seasonality impact, the combined ratio was strong at 96.5%**.	• **Combined ratio of 97.7%** reflected continued improvement in underlying performance but remained elevated, mainly due to 2.9 points of unfavourable PYD.

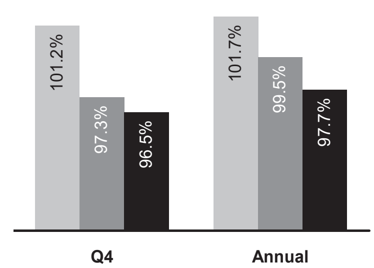
DPW



Underlying current year loss ratio



Combined ratio



6.5 Personal property

Table 7 – Underwriting results for Personal property

	Q4-2019	Q4-2018	Change	2019	2018	Change
DPW	**566**	517	9%	**2,337**	2,186	7%
Written insured risks (in thousands)	**562**	547	3%	**2,404**	2,364	2%
NEP	**566**	534	6%	**2,184**	2,098	4%
Underwriting income (loss)	**102**	115	(11)%	**165**	246	(33)%
Underlying current year loss ratio	**43.5%**	47.1%	(3.6) pts	**53.7%**	52.0%	1.7 pts
CAT loss ratio	**8.5%**	2.1%	6.4 pts	**9.0%**	7.6%	1.4 pts
(Favourable) unfavourable PYD ratio	**(1.8)%**	(2.9)%	1.1 pts	**(1.7)%**	(3.7)%	2.0 pts
Claims ratio	**50.2%**	46.3%	3.9 pts	**61.0%**	55.9%	5.1 pts
Expense ratio	**31.8%**	32.2%	(0.4) pts	**31.5%**	32.4%	(0.9) pts
Combined ratio	**82.0%**	78.5%	3.5 pts	**92.5%**	88.3%	4.2 pts

Q4-2019 vs Q4-2018 | **2019 vs 2018**

- **DPW growth was strong at 9% in the quarter and 7% for the full year,** driven by rate increases and continued unit growth.

Q4-2019 vs Q4-2018:

- **Underlying current year loss ratio improved by 3.6 points to a strong 43.5%** mainly due to the impact of higher earned rates and lower non-CAT weather-related losses.
- **CAT loss ratio of 8.5%** was higher than expectations, mainly due to the late October storm in Central Canada.

2019 vs 2018:

- **Underlying current year loss ratio of 53.7%** deteriorated from last year's solid performance mainly due to higher weather-related losses and increased fire losses.
- **CAT loss ratio of 9.0%** was above last year but roughly in line with historical averages. CAT losses in both years were driven by severe weather events in Central Canada.

- **Favourable PYD ratio of 1.8% in the quarter and 1.7% for the full year** was lower than last year, while in line with expectations.

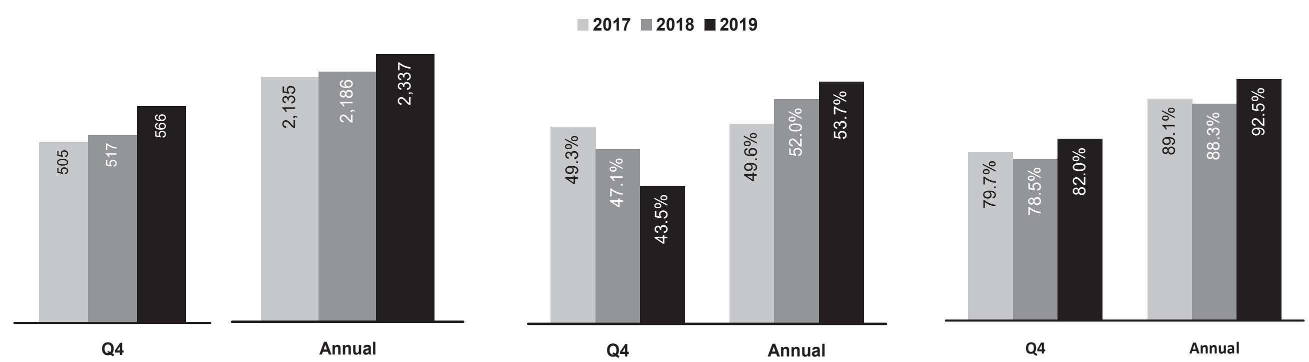
Q4-2019 vs Q4-2018:

- **Combined ratio was strong at 82.0%** after absorbing 8.5 points of CAT losses.

2019 vs 2018:

- **Combined ratio of 92.5% reflected 3 points of elevated weather-related claims.** The fundamentals of this business remain solid and the hard market conditions position us well for the future.

DPW | **Underlying current year loss ratio** | **Combined ratio**



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

6.6 Commercial lines

Table 8 – Underwriting results for Commercial lines Canada, including Commercial P&C and Commercial auto

	Q4-2019	Q4-2018	Change	2019	2018	Change
DPW	**821**	732	12%	**2,995**	2,665	12%
Commercial P&C	**574**	502	14%	**2,046**	1,822	12%
Commercial auto	**247**	230	7%	**949**	843	13%
NEP	**729**	661	10%	**2,773**	2,507	11%
Underwriting income (loss)	**47**	55	(15)%	**112**	135	(17)%
Underlying current year loss ratio	**57.2%**	62.0%	(4.8) pts	**60.0%**	61.3%	(1.3) pts
CAT loss ratio	**7.5%**	3.4%	4.1 pts	**5.1%**	4.9%	0.2 pts
(Favourable) unfavourable PYD ratio	**(2.9)%**	(6.7)%	3.8 pts	**(2.3)%**	(6.0)%	3.7 pts
Claims ratio	**61.8%**	58.7%	3.1 pts	**62.8%**	60.2%	2.6 pts
Expense ratio	**31.7%**	32.9%	(1.2) pts	**33.2%**	34.4%	(1.2) pts
Combined ratio	**93.5%**	91.6%	1.9 pts	**96.0%**	94.6%	1.4 pts

Q4-2019 vs Q4-2018 | **2019 vs 2018**

- **Strong DPW growth of 12% in the quarter and 12% for the full year**, with contributions from all lines, led by continued rate increases. In Q4-2019, commercial auto premiums were tempered by profitability measures and slower growth from the sharing economy products.

Q4-2019 vs Q4-2018:

- **Underlying current year loss ratio improved by 4.8 points to a strong 57.2%,** as the impact of higher earned rates was tempered by higher large losses.
- **CAT loss ratio of 7.5%** was above expectations, with roughly two third of losses non-weather related.

2019 vs 2018:

- **Underlying current year loss ratio improved 1.3 points to 60.0%**, as the impact of higher earned rates was partially offset by elevated large losses.
- **CAT loss ratio was elevated in both years**, mainly due to severe weather in Central Canada.

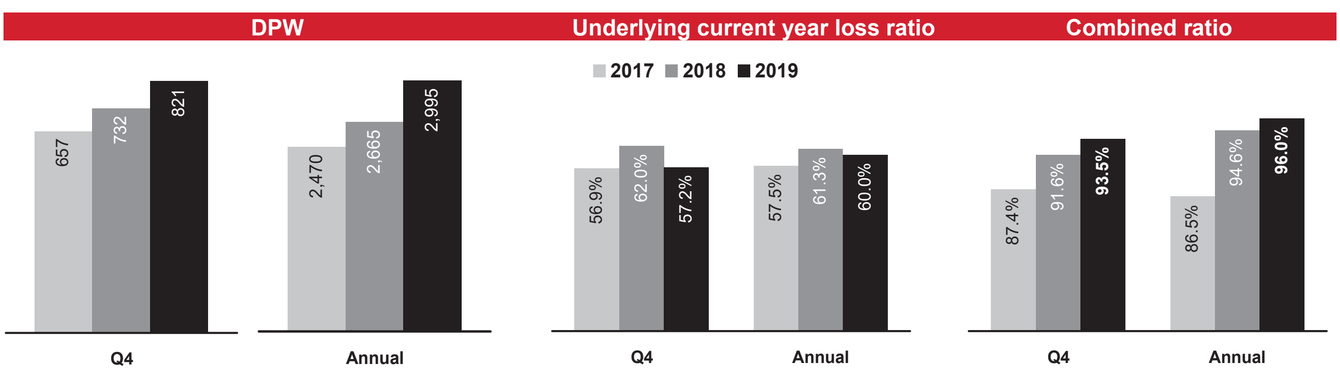
- **Favourable PYD ratio of 2.9% in the quarter and 2.3% for the full year** was lower than last year, mainly driven by Commercial P&C.

Q4-2019 vs Q4-2018:

- **Combined ratio deteriorated 1.9 points to 93.5%,** mainly due to lower level of favourable PYD as improved underlying performance was offset by higher CAT losses.

2019 vs 2018:

- **Combined ratio of 96.0%** reflected elevated weather-related losses and a lower level of favourable PYD. The underlying fundamentals of this business remain strong, supported by hard market conditions and a high-quality portfolio.



i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

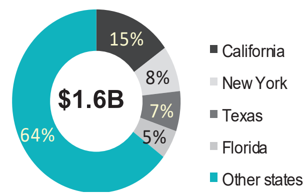
Section 7 - U.S.

7.1 U.S. specialty insurer

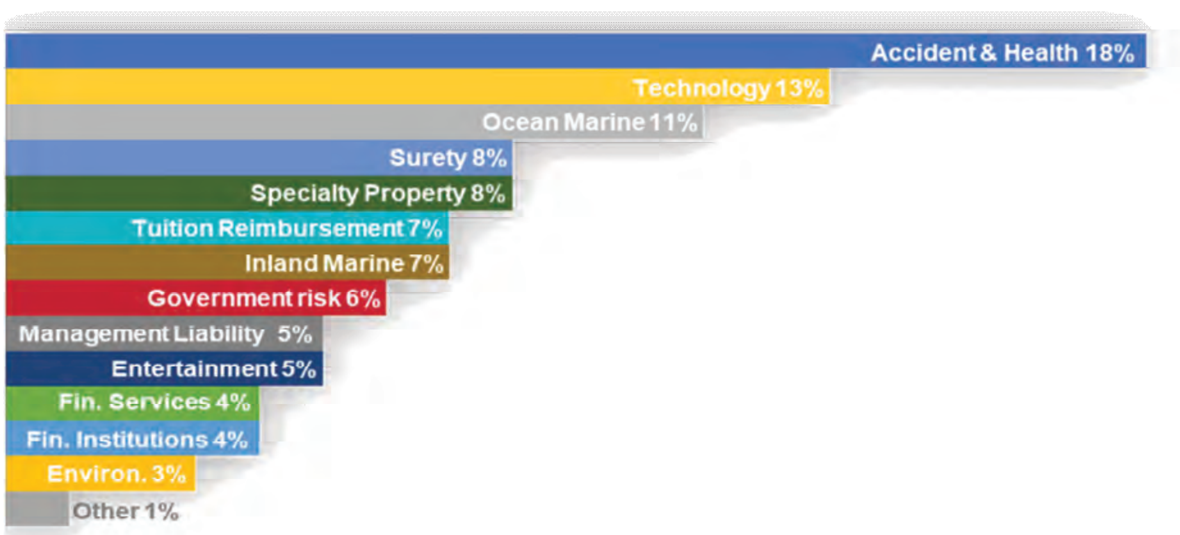
- Focused on small to medium sized businesses, with over US$1.2 billion ($1.6 billion) in annual DPW.
- Distributes insurance products and services in the U.S. under the OneBeacon brand through independent agencies, regional and national brokers, wholesalers and managing general agencies.
- We offer specialty insurance to solve the unique needs of particular customers or industry groups, as well as distinct specialty products and tailored coverages to a broad customer base across the U.S.
- Each OneBeacon business unit is managed by an experienced team of specialty insurance professionals focused on a specific customer group or industry segment.
- The acquisition of the U.S. operations of The Guarantee bolsters our position with close to US$90 million in annual premiums, primarily in the contract surety market.
- This acquisition also takes us to a top 6 position in the surety segment in North America.
- Competitive factors for most of our insurance products are price, product terms and conditions, agency and broker relationships, claims service, company scale and financial stability.

U.S. specialty insurer

2019 DPW



2019 DPW (proforma, excluding Healthcare) by business unit



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

7.2 P&C U.S.

All figures in the table below are shown in CAD. Percentage changes reported in constant currency exclude the impact of currency fluctuations. DPW of The Guarantee are included from the closing date. In Q4-2019, the related underwriting income (included in Other income) was reported under Corporate *(see Section 5 – Segment performance).*

Table 9 – Underwriting results for P&C U.S. [1, 2, 3]

	Q4-2019	Q4-2018	Change	2019	2018	Change
DPW [2]	**342**	325	5%	**1,650**	1,489	11%
Growth in constant currency			5%			8%
NEP	**389**	379	3%	**1,431**	1,380	4%
Current year claims	**208**	211	(3)	**803**	786	17
Current year CAT claims	**4**	22	(18)	**4**	22	(18)
(Favourable) unfavourable PYD	**(7)**	6	(13)	**(11)**	(4)	(7)
Net claims incurred	**205**	239	(34)	**796**	804	(8)
Underwriting expenses	**140**	127	13	**538**	505	33
Underwriting income	**44**	13	31	**97**	71	26
Underwriting ratios						
Underlying current year loss ratio	**53.4%**	55.6%	(2.2) pts	**56.1%**	56.9%	(0.8) pts
CAT loss ratio	**1.0%**	5.9%	(4.9) pts	**0.3%**	1.6%	(1.3) pts
(Favourable) unfavourable PYD ratio	**(1.6)%**	1.5%	(3.1) pts	**(0.8)%**	(0.3)%	(0.5) pts
Claims ratio	**52.8%**	63.0%	(10.2) pts	**55.6%**	58.2%	(2.6) pts
Commissions	**15.0%**	14.9%	0.1 pts	**15.7%**	15.5%	0.2 pts
General expenses	**19.2%**	17.8%	1.4 pts	**20.0%**	19.0%	1.0 pts
Premium taxes	**1.8%**	1.0%	0.8 pts	**1.9%**	2.1%	(0.2) pts
Expense ratio	**36.0%**	33.7%	2.3 pts	**37.6%**	36.6%	1.0 pts
Combined ratio	**88.8%**	96.7%	(7.9) pts	**93.2%**	94.8%	(1.6) pts
Selected proforma figures – OneBeacon[4]						
DPW	**337**	298	13%	**1,597**	1,389	15%
Growth in constant currency			13%			12%
Combined ratio	**88.8%**	96.9%	(8.1) pts	**91.7%**	93.3%	(1.6) pts

[1] Excluding the results of exited lines *(see Section 31 – Non-IFRS financial measures).*

[2] Include DPW of The Guarantee from the closing date amounting to $5 million.

[3] All figures are shown in CAD, using an average exchange rate of 1.32 for Q4-2019 and Q4-2018 and 1.33 for 2019 (1.30 for 2018).

[4] Excluding the results of the Healthcare business and other exited lines for all periods, as well as the results of The Guarantee for Q4-2019.

Exit of Healthcare business effective July 1, 2019

As we maintain our focus on achieving a sustainable combined ratio in the low-90s by the end of 2020, we exited from the U.S. Healthcare business effective July 1, 2019. Since that date, the related underwriting results are reported in non-operating results with no restatement of comparatives. To enhance the analysis of trends, we have provided selected proforma figures for exited lines that exclude the results of the Healthcare business (see table above). ***Refer to our Q3-2019 Supplementary Financial Information available on our website www.intactfc.com in the "Investors" section for proforma figures by quarter.***

In Q4-2019, OneBeacon entered into a loss portfolio transfer and a prospective quota share reinsurance contract with a reinsurer to protect itself against future adverse development in its Healthcare portfolio. The net cost of the reinsurance contract of $13 million was recorded in non-operating results (underwriting results of exited lines). ***Refer to Section 18.2 – Reinsurance for details.***

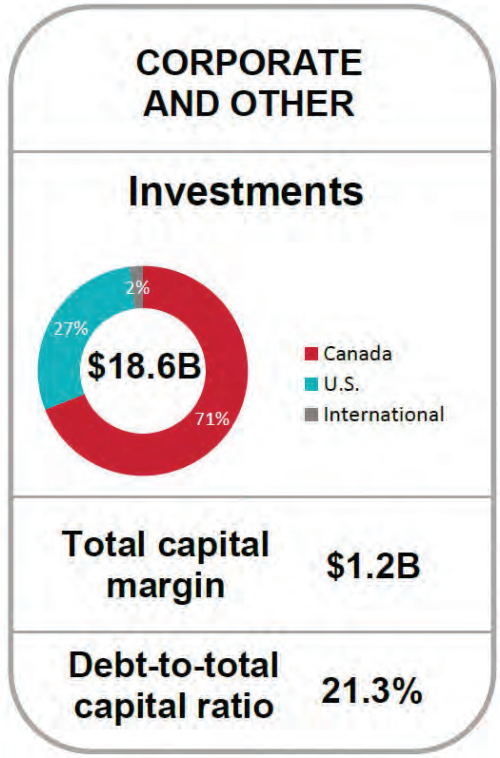
Refer to Section 30 – Non-operating results for underwriting results of exited lines.

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

Q4-2019 vs Q4-2018	2019 vs 2018
• **DPW growth of 5% on a constant currency basis** was lower than recent quarters mostly due to the impact of exiting the Healthcare business. We continue to see strong growth in lines not undergoing profitability improvement plans.	• **DPW growth of 8% on a constant currency basis** was driven by rate increases and strong growth in lines not undergoing profitability improvement plans. Market conditions are favourable and continue to improve.
• **Underlying current year loss ratio improved to 53.4% in the quarter and to 56.1% for the full year**, mainly due to the impact of our profitability actions, including improved business mix, rate increases and claims actions.	
• **CAT loss ratio of 1.0%** was lower than last year's elevated level, which reflected the impact of Hurricane Michael and large commercial fires.	• **CAT loss ratio of 0.3%** was largely in line with expectations.
• **Favourable PYD ratio was better than expectations at 1.6% in the quarter and 0.8% for the full year**.	
• **Expense ratio of 36.0%** reflected the mix and seasonality of our operations. The year-over-year variance was mainly due to higher variable compensation costs in 2019 and a one-time favourable adjustment to premium taxes in 2018.	• **Expense ratio of 37.6%** was in line with expectations.
• **Strong combined ratio of 88.8%** reflected the seasonality of our operations and improved 7.9 points driven by our profitability actions, including improved business mix and the exit of the Heathcare business.	• **Combined ratio of 93.2%** reflected a strong performance in lines not undergoing profitability improvement plans. • Excluding the results of the Healthcare business, the 2019 combined ratio of 93.2% would have improved by approximately 1.5 points to 91.7%.
• We continue to make steady progress on our profitability improvement plans and remain on track to achieve a sustainable combined ratio in the low-90s by the end of 2020.	

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

Section 8 - Corporate and Other



Comprised of the following activities, which are managed at the Corporate level:

- Investing related to P&C insurance
- Treasury and capital management
- Other corporate activities, including internal reinsurance

Operating results include net investment income, finance costs (other than those related to our Canadian broker associates), as well as other income and expenses, as shown in Table 10 below.

8.1 $19 billion of strategically managed high-quality investments

Our approach to investment management continues to reflect our objective of maximizing after-tax returns, based on our risk profile, and outperforming our peers' investment returns over the long-term, while ensuring policyholder protection and maintaining strong regulatory capital levels.

We continue to manage our investment portfolio to achieve these objectives via appropriate asset allocation and active management investment strategies, while minimizing the potential for large investment losses with diversification and limits on our investment exposures. Such limits are specified in our investment policies and are designed to be consistent with our overall risk tolerance. Management monitors and ensures compliance with our investment policies.

8.2 Maximizing long-term shareholder value by optimizing capital

Our objectives when managing capital consist of:

- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company; and
- maintaining strong regulatory capital levels, to ensure policyholders are well protected.

8.3 Treasury management: evolving in an international context

We have a centralized best-in-class treasury management approach that ensures access to funds in multiple currencies and mitigates the impact of volatility in capital markets on our shareholder's equity.

8.4 Operating performance

Table 10 – Corporate and other (operating performance)

	Section	Q4-2019	Q4-2018	Change	2019	2018	Change
Underwriting income[1]		**1**	1	-	**5**	3	2
Net investment income	*8.5*	**142**	143	(1)	**576**	541	35
Finance costs[2]		**(26)**	(27)	1	**(110)**	(103)	(7)
Other income (expense)[3,4]		**(2)**	(9)	7	**(23)**	(30)	7
Corporate and other		**115**	108	7	**448**	411	37

[1] Reflected the impact of our internal catastrophe reinsurance treaty.

[2] Reflected the impact of IFRS 16 (Leases), which increased finance costs by approximately $3 million in Q4-2019 and $12 million for the full year.

[3] Includes general corporate expenses and income, consolidation adjustments, regulatory fees related to our public company status, special projects and other operating items. These can fluctuate from quarter to quarter.

[4] Include underwriting results of The Guarantee from December 2, 2019 of $7 million. *See Section 5 – Segment performance*.

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

8.5 Net investment income

Table 11 – Net investment income

	Q4-2019	Q4-2018	Change	2019	2018	Change
Interest income	**93**	94	(1)	**374**	351	23
Dividend income	**55**	55	-	**225**	213	12
Investment income, before expenses	**148**	149	(1)	**599**	564	35
Expenses	**(6)**	(6)	-	**(23)**	(23)	-
Net investment income	**142**	143	(1)	**576**	541	35
Average net investments[1]	**17,616**	16,623	6%	**17,207**	16,442	5%
Market-based yield[2]	**3.39%**	3.58%	(19) bps	**3.50%**	3.44%	6 bps

[1] Defined as the mid-month average fair value of net equity and fixed-income securities held during the reporting period.
[2] Represents the annualized total pre-tax investment income (before expenses), divided by the average net investments.

Q4-2019 vs Q4-2018

- **Net investment income was essentially unchanged,** as the impact of higher invested assets was offset by lower reinvestment yields.
- **Average net investments increased by 6% quarter-over-quarter and 5% year-over-year,** mainly reflecting favourable equity markets and the acquisition of the Guarantee.
- **Market based yield decreased to 3.39%,** mainly due to favourable equity markets, which increased average net investments.

2019 vs 2018

- **Net investment income was up 6%,** driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, and higher invested assets.
- **Market-based yield was up to 3.50%,** mainly driven by the benefit of higher bond rates captured in 2018 through our portfolio trading, partly offset by favourable equity markets, which increased average net investments.

8.6 Net gains (losses) excluding FVTPL bonds

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

Table 12 – Net gains (losses) excluding FVTPL bonds

	Q4-2019	Q4-2018	Change	2019	2018	Change
Realized and unrealized gains (losses) on:						
AFS bonds, net of derivatives	**4**	(6)	10	**14**	(26)	40
Equity securities, net of derivatives	**23**	(3)	26	**26**	127	(101)
Embedded derivatives	**(8)**	38	(46)	**(5)**	25	(30)
Impairment losses on common shares	**(14)**	(21)	7	**(76)**	(47)	(29)
Other gains (losses)[1]	**11**	3	8	**91**	19	72
Gains (losses) excluding FVTPL bonds	**16**	11	5	**50**	98	(48)

[1] Includes a $72 million broker gain in Q1-2019 related to a change in control. *See Note 23 – Net gains (losses) of the Consolidated financial statements for further details.*

Q4-2019 vs Q4-2018

- **Net gains of $16 million in Q4-2019** included realized gains from favourable equity markets, partly offset by impairment losses, mostly stock specific.
- **Net gains of $11 million in Q4-2018** reflected mark-to-market gains on our embedded derivatives related to our perpetual preferred shares, partly offset by impairment losses on common shares, both linked to weaker equity markets.

2019 vs 2018

- **Net gains of $50 million in 2019** included a broker gain of $72 million in Q1-2019 and realized gains on our AFS bonds and common shares, partly offset by impairment losses of $76 million.
- **Net gains of $98 million in 2018** reflected gains from favourable equity markets, partly offset by impairment losses.

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

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

8.7 Realized and unrealized gains (losses) on FVTPL bonds

Realized and unrealized gains and losses on our FVTPL bonds are expected to offset by the change in rates used to discount our claims liabilities (MYA) ***(see Section 30 – Non-operating results)***.

Q4-2019 vs Q4-2018	2019 vs 2018
• **Net losses of $47 million in Q4-2019** were driven by increasing interest rates in both Canada and the U.S.	• **Net gains of $115 million in 2019** were mainly driven by declining interest rates in H1-2019 in both Canada and the U.S.
• **Net gains of $48 million in Q4-2018** were driven by declining interest rates in both Canada and the U.S.	• **Net losses of $85 million in 2018** were driven by higher interest rates in 2018 in both Canada and the U.S.

8.8 Capital markets

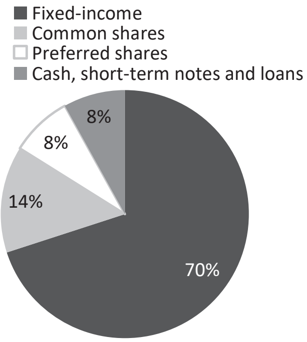
While the correlation between the performance of capital markets and the performance of our investment portfolio is not perfect, the following market indicators may be useful in understanding the overall performance of our investment portfolio. ***See Section 8.5 – Net investment income, Section 8.6 – Net gains (losses) and Section 17 – Investments for further details.***

Table 13 – Selected market indicators

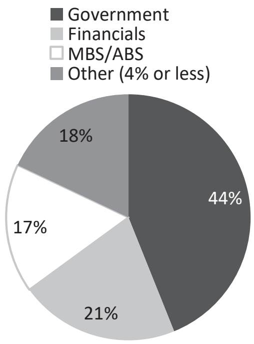
Selected market Indicators	Q4-2019	Q4-2018	2019	2018
S&P/TSX Composite	**2%**	(11)%	**19%**	(12)%
S&P/TSX Financials	**-%**	(12)%	**17%**	(13)%
S&P/TSX Preferred Share Index	**2%**	(11)%	**(2)%**	(12)%
5Y Canada Sovereign Index (estimated variance in bps)	**22 bps**	(41) bps	**(20) bps**	8 bps
5Y AA Corporate spread (estimated variance in bps)	**(17) bps**	26 bps	**(43) bps**	32 bps
DJ Dividend 100 Composite (U.S.)	**6%**	(11)%	**23%**	(8)%
5Y U.S. Sovereign Index (estimated variance in bps)	**15 bps**	(44) bps	**(82) bps**	31 bps
Strengthening (weakening) of USD vs CAD	**(2)%**	6%	**(5)%**	8%

Our net exposure as at December 31, 2019, after reflecting the impact of hedging strategies related to investments and foreign subsidiaries, is outlined below and essentially unchanged from December 31, 2018.

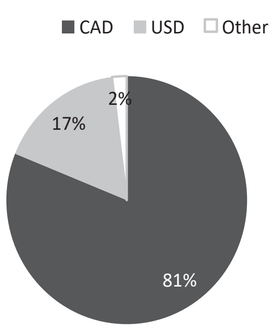
Total portfolio Investment mix



Fixed income strategies Sector mix



Total portfolio Currency



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

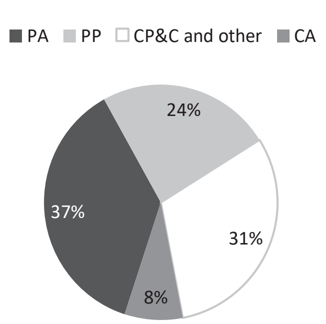
ENVIRONMENT & OUTLOOK

Section 9 - Insurance industry at a glance

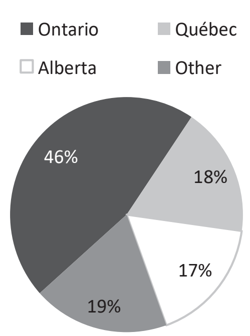
9.1 P&C insurance in Canada

Large and highly fragmented	• Based on the latest available annual market data from MSA, the market grew 7% in 2018 to $54 billion in annual premiums, representing approximately 3% of gross domestic product (GDP). • The top five insurers represent 48% of the market, and the top 20 have a combined market share of 83%. • Intact remains the largest player with an estimated market share of 17%, and is 60% bigger than its largest competitor. Intact holds an estimated market share of 19% in personal auto, 18% in personal property and 14% in commercial lines. • There has been consolidation over the past decade in which IFC has participated. We still expect 10 to 15 points of market share will change hands in the next three to five years.
Evolving and growing over time	• Over the last 30 years, the industry has grown at about a 5% CAGR and delivered a ROE of 10%. • Emerging technologies and innovations continue to transform the insurance landscape, which will fuel further innovation, transformation and consolidation within the industry.
Broad distribution channel	• The P&C industry distributes close to two-thirds of its premiums through brokers. • We distribute our products mainly through a wide network of affiliated and non-affiliated brokers, as well as directly to our customers. Frank Cowan provides us with an opportunity to diversify distribution with one of Canada's leading MGAs. Through our broad distribution channel, we offer customers many options to reach us: online, by phone or in person.
Regulated market	• Insurance companies are licensed under insurance legislation in each of the provinces and territories in which they conduct business. • Home and commercial insurance products and rates are unregulated, while personal auto is regulated in provinces where the product is provided by private sector insurance companies. While the rate approval process for personal auto vary by province, insurers must file and receive approval for rate adjustments before they can be effected. • Capital for federal insurance companies is regulated by OSFI and by provincial authorities in the case of provincially incorporated insurance companies ***(see Section 19 – Capital management)***.

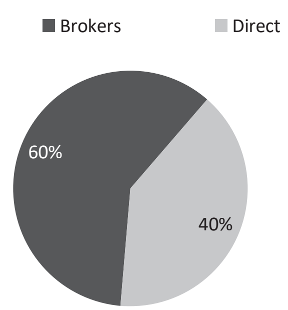
2018 Industry DPW by line of business



2018 Industry DPW by region



2018 Industry DPW by distribution channel



PA: Personal auto; PP: Personal property: CL: Commercial lines

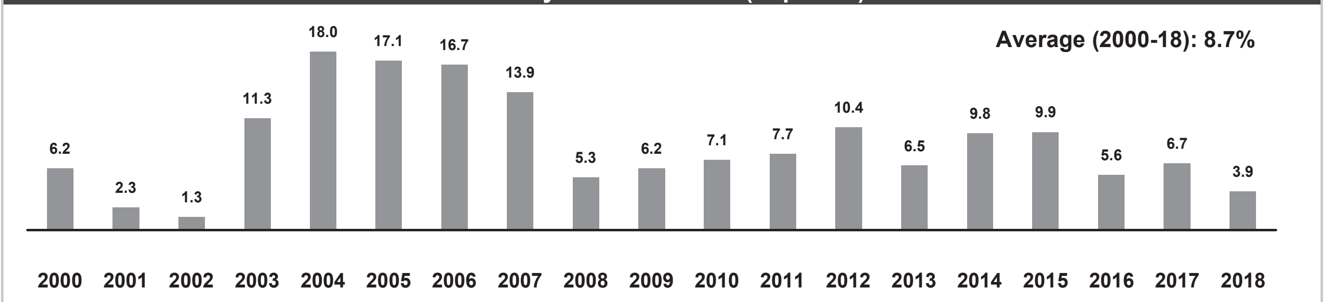
(in millions of Canadian dollars, except as otherwise noted)

9.2 Market conditions in Canada

We see hard market conditions in Canada across all lines of business. Severe weather, a strong inflationary environment in automobile, low interest rates and weak industry profitability are among the factors that are driving pricing momentum. Hard market conditions are characterized by a reduction in supply and more stringent underwriting criteria. This normally leads to higher insurance premiums.

We believe that these current hard market conditions should continue given the challenges that the industry faces to return ROE to its historical averages.

Industry ROE over time (in points)



Source: Industry fact book: total industry, excluding Lloyds and Genworth.

9.3 IFC's Canadian industry outperformance over time

Industry data below represents an IFC estimate based on MSA. Industry benchmark consists of the 20 largest comparable companies in the P&C industry based on industry data. *Refer to Important notes on* ***page 2*** *of this MD&A for further details.*

Table 14 – Canadian P&C Industry – IFC outperformance (underperformance)

	YTD Q3-2019	Full year 2018	Full year 2017	Full year 2016	Full year 2015
ROE (for the last 12 months)[1]					
IFC	**11.6%**	11.8%	13.0%	11.0%	14.3%
vs P&C Industry	**7.9 pts**	8.9 pts	6.9 pts	5.8 pts	5.1 pts
DPW growth (including industry pools)					
IFC	**8.5%**	2.3%	2.1%	3.8%	6.1%
vs Industry benchmark	**(0.6) pts**	(4.4) pts	(2.4) pts	2.4 pts	3.4 pts
Combined ratio (including MYA)					
IFC	**99.8%**	95.0%	94.1%	95.2%	92.8%
vs Industry benchmark	**4.1 pts**	8.3 pts	6.2 pts	4.7 pts	5.2 pts

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

[1] IFC's ROE for comparison purposes corresponds to the AROE, which is the most comparable to the industry.

- **Our ROE outperformance of 7.9 points versus the P&C insurance industry** remained well above our objective of 5 points, mainly driven by our combined ratio outperformance, as well as strong distribution results and capital management.
- **Our growth underperformance against the industry benchmark** narrowed from 4.4 points in 2018 to 0.6 points YTD 2019 as a result of our improving competitiveness. Given our rate momentum and improving unit growth, we expect our DPW growth relative performance to continue to improve.
- **Combined ratio outperformance against the industry benchmark** narrowed from 8.3 points in 2018 to 4.1 points YTD 2019 and reflected a lower level of favourable PYD compared to the industry benchmark.

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

9.4 Weather conditions in Canada

Weather conditions in 2019	Weather conditions in 2018
• **Q4-2019 saw rainier conditions in Eastern Canada in October** due to many fall depressions sweeping over the region. The late October storm in Central Canada drove higher than expected CAT losses, mainly in personal property.	• **In Q4-2018**, we saw early snow conditions, leading to several cities having an above average number of days with snow. The West Coast was also affected by strong rain events in November. In Q4-2018, CAT losses amounted to $55 million, and we had higher-than-expected non-CAT weather-related losses in personal property.
• **Q3-2019 saw rainier conditions in Western Canada, and the Atlantic was impacted by the remnants of Hurricane Dorian**. While we had higher non-CAT weather-related losses, CAT losses of $53 million were lower than expected for a third quarter. We saw less extreme weather this summer, especially hail and water events, which have historically driven CAT losses in the third quarter.	• **In Q3-2018**, temperatures were warmer than average leading to **several wildfires in the West**, while other regions had **above average precipitation.** These events drove CAT losses of $97 million and higher-than-expected non-CAT weather-related losses, mainly impacting personal property.
• **In Q2-2019, a rapid snow melt and extreme wind and rain** led to elevated property damage from water infiltration and flooding, mostly in Central Canada. These events drove CAT losses of $70 million, in line with our expectations for a second quarter.	• **In Q2-2018**, **three events in Central Canada involving ice, rain and wind** led to elevated CAT losses. These included an event in early May, where wind gusts with speeds up to 120 km/h were experienced in Ontario and Québec, causing roof and siding damage on properties. These events led to CAT losses of $142 million.
• **In Q1-2019 the winter was particularly difficult** with heavy snowfall, freezing rain, and rain while snow and ice were on the ground, which led to elevated property damage from water infiltration and a record number of roof collapses, mostly in eastern Canada. Freezing rain and intense cold also led to higher-than-expected frequency of auto collisions. These events lead to CAT losses of $128 million and 3 points of higher-than-expected non-CAT weather-related losses in Q1-2019.	• **In Q1-2018** the winter was characterized by an active jet stream, which resulted in several major shifts in weather conditions in Canada. In Central Canada, frequent changes in temperature caused freezing and thawing, as well as rain falling on snow. In Western Canada, temperatures were much colder than average throughout the season, while Québec saw increases in rain with snow accumulation and winter storms. This resulted in **severe winter weather conditions in Q1-2018**, leading to higher-than-expected non-CAT weather-related losses.

We estimate the impact of weather on our results by matching increases in frequency with specific weather events, and also by considering the underlying cause of claims. This methodology, refined over time, allows us to correlate increases in claims with severe weather.

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

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

9.5 Net current year CAT losses

CAT losses can be caused by a variety of events, including weather (such as wildfires, hailstorms and floods) and non-weather events (such as large commercial fires, as well as surety and liability losses). The incidence and severity of CAT losses, while inherently unpredictable, can have a significant impact on our underwriting performance by quarter and by line of business. We generally seek to manage our exposure to CAT losses through individual risk selection and the purchase of reinsurance contracts ***(see Section 18.2 – Reinsurance hereafter for more details)***.

Table 15 – Net current year CAT losses

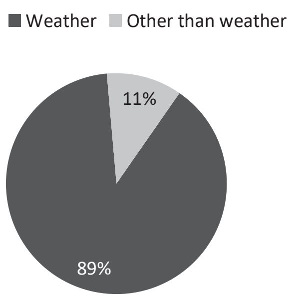
	2019	2018	2017	2016	2015	3-year average	5-year average	10-year average
Net CAT losses	**366**	330	313	385	116	336	302	279
By loss type								
Weather	**326**	275	297	350	101	299	270	250
Non-weather[1]	**40**	55	16	35	15	37	32	29
By line of business								
Personal auto	**26**	26	27	73	37	26	38	35
Personal property	**196**	159	210	210	42	188	163	159
Commercial lines - Canada	**140**	123	76	102	37	113	96	82
Commercial lines - U.S.	**4**	22	-	n/a	n/a	9	n/a	n/a
By quarter								
Q1	**128**	36	88	21	11	84	57	41
Q2	**70**	142	105	164	22	106	101	87
Q3	**53**	97	89	166	81	80	97	113
Q4	**115**	55	31	34	2	67	47	38

[1] Mostly large commercial losses, including non-weather-related fires, surety and liability losses.

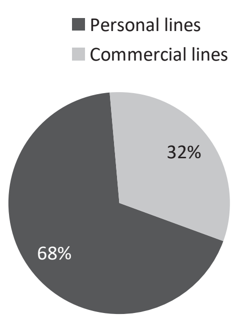
During the 2015-2019 period, average net current year CAT losses were $302 million, and included net losses from the Fort McMurray wildfires in 2016, the costliest insured natural disaster in Canadian history. CAT losses of $115 million in Q4-2019 were significantly higher than historical averages.

Net current year CAT losses
5-year average

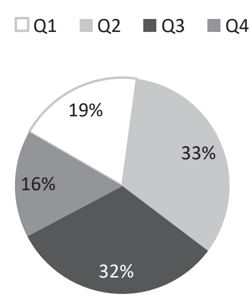
By loss type



By line of business



By quarter



9.6 CAT guidance

Our current expectation for CAT losses (net of reinsurance) is $300 million on a calendar year basis, including both our Canadian and U.S. operations. Our annual estimate reflects a longer-term view of trends, our growing premium base (including the acquisition of The Guarantee), as well as product changes. We continue to expect approximately 75% to impact personal lines, and we expect about one third of the annual estimate in each of the second and third quarters.

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

9.7 U.S. specialty market

Highly fragmented with no clear leader	• The U.S. commercial P&C insurance market grew roughly 4% in 2018 to over US$300 billion in annual premiums, with specialty insurance accounting for approximately 43%, or US$130 billion. • U.S. commercial specialty insurance industry is a fragmented industry, with the largest player capturing around 7% market share in 2018. Outside of the top eight players, no single insurer contributes more than 3% to the total estimated market. The majority of the top 25 players have a market share between 1% and 2.5%.
Niche market with lucrative potential	• The specialty insurance market offers niche and unique products and services that are not written by most P&C insurance companies. These products generally require specialized underwriting knowledge compared with more traditional insurance products. • The combined ratio (and in turn the ROE) of many specialty products have outperformed those typically offered in the standard market due to more pricing and policy form flexibility. • This unique risk and specialty focus can also come with above-average earnings volatility.
Evolving and growing over time	• Over the last 20 years, the specialty insurance market has remained attractive, and has grown at an approximate 4.6% CAGR. • The market has experienced elevated merger and acquisition activity in recent years and this trend is likely to continue. • The agency channel (independent agencies, brokers, wholesalers and MGAs) is the primary distribution channel for specialty insurance products. • Trends in litigation, regulation, social and workforce issues, and technology will continue to support growth and drive product innovation.

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

Section 10 - Outlook

10.1 P&C insurance industry 12-month outlook

- For the Canadian P&C industry, we expect upper single-digit premium growth. Market conditions are hard as weak industry profitability in all lines of business continues to put upward pressure on rates.
- Overall, the Canadian industry's ROE is expected to improve, but remain below its long-term average of 10% over the next 12 months.
- In U.S. commercial, the market is hardening. We expect mid-to-upper single-digit premium growth.

	P&C insurance industry 12-month outlook	Our response
Personal auto	• Industry growth exceeded 9% in the first three quarters of 2019. • Industry profitability continues to be challenged with a combined ratio estimated above 100% in the first nine months of 2019. • The market is hard with rate actions continuing, tightening of capacity and increasing residual market volumes. • We expect growth at an upper single-digit level over the next 12 months.	• Our actions continue on pricing, underwriting and claims as we focus on sustaining our mid-90's combined ratio performance in 2020. • We are pricing our products appropriately as our competitive position is improving steadily. • Our brand investments and focus on customer driven digital leadership will continue to help selectively grow our business. We are also investing in telematics, big data, and artificial intelligence to maintain our advantage in data and segmentation.
Personal property	• Industry growth was 7% in the first three quarters of 2019. • Challenging weather over time continues to support hard market conditions. • We expect growth at a mid-to-upper single-digit level over the next 12 months.	• Product enhancements and pricing actions over time have positioned this business very well. • We expect to continue to capitalize on market conditions with rate increases to ensure our results remain sustainable even with severe weather.
Commercial lines Canada	• Industry growth exceeded 10% in the first three quarters of 2019. • Estimated Industry combined ratios were above 100% in the first nine months of 2019. Market conditions remain hard. • We expect growth to remain in the double digit range in 2020.	• In this favourable rate environment we are maintaining an emphasis on portfolio quality. • We also continue to capture opportunities where we see market inefficiencies, while our focus on loss prevention and service excellence remains. • We further strengthened our capabilities and product suite in specialty lines with the acquisitions of The Guarantee and Frank Cowan, and we continue to develop innovative products to address customer needs.

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

	P&C insurance industry 12-month outlook	Our response
U.S. Commercial lines	• The U.S. Commercial P&C industry grew approximately 4% in 2018 with a combined ratio estimated in the upper 90's. Growth momentum continued in the first half of 2019. • Hardening market conditions, including ongoing upward pricing trends, have resulted in continued growth momentum throughout 2019. • Inflation in court rulings and jury awards in recent quarters should contribute to hardening market conditions. • We expect mid-to-upper single-digit industry growth in the coming year.	• Our objective is to expand the U.S. specialty business. Growth opportunities, including the acquisition of The Guarantee, are being successfully pursued in the segments of the portfolio performing at or above expectations. • Profitability actions on underperforming lines and claims improvement initiatives are well underway and gaining traction. We exited the Healthcare business effective July 1, 2019. • Our ongoing focus on low-to-modest risk accounts, prudent reinsurance programs and sound claims handling practices limit our exposure to inflation from court rulings. We continue to monitor industry developments, adjust our pricing and evolve our underwriting appetite to manage the impact of inflation risk. • We remain focused on and on-track for sustainable low-90s performance by the end of 2020.
Investments	• Investment yields remain low by historical standards. While there was upward momentum on interest rates in 2018, the trend has partly reversed in 2019. • 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. • Volatility in capital markets may put some pressure on investment market values and capital levels.	• We are well positioned for a low interest rate environment. Our insurance products are short-term in nature and priced to generate mid-teens ROEs taking into account the interest rate environment. • We continuously seek to optimize the composition of our investment portfolio, taking into account factors including risk, return, capital, regulation and tax legislation changes. • Our investment management team seeks to maximize after-tax returns while preserving capital and limiting volatility.
Overall	• Low single-digit industry ROE over the past year supports a hard market environment over the next 12 months. • Overall, we expect the industry's ROE to improve but remain below its long-term average of 10% in 2020.	• With our action plans and strategies, we expect to exceed our 500 basis point industry ROE outperformance target. • We remain focused on returning ROE to our historical mid-teens level.

STRATEGY

Section 11 - What we are aiming to achieve

Section 12 - Progress on our strategic initiatives

12.1 Selected operational developments

We have a relationship with one in five Canadians and one in four small to medium sized businesses. To strengthen our leadership position further, we are focused on offering a second to none customer experience and increasing digital engagement. We will also leverage our capabilities in AI and our leadership in claims and supply chain management to maintain our competitive advantage. Below are examples of progress made in 2019 in these areas.

In terms of **customer experience**:

- We implemented a 360-degree customer communications platform across our claims operations to facilitate interactions between our customers, our employees and our brokers.
- We continued to modernize our technology platforms to improve the customer experience and advance the digitization of our business.

In terms of **digital engagement** with customers:

- We launched Web Checkout at belairdirect, allowing customers to have a seamless "quote to buy" experience online or on their mobile devices.
- We also launched a digital pink slip so that customers can carry their proof of insurance on their smartphones.

In the area of **Artifical Intelligence**:

- Our team of over 140 experts in the data lab have more than 60 AI models in production today.
- We have developed an AI-powered Commercial Lines advisor that streamlines the underwriting flow to minutes instead of days.
- We have deployed AI-based personal lines rating algorithms across our major auto markets.

In **Claims**:

- We reduced cycle time by 40% for service centre customers and our Net Promoter Score (NPS) is nine points higher.

12.2 Meaningful improvement in our employee engagement level

Our people are at the heart of everything we do and our 16,000 employees are essential to our success. We will continue to invest in our people to remain a best employer, adapt to the future needs of the workforce and attract the talent we need to succeed.

- Our employee engagement score reached an all time high of 79% in 2019, an increase of 5 points over 2018.
- 89% of our employees agree that we are a customer driven organization and understand why it is important to our success.
- We developed an action plan to address challenges and opportunities related to the pace of technology change and the future of work. Implementation will start in 2020.

12.3 Acquisition of leading specialty insurer The Guarantee and Frank Cowan

- On December 2, 2019, we completed the acquisition of The Guarantee, a specialty lines insurer in Canada and the U.S., and Frank Cowan, an MGA focused on public entities insurance, for a cash consideration of approximately $1 billion.

- The acquisition of The Guarantee and Frank Cowan will create significant value to our shareholders as we expect to generate approximately 10 points of combined ratio improvement over three years for this book of business. The improvements will come from four areas:
  - underwriting, by deploying our data-driven risk selection and pricing expertise;
  - claims, by leveraging our claims handling and supply chain practices;
  - expense savings of approximately $20 million, mainly IT, professional fees, real estate and shared services; and
  - capital management, including the optimization of the reinsurance programs currently in place.
- The $1.0 billion acquisition has been financed in part with the net proceeds from the issuance of $461 million of common shares. The balance has been funded from excess capital and short-term debt. The financing structure of the acquisition preserves our strong capital position at closing with a total capital margin of over $1.2 billion, an estimated MCT of 198% and a debt-to-total capital ratio of 21.3% as at December 31, 2019. Our debt-to-total-capital ratio is expected to return to 20% in 2020.
- This transaction is expected to be immediately accretive to NOIPS with low single-digit NOIPS accretion within 24 months after close.

12.4 Strenghtening our supply chain network with the acquisition of On Side

- On October 1, 2019, we completed the acquisition of On Side Developments Ltd, the parent company of On Side Restoration, a Canadian restoration firm ("On Side"). IFC and On Side will be joining forces to strengthen our repair and restoration services for personal and commercial property claims customers across Canada.
- We will gain full ownership of On Side over a two-year period for a variable purchase consideration, which is based in part on future profitability metrics.
- This acquisition is expected to provide immediate low single-digit accretion to NOIPS, and mild accretion to ROE.
- The pre-tax operating results of On Side, amounting to $3 million in Q4-2019, were reported in Distribution and Other.

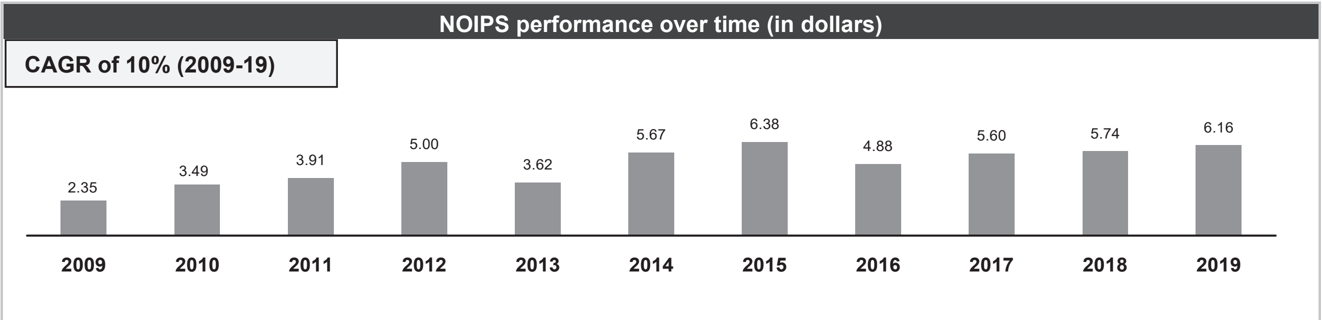
12.5 Intact Ventures to accelerate our learning

Launched in 2016, Intact Ventures is focused on investing and/or partnering with companies that are redefining the P&C insurance landscape with innovative business models and new technology. Building relationships with groundbreaking companies accelerates our learning, helps us design smarter products, and leverages unique technology. We have invested $190 million into leading tech-enabled start-ups in Canada, India, Brazil, and the U.S. and have committed almost $50 million to top-tier venture capital funds in Canada, China, and the US.

12.6 Progress on our two financial objectives

10% NOIPS GROWTH ANNUALLY OVER TIME

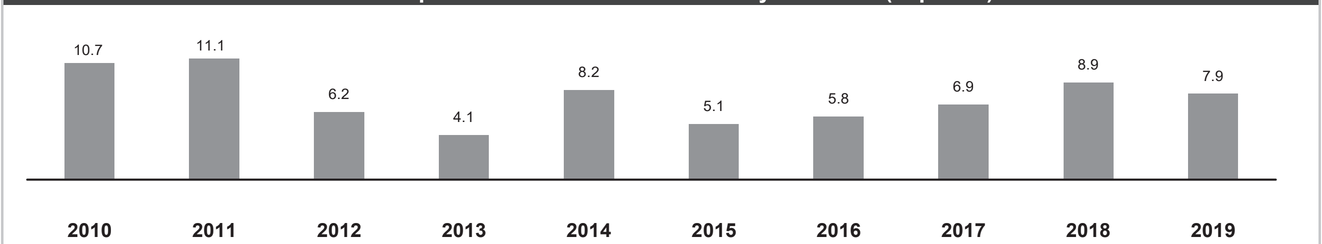
- During the past decade, we grew our NOIPS at a CAGR of 10%, in line with our target.
- Over the past 3 years, our NOIPS grew at a respectable CAGR of 8% as we took meanful actions to restore profitability in auto. We maintain our objective to grow NOIPS by 10% annually, over time.
- The acquisitions of The Guarantee, Frank Cowan, and On Side are highly strategic, synergistic, and financially attractive opportunities for our shareholders. They are expected to deliver in aggregate mid single-digit NOIPS accretion by 2021.



i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

- Outperforming is part of our culture. Over the past ten years, we exceeded the industry ROE by a yearly average of 750 basis points.
- In the past three years, we outperformed the P&C insurance industry's ROE by 790 basis points on average, as our profitability actions in all lines of business were taken ahead of the industry.
- We continue to target 500 bps of ROE outperformance every year driven by our underwriting, claims, as well as capital and investment management activities.

ROE outperformance versus the industry over time (in points)



2019 latest industry data: YTD Q3-2019

Section 13 - Introducing our strategic roadmap for the next decade

Section 14 - Climate change

We have been on the front lines of climate change with our customers for over a decade and we've seen first-hand the devastating impacts. Extreme weather events in Canada have increased by a factor of five over the past 30 years and insured losses from natural disasters have more than quadrupled. But this is not an issue isolated to the insurance industry – it's a societal one. For every dollar of insured damage, there are three to four dollars of uninsured costs. Beyond the economic cost, extreme weather events have a significant human cost with natural disasters accounting for 61% of the 28 million people displaced globally in 2018. We have a unique understanding of the impacts of climate change and, from our inception, we have anticipated these impacts and embedded our response into our strategy.

Physical risks presented by climate change led us to evolve our business to adapt and offer new coverage for customers. We have a proven track record of adapting to changing conditions – we redesigned our personal property business to account for the increased risks of flood and introduced overland flood protection in 2015. Our actions are successful - the average combined ratio in property over the past 5 years is below 90%.

Transitioning to a low carbon economy presents opportunity for insuring new industries and diversifying our underwriting mix. As new green and natural infrastructure initiatives gain prominence, they also help lower carbon emissions and manage severe weather impacts.

Climate change is integrated into our strategic approach and it enables us to protect what matters, restore customers and manage climate risks effectively.

How we protect

- Observing the changes in weather patterns is existential for us. We responded by embedding climate change management within our **strategy** and address it at all levels of the business.
- Transforming our **product** to account for new climate realities increases flexibility of protection for our customers. We unbundled our enhanced water damage product to make protection more accessible.
- Strong **data** discipline allows us to work with customers to prevent a loss from occurring. For example, we have developed a forecast system that automatically detects which customers are at risk of roof collapse after a significant snowfall. We provide subsidies to our customers to remove snow and prevent damage in the first place.
- Being a destination for top talent enables us to have a **meteorologist** on staff to translate the weather and climate data for many of our business units. ***See Section 9.4 – Weather conditions in Canada for more details on weather impacts.***
- We actively invest in **applied research** at the Intact Centre on Climate Adaptation ("Intact Centre") at the University of Waterloo to find practical and cost effective actions to protect society.
- We invest in **communication tools** to educate society on easy to implement actions and the resulting benefits of adapting to the impacts of climate change.

How we restore

- Designated **catastrophe response teams** are in place across the country to deal efficiently with catastrophic events. We have connected our claims teams from coast-to-coast to ensure service reliability for our customers.
- Nearly 4,000 **claims professionals** are solely dedicated to helping customers get back on track – we manage 99% of customers' claims in house.
- We continue to invest in our **supply chain** to avoid capacity shortages in the event of a catastrophe.
- The demand on our property supply chain is growing as our communities experience more frequent weather events. We capitalized on this by **acquiring On Side**, the largest restoration operation in Canada. This enables us to enhance the customer experience by making the claims process faster, simpler and deliver high quality results.

How we manage risk

- Improved **segmentation** better enables us to understand where the risks are**.** We input weather, climate and topographic data into machine learning models to develop risk maps to assess Canadians' risk to weather perils such as heavy rain, hail and wildfire.
- We continue to evolve our **pricing** to reflect the scope of risks related to climate change. We have implemented rate changes in our property business to reflect recent trends in catastrophes and severe weather.
- We **reinsure** certain risks to limit our losses in the event of catastrophic events or other significant weather related losses. ***See Section 18.2 – Reinsurance for more details.***
- Climate change risk management is an integral accountability of the **risk management committee**, which includes monitoring the occurance and severity of natural disasters that may be affected by climate change. ***See Section 25.6 – Top and emerging risks (climate change and catastrophe events risk) for more details.***
- As we pursue our growth strategy, we evaluate the **strategic fit of potential acquisitions** including the impact on our business mix. For example, the acquisition of OneBeacon resulted in further diversification of our insurance portfolio by increasing the contribution of specialty solutions and decreasing our exposure to weather events relative to our capital base.

We believe it is essential that society adapts to climate change. We work with partners, such as the University of Waterloo, our industry association the Insurance Bureau of Canada and the global insurance industry think tank The Geneva Association, to promote climate change adaptation initiatives at all levels of government. These initiatives include developing tools for communities to assess their infrastructure's vulnerability to climate change and prioritize investments in its modernization, including using nature-based solutions as a way to manage the impacts of severe weather.

We are also raising awareness of the risks Canada faces and the preventative measures we can all adopt to protect ourselves. Our leading effort on this front is the Intact Centre, an applied research centre with a national focus. The Intact Centre is an incubator that establishes best practices to help homeowners, communities, governments and businesses identify and reduce the impacts of extreme weather and climate change – including flood, fire, and extreme heat. Their research on adaptation solutions is being used to help society adapt effectively, including informing flood resilient building standards as well as developing a climate resilience curriculum for home inspector training.

Adapting to the impacts of climate change is a collective effort. Brokers, the insurance industry, government and non-government partners must work together to build adaptation and resilience measures.

Section 15 - Social impact

We strive to create an environment where our employees live our values every day. Our values have guided our decision-making and have been foundational to our company's success – helping people drives everything we do. In our **generosity** value, we challenge ourselves to raise the bar by helping others, protecting the environment and making our communities more resilient. Our commitment to generosity also serves as the mandate of the Intact Foundation, which principally donates to organizations that are committed to climate change adaptation and addressing the root causes of child poverty in Canada.

LIVING OUR VALUES

15.1 2019 developments and initiatives

Climate adaptation

Supporting climate change adaptation initiatives has been, and will continue to be, a priority.

- On April 25, 2019, we announced a **commitment of $2.3 million** to 16 Canadian charitable partners from coast-to-coast focused on protecting Canadians from the impacts of climate change.
- In response to the spring floods in Québec, Ontario and New Brunswick, we provided support for affected communities through a **$200,000 donation to the Canadian Red Cross** for relief efforts related to the floods.
- The Intact Foundation is currently evaluating applications from over 80 organizations for our new cohort of climate change adaptation partners - $1 million is available for charities that are developing practical and effective solutions to combat the impacts of climate change. Successful projects will be announced in Q2-2020.
- The **Intact Centre** had another year of significant contributions to Canada's ability to adapt and released two new reports:
  - o *Ahead of the Storm: Developing Flood-Resilient Guidance for Canada's Commerical Real Estate*
  - o *Water on the Rise: Protecting Canadian Homes from the Growing Threat of Flooding*
- The Intact Centre's research on flood resilient new community design informed the new National Standard of Canada "CSA W204 Flood Resilient Design of New Residential Communities", released in December 2019 by the Canadian Standards Association.
- 2019 marked our third year of investing in the **Intact Climate Resilience Award at the Canada Wide Science Fair**, which recognizes students who present a real-world solution to help Canadians predict, prevent, manage or minimize the impacts of severe weather. The 2019 senior winners created a machine learning flood prediction algorithm for their hometown of Fredericton, New Brunswick.

Generosity

- **We are investing to address the root causes of child poverty**, funding programs that support children in their early years and building a support system for parents who need help, alongside measurement frameworks to help understand how we are progressing.
- In July 2019, we announced a $1.34 million investment to support United Way/Centraide funded programs and agencies, focused on supporting children in their early years and helping parents gain employment. This funding is enabled by our employees generosity – for every $1 they donated to the United Way campaign last fall, the Intact Foundation matched $1 to address root cases of child poverty in communities nationally.
- In September 2019, the baseline report of the UNICEF Canadian Index of Child and Youth Well-being measuring the "levels, inequalities and trends in the state of children and youth" was released. It is an important tool to help measure our progress, Intact is the only corporate partner funding the project.
- We announced our first social venture investment in Windmill Microlending, providing a $200,000 loan to help skilled immigrants and refugees get the Canadian credentials they need to work in their professional fields.

Management's Discussion and Analysis for the year ended December 31, 2019
(in millions of Canadian dollars, except as otherwise noted)

Generosity

- Ten employees from departments across IFC volunteered their skills to help the **Romeo Dallaire Child Soldiers Initiative** merge some of their advocacy and research programs with Child Soldiers International ("CSI") – a multifaceted project that helps the work of CSI continue under the Dallaire Initiative organization.
- Our **employees live our values every day** and work to make a difference in the lives of our communities. In 2019, they quadrupled the number of hours volunteered to over 16,200 hours and donated over $2 million.
- In 2019, the Company and the Intact Foundation contributed **over $5 million to over 700 organizations across North America**.
- OneBeacon awarded sixteen $2,000 **college scholarships**. Recipients were selected based on criteria such as academic performance, leadership roles and participation in school and community activities.
- Building one of Canada's best employers is critical to our success and has been a key area of focus for us. For the fourth consecutive year, **Aon named Intact as a Best Employer in Canada at the Platinum level**. ***See Section 12.2 for more details on our Best employer awards.***

Governance

To be one of the most respected companies we must live our values in the marketplace – this includes strong governance and abiding by high ethical standards. Intact has been consistently recognized over time by organizations who examine our diversity, governance and disclosure practices.

- We continue to strive for **greater gender diversity in management**, in line with our commitments to the 30% Club and the Catalyst Accord, with over 35% of our senior management now being comprised of women.
- We exceed our Board of Directors gender diversity commitments with 42% female representation in 2019.
- Once again, Intact was recognized by Women in Governance as a **Platinum Parity Certified organization for its commitment to supporting the advancement of women in the workplace**. Intact is one of eight organizations to receive this level of certification for 2019.
- We received 97% approval on the advisory resolution on executive compensation (say-on-pay) at the 2019 annual meeting.
- The Globe and Mail awarded Intact top marks for governance, placing us second, for a fourth consecutive year, out of 242 publicly traded companies, in their annual "Board Games".

Where to find our Environment, Social, Governance (ESG) disclosure

Social impact report[1]	Management Proxy Circular[1]	Annual information Form[1]	Annual Report[1] (including this MD&A)
Our 2019 Social Impact Report detailing our ESG considerations and how we give back to communities.	Our 2020 Management Proxy Circular regrouping most of our governance-related disclosure.	Our 2019 Annual Information Form, which includes governance-related disclosure.	Our 2019 Annual Report and this MD&A include key ESG developments and initiatives. Look for this icon 

[1] will be released on March 30, 2020.

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

FINANCIAL CONDITION

Section 16 - Financial position

2019 Highlights

Investment portfolio	Claims liabilities	BVPS for the last 12 months	Debt-to-total capital ratio
$18.6 billion	$11.8 billion	+11%	21.3%

16.1 Balance sheets

On December 2, 2019 we acquired all of the outstanding shares of The Guarantee and Frank Cowan for $1.0 billion. The amounts recognized for the assets acquired and liabilities assumed as at December 2, 2019 (acquisition date) are presented below.

Table 16 – Balance sheets

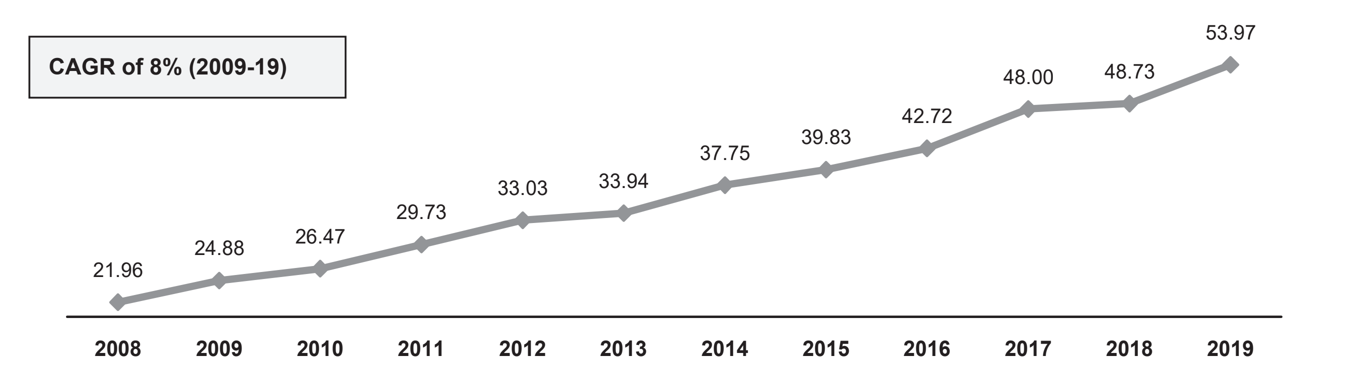
As at	Section	Opening balances of The Guarantee, Frank Cowan and On Side[1]	Total IFC Dec. 31, 2019	Total IFC Dec. 31, 2018
Assets				
Cash, cash equivalents and short-term notes			**997**	461
Fixed-income securities			**11,765**	11,682
Preferred shares			**1,465**	1,165
Common shares			**4,063**	3,295
Loans			**318**	294
Investments	*17*	**1,178**	**18,608**	16,897
Premium receivables		**115**	**3,588**	3,358
Reinsurance assets	*18*	**401**	**1,511**	864
Deferred acquisition costs		**65**	**1,026**	903
Other assets		**248**	**2,410**	1,840
Intangible assets and goodwill		**607**	**5,149**	4,599
Total assets		**2,614**	**32,292**	28,461
Liabilities				
Claims liabilities	*18*	**887**	**11,846**	10,623
Unearned premiums		**289**	**5,960**	5,412
Financial liabilities related to investments		**-**	**295**	289
Other liabilities		**260**	**3,082**	2,118
Debt outstanding	*19.2*	**23**	**2,362**	2,209
Total liabilities		**1,459**	**23,545**	20,651
Shareholders' equity				
Common shares			**3,265**	2,816
Preferred shares			**1,028**	1,028
Contributed surplus			**170**	149
Retained earnings			**3,959**	3,776
AOCI			**325**	41
Shareholders' equity			**8,747**	7,810
Book value per share (in dollars)	*33.3*		**53.97**	48.73

[1] *See Note 5 – Business combinations of the Consolidated financial statements for further details.*

16.2 Book value per share

Book value per share increase over time

- Our operating performance and financial strength have translated into more than $1.8 billion in capital returned to common shareholders through dividends and share repurchases over the past five years.
- Our BVPS was up 11% to $53.97 in 2019, mainly driven by our earnings, net of common share dividends, and the share issuance to partly finance the acquisitions of The Guarantee and Frank Cowan.
- We remained committed to our financial objectives in terms of ROE outperformance and NOIPS growth to enhance value to shareholders.



Section 17 - Investments

Our investment portfolio is mainly comprised of Canadian and U.S. securities. Our investments increased by $1.7 billion from December 31, 2018 to $18.6 billion as at December 31, 2019, largely due to the acquisition of The Guarantee and favourable equity markets.

- The Canadian securities mainly comprise a mix of cash and short-term notes, fixed-income securities, preferred shares, common shares and loans.
- The U.S. securities mainly comprise fixed-income securities (including asset-backed securities and corporate bonds) and common shares.

High-quality investment portfolio

Fixed income
Our fixed-income portfolio includes high quality Government and corporate bonds. Approximately 90% of our fixed-income portfolio was rated 'A-' or better as at December 31, 2019 and 2018. On a consolidated basis, the weighted-average rating of our fixed-income portfolio was 'AA' as at December 31, 2019 and 2018. The average duration of our fixed-income portfolio was 3.75 years as at December 31, 2019 (3.70 years as at December 31, 2018).

Preferred shares
Our preferred share portfolio is made up of high-quality Canadian issuers. The weighted-average rating of our preferred share portfolio was 'P2' as at December 31, 2019 and 2018.

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

Net exposure 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 common share market volatility. We also use strategies where market risk from long common share positions is reduced through the use of swap agreements or other hedging instruments.

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

As at December 31,	2019	2018
Cash, cash equivalents, and short-term notes	**6%**	3%
Fixed-income	**70%**	75%
Preferred shares	**8%**	7%
Common equities	**14%**	13%
	98%	98%
Loans	**2%**	2%
	100%	100%

Following the acquisition of The Guarantee in December 2019, we sold assets not in line with our risk profile. These assets were temporarily invested in short-term notes pending the transition to our optimized portfolio mix that will be completed in Q1-2020.

Net currency exposure

We hedge the currency exposure of all USD-denominated investments in our Canadian entities using foreign currency contracts, resulting in minimal currency gains or losses. On a net exposure basis, 81% of our portfolio was denominated in CAD, 17% in USD and 2% in other currencies as at December 31, 2019 and 2018.

Net sectoral exposure

Our fixed-income portfolio remains concentrated in the government and financial sectors providing liquidity and stability to our balance sheet.

Table 18 – Sector mix by asset class, excluding cash, short-term notes and loans (net exposure)

As at December 31,	Fixed-income securities	Preferred shares	Common shares	Total 2019	Total 2018
Government	**44%**	**-**	**-**	**31%**	32%
Financials	**21%**	**70%**	**26%**	**31%**	31%
ABS and MBS	**16%**	**-**	**-**	**11%**	12%
Energy	**1%**	**14%**	**14%**	**4%**	3%
Industrials	**3%**	**-**	**10%**	**3%**	4%
Consumer staples	**2%**	**-**	**10%**	**3%**	3%
Communication Services	**2%**	**2%**	**8%**	**3%**	2%
Utilities	**3%**	**14%**	**11%**	**5%**	4%
Consumer discretionary	**1%**	**-**	**6%**	**2%**	2%
Materials	**1%**	**-**	**5%**	**1%**	1%
Information technology	**3%**	**-**	**4%**	**3%**	3%
Health care	**3%**	**-**	**6%**	**3%**	3%
	100%	**100%**	**100%**	**100%**	100%

As at December 31, 2019, our structured debt securities comprised $641 million of asset-backed securities ("ABS") and $1,302 million of mortgage-backed securities ("MBS") ($689 million and $1,256 million respectively as at December 31, 2018). Residential MBS ("RMBS") and Commercial MBS ("CMBS") make up respectively 50% and 50% of our MBS portfolio. Approximately 99% of these structured debt securities are rated 'A' or better as at December 31, 2019 and 2018. We continue to have no exposure to leveraged securities.

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

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

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	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018
Fixed-income securities	**107**	163	162	107	17
Preferred shares	**(64)**	(95)	(104)	(70)	(83)
Common shares	**314**	232	141	140	(85)
Net pre-tax unrealized gain (loss) position	**357**	300	199	177	(151)

Quarter	Year-to-date
• **Our pre-tax unrealized gain position increased by $57 million from September 30, 2019**, mainly due to mark-to-market gains on common shares reflecting the increase in equity markets, partly offset by net gains on common shares ***(see Section 8.8 – Capital markets for details)***.	• **Our pre-tax unrealized gain position increased by $508 million from December 31, 2018**, mainly due to mark-to-market gains on common shares and fixed-income securities, reflecting the rebound in equity markets and the decline in interest rates since year-end ***(see section 8.8 – Capital markets for details)***.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions.

Aging of unrealized losses on AFS common shares

Table 20 – Aging of unrealized losses on AFS common shares

As at	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	Mar. 31, 2019	Dec. 31, 2018
Less than 25% below book value	**36**	61	76	72	148
More than 25% below book value for less than 6 consecutive months	**-**	6	4	16	55
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	**11**	18	47	23	18
Unrealized losses on AFS common shares	**47**	85	127	111	221

Impairment losses on AFS common shares amounted to $76 million in 2019, compared to $47 million in 2018. Since common shares are measured at fair value on our balance sheet, impairment losses have no impact on our BVPS. ***Refer to Note 2 – Summary of significant accounting policies of the Consolidated financial statements for the year ended December 31, 2019, for additional details on our accounting policy regarding the impairment of financial assets.***

Section 18 - Claims liabilities and reinsurance

18.1 Claims liabilities

Assumptions

Claims liabilities stood at $11.8 billion as at December 31, 2019.

The main 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 claims cost, 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
- risk margin.

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

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

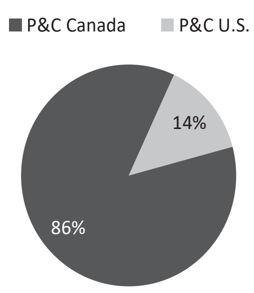
IBNR reserves supplement the case reserves by taking into account:

- 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 risk margin are reviewed and adjusted at least quarterly.

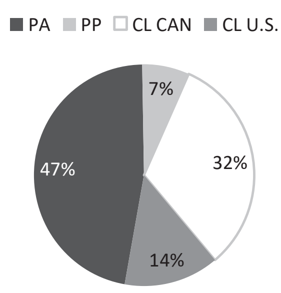
The discount is applied to the total claims reserve and adjusted on a regular basis for changes in market yields. If market yields rise, the discount would increase and reduce total claims liabilities and, therefore, positively impact underwriting income in that period, all else being equal. If market yields decline, it would have the opposite effect. ***See Section 30 – Non-operating results for more details on the impact of MYA on underwriting***.

Net claims liabilities by business segment



Diversification reduces the uncertainty associated with the unfavourable development of claims liabilities for both our Canadian and U.S. operations.

Net claims liabilities by line of business



PA: Personal auto; PP: Personal property: CL: Commercial lines

Management's Discussion and Analysis for the year ended December 31, 2019
(in millions of Canadian dollars, except as otherwise noted)

Prior year claims development

- PYD can fluctuate from quarter to quarter and year to year and, therefore, should be evaluated over longer periods of time.
- We expect average favourable PYD as a percentage of opening reserves to be in the 1-3% range over the long-term. In the near-term, we expect to be at the lower end of the range.

Favourable (unfavourable) PYD (as a % of opening reserves) – P&C Canada

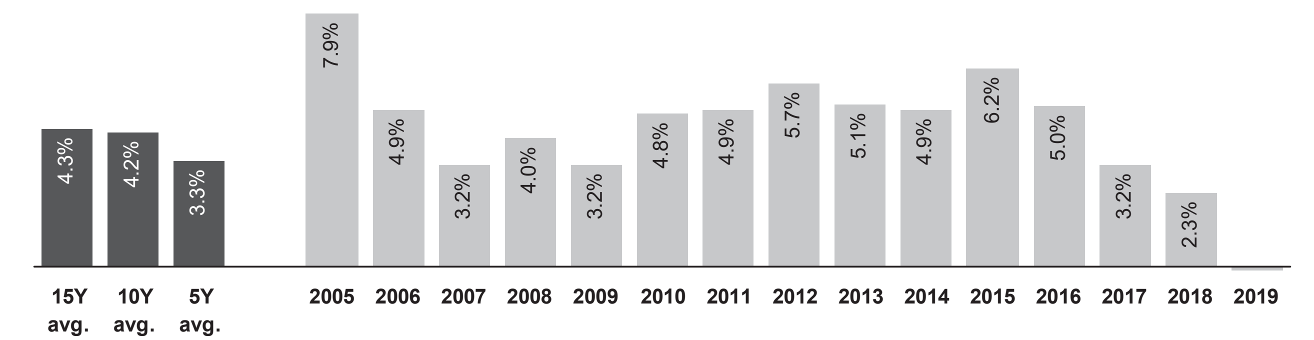


Table 21 – PYD by line of business

	Q4-2019	Q4-2018	Change	2019	2018	Change
By line of business						
Personal auto	**(1)**	3	(4)	**111**	49	62
Personal property	**(10)**	(15)	5	**(36)**	(78)	42
Commercial lines – Canada	**(21)**	(44)	23	**(64)**	(152)	88
Commercial lines – U.S.	**(7)**	6	(13)	**(11)**	(4)	(7)
Total (favourable) unfavourable development	**(39)**	(50)	11	**-**	(185)	185
(Favourable) unfavourable annualized rate of PYD[1]						
P&C Canada	**(1.6)%**	(2.8)%	1.2 pts	**0.1%**	(2.3)%	2.4 pts
P&C U.S.	**(1.6)%**	1.5%	(3.1) pts	**(0.6)%**	(0.2)%	(0.4) pts
Consolidated	**(1.6)%**	(2.1)%	0.5 pts	**-**	(1.9)%	1.9 pts

[1] As a % of opening reserves.

18.2 Reinsurance

In the ordinary course of business, we reinsure certain risks with other reinsurers to limit our maximum loss in the event of catastrophic events or other significant losses. Our objectives related to ceded reinsurance are capital protection, reduction in the volatility of results, increase in underwriting capacity 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) but some proportional cessions are performed on specific portfolios. 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.

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. As of January 1, 2020, we increased our coverage limits for multi-risk events and catastrophes from $4,050 million as at December 31, 2019 to $5,300 million to increase our already conservative protection. The coverage limits are well in excess of the regulatory requirements with respect to the earthquake risk. We retain participations averaging 10.2% on reinsurance layers between the retention and coverage limit.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers ($162 million as at December 31, 2019, $169 million as at December 31, 2018) 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.

See Note 14 – Reinsurance of the Consolidated Financial statements for further details on our reinsurance net retention and coverage limits by nature of risk, and details on The Guarantee' reinsurance program.

With respect to OneBeacon's claims liabilities for accident years 2016 and prior, we purchased from a major reinsurer in 2017, an adverse development cover (ADC) subject to an aggregate limit of US$200 million. Capacity remains on this cover as at December 31 , 2019.

Subsequent to the exit of the U.S. Healthcare business on July 1, 2019, OneBeacon entered into a loss portfolio transfer and a prospective quota share reinsurance contract with a reinsurer as at December 31, 2019 (collectively known as the "loss portfolio transfer"). Subject to an aggregate limit, the reinsurer assumed the liabilities and future reserve development for accident years 2017 and subsequent, net of reinsurance. The ceded Healthcare portfolio consisted of Claims liabilities of $158 million and Unearned premiums of $27 million. The net cost of the reinsurance transaction of $13 million was recognized in Non-operating results (Underwriting results of U.S. exited lines) in Q4-2019.

Section 19 - Capital management

19.1 Overview of capital management framework

Capital management objectives

Our objectives when managing capital consist of:

- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company; and
- maintaining strong regulatory capital levels, to ensure policyholders are well protected.

Capital deployment strategy

Any deployment of capital is excuted within the context of the stated capital management objectives and only after careful consideration of the impact on the Company's risk metrics.

Capital deployment will be considered in the context of the following capital management priorities:

Manage leverage

- Prudent debt leverage is an important component of our capital structure. We target a 20% debt-to-total capital ratio.
- Leverage may increase temporarily to support value creation from M&A opportunities, with the goal to return to the target within a two to three year time horizon.

Increase common shareholder dividends

- Common shareholder dividend payments are reviewed annually. The Company seeks to maintain a sustainable dividend payout level, with the intention of annually increasing common shareholder dividends.

Manage volatility

- The Company will maintain an adequate capital margin to ensure that it is sufficiently capitalized to withstand an acceptable level of insurance and/or market shocks.

Invest in growth

- Investing in growth opportunities continues to be a key pillar of the Company`s strategy. The Company may use a portion of the capital margin for acquisitions or other growth opportunities.

Share buybacks

- Where there is excess capital and no actionable growth opportunities on the near-to-medium term horizon, we may consider share buybacks as a capital management tool.
- Key considerations in any share buybacks include our estimate of intrinsic value and impacts on NOIPS, ROE and BVPS.

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

19.2 Manage leverage

2019 Financing structure

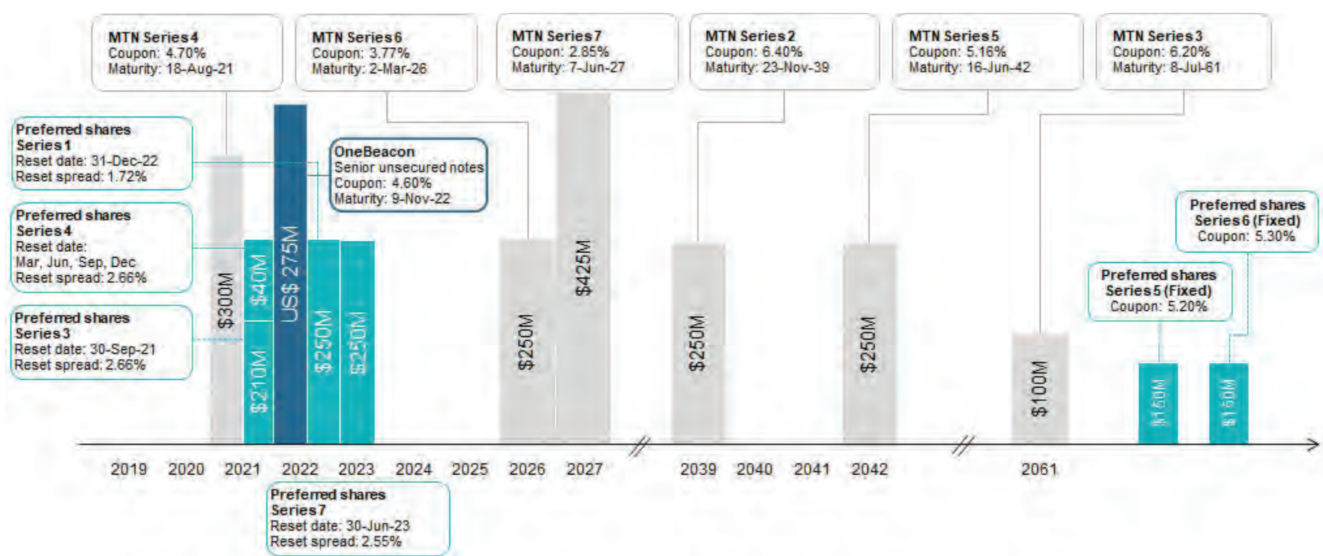
Debt-to-total capital ratio	Weighted-average debt maturity	Weighted-average debt coupon	Weighted-average preferred share coupon
21.3%	12 years	3.31% (after tax)	4.30% (after tax)

- We believe that our optimal financing structure is one where:
  - the debt-to-total capital ratio is generally at 20%; and
  - approximately 10% of our total capital is comprised of preferred shares.
- The debt-to-total capital ratio may occasionally exceed 20% with a firm plan to revert back to 20% within 2 to 3 years.

We have a diversified maturity with reasonable levels of debt and preferred shares, which improves our overall cost of capital:
- We currently have six series of medium-term notes outstanding with maturities ranging between 2 and 42 years.
- The notes carry a weighted average coupon of 4.51% (3.31% after tax).
- All debt tranches are prudent in size with no large peaks, reducing refinancing risk.
- Preferred shares provide flexibility in our capital structure at a reasonable cost.
- Debt and preferred shares represent about 30% of our total capital structure.

Our notes and preferred shares are presented in the table below.

Finance structure – Notes and preferred shares



In September 2019, we repaid at maturity the $250 million principal amount of Series 1 medium-term notes, which drove our debt-to-total capital ratio to 19.3% as at September 30, 2019.

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

Credit facility

In November 2019, we extended the maturity of our existing $750 million credit facility to five years. The credit facility now matures on November 26, 2024 and can be drawn as follows.

Type	Rate
Prime loans	Prime rate plus a margin
Base rate (Canada) advances	Base rate (Canada) plus a margin
Bankers' acceptances	Bankers' acceptance rate plus a margin
Libor advances	Libor rate plus a margin

As at December 31, 2019, there was a balance of US$106 million ($138 million) drawn under our credit facility (nil as at December 31 , 2018), which was repaid in full on January 2, 2020. All covenants were fully met as at December 31, 2019 and 2018.

Term loan

In November 2019, we entered into a US$200 million ($266 million) 18-month term loan agreement to partly finance the acquisition of The Guarantee and Frank Cowan. As at December 31, 2019, there was a balance of US$200 million ($260 million) outstanding under the term loan.

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. Securities sold under repurchase agreements amounted to $20 million as at December 31, 2019 (nil as at December 31, 2018).

Ratings

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

Table 22 – Ratings

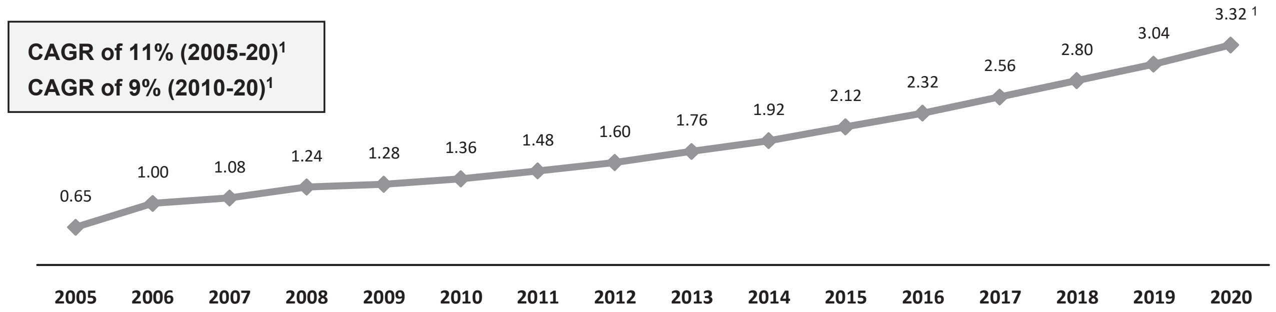
	A. M. Best	DBRS	Moody's	Fitch
Financial strength ratings				
IFC's principal Canadian P&C insurance subsidiaries	**A+**	**AA(low)**	**A1**	**AA-**
OneBeacon U.S. regulated entities	**A+**		**A2**	**AA-**
Senior unsecured debt ratings				
IFC	**a-**	**A**	**Baa1**	**A-**
OneBeacon	**a-**		**Baa2**	**A-**

Following the announcement of the Acquisition, A.M Best, DBRS, Moody's, and Fitch have all reaffimed the issuer credit rating of IFC and the insurer financial strength ratings of its principal P&C subsidiaries.

19.3 Increase common shareholder dividends

2020: our 15th consecutive dividend increase

- We strive to maintain our dividend track record through sustainable annual dividend increases. We have increased our common share dividends each year since going public.
- Our decision to increase common share dividends by 9% to $0.83 per quarter in 2020 reflects the strength of our financial position and confidence in our ongoing operating earnings and capital generation.



2004: Initial public offering on TSX (ING Group retained 70%).

[1]Annual dividend for 2020 is projected

19.4 Manage volatility

We seek to maintain adequate capital levels to ensure that 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.

Regulatory capital

The amount of capital in any particular company or country depends upon the Company's internal assessment of capital adequacy in the context of its risk profile and strategic plans, as well as local regulatory requirements. The Company's objective is to maintain the capitalization of its regulated operating subsidiaries above the relevant minimum regulatory capital requirements in the jurisdictions in which they operate (referred to as regulator supervisory minimum levels).

Canada

- Our federally chartered Canadian 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 a regulator supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.

U.S.

- Our U.S. insurance operations are subject to regulation and supervision in each of the states where they are domiciled and licensed to conduct business.
- State insurance departments have established the insurer solvency laws and regulatory infrastructure to maintain accredited status with the National Association of Insurance Commissioners ("NAIC").
- A key solvency-driven NAIC accreditation requirement is a state's adoption of RBC requirements.

Regulatory capital guidelines change from time to time and may impact our capital levels. We carefully monitor all changes, actual or proposed.

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

Capital position

All our regulated P&C insurance subsidiaries are well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels and CALs. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 23 – Estimated aggregated capital position

As at	December 31, 2019	September. 30, 2019	December 31, 2018
Canadian regulated entities			
Regulatory capital ratio (MCT)	**198%**	195%	201%
Capital above CALs (capital margin)	**554**	457	530
Other regulated entities			
Capital above CALs (capital margin)[1]	**630**	616	505
Unregulated entities	**38**	43	298
Total capital margin[2]	**1,222**	1,116	1,333
Debt-to-total capital	**21.3%**	19.3%	22.0%

[1] Includes Atlantic Specialty Insurance (U.S.) ("ASIC"), Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados). ASIC's RBC was 457% as at December 31, 2019 (377% as at December 31, 2018). For all entities, regulatory capital levels exceed minimum requirements.

[2] Includes the aggregate of capital in excess of CALs in regulated entities plus available cash in unregulated entities. The CAL is 170% MCT for most Canadian insurance subsidiaries and 200% RBC for U.S. insurance subsidiaries.

Quarter	Full year
Total capital margin increased by $106 million, reflecting solid underwriting results and The Guarantee's strong capital position, partially offset by an increase in capital requirements for investments and insurance risk seasonality.	Total capital margin decreased by $111 million, as capital generation was tempered by the impact of severe weather and unfavourable PYD in H1-2019. Also, we repaid the $250 million Series 1 medium-term notes in Q3-2019.

The Guarantee transaction reorganization

The acquisition of The Guarantee was completed on December 2, 2019. On January 2, 2020, there was a reorganization of the corporate structure, whereby The Guarantee's wholly owned U.S. subsidiary was sold to a OneBeacon U.S. entity. This reorganization released US$100 million of excess capital, which was used to repay a portion of the debt incurred in connection with the acquisition of The Guarantee.

For details on our Own Risk and Solvency Assessment, refer to Section 25.8 – Own Risk and Solvency Assessment

19.5 Invest in growth

The acquisition of The Guarantee and Frank Cowan closed on December 2, 2019 and was financed using a combination of common equity financing ($461 million), excess capital and short-term debt. In connection with this acquisition, on August 26, 2019, we issued 3.83 million subscription receipts for gross proceeds of $461 million that were converted into common shares at closing.

As expected, following the closing of The Guarantee and Frank Cowan, our debt-to-total capital ratio increased to 21.3% (22.0% as at December 31, 2018). Our debt-to-total-capital ratio is expected to return to 20% in 2020.

19.6 Share buybacks

There was no share buyback during 2019 and 2018. Since 2009, $627 million has been returned to shareholders, with an average buyback share price of $50.91.

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

Section 20 - Treasury management

20.1 Understanding our cash flows

Cash flows used in operating activities mainly consist of insurance premiums less claims and expense payments, plus investment income. Cash is used to pay dividends on common and preferred shares. Cash may also be deployed for strategic purposes like business acquisitions, investments in brokerage firms and share buybacks, or to repay outstanding financing. Cash inflows in excess of these outflows are moved to our investment portfolio to generate additional investment income in the future.

Table 24 – Cash flows

	Q4-2019	Q4-2018	Change	2019	2018	Change
Net cash flows provided by operating activities	**187**	211	(24)	**1,290**	833	457
Cash flows generated from (deployed on):						
Business combinations, net of cash acquired	**(731)**	-	(731)	**(731)**	-	(731)
Equity investments in brokerages and other, net	**(18)**	(13)	(5)	**(104)**	(78)	(26)
Purchases of intangibles and P&E, net	**(27)**	(36)	9	**(117)**	(117)	-
Payments of lease liabilities[1]	**(14)**	-	(14)	**(51)**	-	(51)
Proceeds from issuance of debt, net of issuance costs	**266**	-	266	**266**	-	266
Repayment of term notes on maturity	**-**	-	-	**(250)**	-	(250)
Repayment (proceeds) from securities sold under repos	**(55)**	-	(55)	**20**	-	20
Borrowing (repayment) on our credit facility, net	**145**	-	145	**145**	(60)	205
Proceeds from issuance of common shares	**444**	-	444	**444**	-	444
Proceeds from issuance of Class A Preferred Shares	**-**	-	-	**-**	243	(243)
Repurchase of common shares for share-based payments	**(4)**	(4)	-	**(43)**	(36)	(7)
Dividends	**(120)**	(109)	(11)	**(474)**	(430)	(44)
Net cash inflows (outflows) before the following:	**73**	49	24	**395**	355	40
Excess capital deployed on the acquisition of The Guarantee	**172**	-	172	**172**	-	172
Proceeds from investment sales (purchases), net	**355**	(43)	398	**(62)**	(90)	28
Net increase (decrease) in cash and cash equivalents	**600**	6	594	**505**	265	240

[1] Related to the adoption of IFRS 16 (Leases).

2019 vs 2018

Net cash flows provided by operating activities increased by $457 million for the full year, mainly due to the timing of income tax payments. 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 commitments in the near term.

20.2 Contractual obligations

Table 25 – Contractual obligations

As at December 31, 2019		Payments due by period			
	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Principal repayment on notes outstanding	**2,362**	-	930	138	1,294
Interest payments on notes outstanding	**1,084**	87	153	113	731
Claims liabilities[1]	**11,806**	3,772	4,051	2,149	1,834
Leases and other commitments	**1,161**	178	321	189	473
Pension obligations[2]	**39**	4	8	8	19
Total contractual obligations	**16,452**	4,040	5,463	2,597	4,352

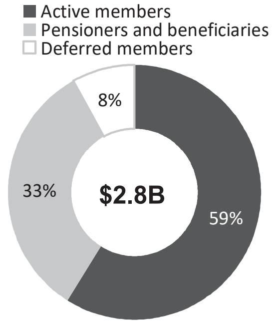
[1] Undiscounted value, including incurred but not reported reserves.

[2] Annual mandatory funding required by regulators, based on the latest actuarial valuations and expected benefit payments for unfunded plans.

Section 21 - Employee future benefit programs

In Canada, we sponsor 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. We provide active employees a choice between a defined benefit and a defined contribution pension plan. In the U.S., OneBeacon offers employees a 401(k) plan.

2019 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 2019, we continued to strengthen our multi-faceted approach to ensure the sustainability of our pension plans and gradually reduced the risk and volatility that stems from our pension liabilities and assets, including:

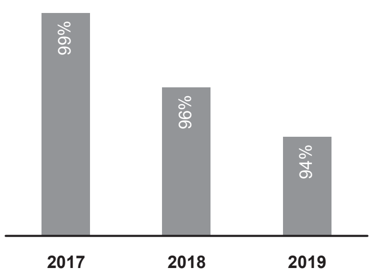
- increasing the target allocation of fixed-income securities (partly funded in the repo market) by investing in inflation sensitive assets to partially mitigate the risk of an unanticipated increase in inflation;
- improving our pension asset-liability matching to better align our credit and interest rate exposures;
- making voluntary contributions to improve the funding status of our pension plans; and
- amending pension plan benefits and conditions.

We will continue the regular monitoring of 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.

Refer to Note 27 – Employee future benefits of the accompanying Consolidated financial statements for more details, including actuarial gains and losses recognized in OCI, assumptions used and sensitivity analysis, as well as risk management and investment strategy.

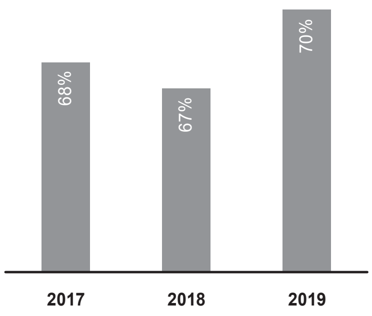
Our pension plans remained well funded as at December 31, 2019

Funding ratio



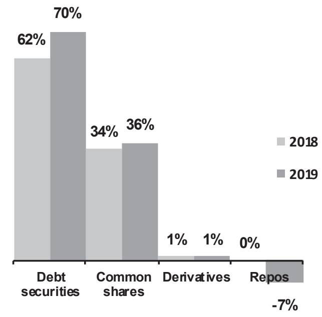
Funding ratio decreased to 94%, mainly driven by the decline in long-term interest rates, despite the rebound in capital markets since last year.

Interest rate hedge ratio



Interest hedge ratio increased to 70%, driven by a further increase in the investment policy target.

2019 Pension asset mix



In 2019, we increased the allocation of debt securities to partially mitigate the risk of an unanticipated increase in inflation.

Funding ratio: Plan assets as a percentage of funded plans' obligations.

Interest rate hedge ratio: The sum of the dollar duration of the pension asset portfolio divided by the dollar duration of the registered pension plans' obligation. Our objective is to remain in a modest range around our pension fund investment policy target of 75%, assuming the funding ratio is 100%. A lower hedge ratio increases our exposure to changes in interest rates.

RISK MANAGEMENT

Section 22 - 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, regulators 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 23 - 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, applicable laws and regulatory guidelines on corporate governance. The following structure is in place and remains largely unchanged from 2018.

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	Assists 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 policy into all of our business activities, strategic planning and our subsidiaries and operations, including our pension funds.
Compliance Review and Corporate Governance (CRCG) Committee	Ensures a high standard of governance, compliance and ethics in our company, including our pension, funds and that we meet our legal requirements and engage in best practices as determined by the Board of Directors. In this regard, the CRCG Committee oversees our governance framework and that of our pension funds, our compliance framework, our compliance programs which includes related party transactions ("RPT"), our market conduct programs and policies, as well as the implementation of corporate compliance initiatives.
Human Resources and Compensation Committee	Assists the Board of Directors in fulfilling its governance 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 consistent with our overall business objectives.
Audit Committee	Assists the Board of Directors with its oversight of the integrity of our financial statements and financial information, the accounting and financial reporting process, the qualifications, performance and independence of the external auditors, the performance of the internal audit function and the quality and integrity of internal controls.
Enterprise Risk Committee	This committee is composed of senior officers designated by the Board of Directors and is chaired by the Chief Risk Officer. 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, capital allocation 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 24 - 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 states, 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:

24.1 Corporate governance and compliance program

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 in 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 SVP, Corporate and Legal services that remain independent of operations. The SVP, Corporate and Legal services 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 25 - Enterprise Risk Management

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

25.2 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.

25.3 A shared responsibility

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

25.4 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.

Consult our website for a more detailed discussion of our Risk Appetite under the Corporate Governance section.

25.5 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.

25.6 Top and emerging risks that may affect future results

Each year the Enterprise Risk Management Committee 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.

TOP AND EMERGING RISKS

Major earthquake ... 58
Climate change and catastrophe events risk ... 59
Increased competition and disruption ... 60
Turbulence in financial markets ... 61
Reserve and pricing inadequacy ... 62
Governmental and/or regulatory intervention ... 63
Failure of an acquisition ... 65
Failure of a major technology initiative ... 65
Cyber security failure ... 66
Inability to contain fraud and/or abuse ... 67
Customer satisfaction risk ... 67
The emergence of autonomous vehicles ... 68

Major earthquake — Insurance risk

Risk we are facing

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

Potential impact

The occurrence of a major earthquake 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. Based on our assessment, our exposure to a major earthquake in Western Canada increased slightly in 2018 versus the prior year.

How we manage this risk

Our risk management strategy consists of regular monitoring of insured value accumulation and concentration of risks. We use earthquake risk models to help assess our possible losses at various return periods and use reinsurance to transfer a substantial amount of risk. Consequently, the diversification of risk among an appropriate number of reinsurers is vital for us. ***See Section 18.2 – Reinsurance for more details on our reinsurance program.***

In 2019, we conducted a thorough review of the pricing and segmentation of our earthquake coverage in Western Canada. Accordingly, we have adjusted pricing in our commercial lines earthquake product. We also conducted a review of our top earthquake exposures in the commercial property portfolio. A review of the earthquake product offering is ongoing and will be completed in early 2020.

We continue to maintain a prudent amount of reinsurance that exceeds our risk assessment of an earthquake in Western Canada, including the U.S. Pacific Northwest, beyond an estimated 1-in-500 year return period based on the models we use.

Climate change and 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. Changing weather patterns has resulted in hotter, drier weather in some areas and more humid, wetter weather in other areas. The result has been more unpredictable weather and increasingly severe storms. These changes could negatively affect our property and automobile insurance results, which collectively contribute to a majority of our total annual premiums.

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. Changing weather patterns may have an impact on the likelihood and severity of natural catastrophes, such as wildfires in the West and heavy precipitation in the East. The trend in climate change continues to pose a meaningful risk to our ability to meet our business objectives.

We offer cyber risk insurance to our commercial customers across North America. We may be adversely affected by large scale cyber-attacks that simultaneously compromises the systems of many of our insureds.

In addition, we have exposure to terrorism risk in the U.S. through our U.S. specialty business. Terrorism can take many forms and both our property and workers' compensation policies may be affected by an event.

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. 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. As climate risk continues to evolve, we are continuously developing or acquiring new modelling tools to help better assess catastrophe risk. For example, we regularly update Canadian flood maps used in underwriting coverage for this peril. ***See Section 14 – climate change for more details on our initiatives and ongoing management related to the risks of climate change.***

In addition, our reinsurance program offers protection against multi-risk events and catastrophes. ***See Section 18.2 – 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 triggers a high volume of claims.

In addition to private reinsurance, we also participate in the U.S. federal government terrorism insurance backstop (TRIPRA) that mitigates our exposure under certain circumstances as outlined in U.S. federal legislation.

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 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. Artificial intelligence is another area that is gaining much attention and could have a material impact on the insurance industry. 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 evolution of customer preferences for different distribution channels or alternate business models (e.g. peer-to-peer insurance) 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, but not limited to:

- investing significantly in promoting our brands with an increasing focus on using web and mobile technology to reach consumers;
- promoting our own usage-based insurance (UBI) product to better meet customer needs;
- increased digitalization of the customer experience;
- establishing innovative service centres in major Canadian cities to provide an unmatched customer experience; and
- using artificial intelligence in a variety of business applications to acquire and retain more profitable clients.

We are continuously monitoring and analyzing competitor offerings in the marketplace to help ensure that we remain at the forefront of innovation in the P&C insurance marketplace.

Turbulence in financial markets — Financial risk

Risk we are facing

Movements in interest rates, credit spreads, foreign exchange rates, inflation 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. Severe deflation or unexpected inflation could materially impact both our assets and liabilities, including our employee defined benefit pension plans. In 2018, there was renewed financial market volatility that we had not experienced for several years. In 2019, interest rates in North American returned to the lowest levels in almost a decade. *See Section 8.8 – Capital markets for more details.*

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 and/or increase in the inflation rate 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 depreciates in value as a result of negative developments in interest rate and/or credit markets.

Our fixed income portfolio may experience defaults resulting in impairments and lower income prospectively.

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. We closely monitor concentration across and within asset classes and ensure that exposures remain within the risk tolerance stated in our investment policy.

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 our regulatory capital ratios 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. In 2019, we conducted stress testing on our credit risk exposures and evaluated the potential impact of a prolonged low interest rate environment. These stress tests help assess whether our financial risk exposure requires any adjustments.

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
Notes 10.1 and 10.2	*Note 10.4*
Basis risk	**Liquidity risk**
Note 10.3	*Note 10.5*

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, or 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' regulatory capital. For example, there remains uncertainty related to the ultimate impact of the 2016 Ontario Auto Insurance reforms. As claims incurred after the reforms were enacted are settled, the uncertainty related to these specific changes in legislation declines. ***See Section 18.1 – 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. These committees also review our portfolio quality and the evolution of our pricing versus internal rate indication to ensure ongoing rate adequacy.

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.

Following the acquisition of OneBeacon, we purchased reinsurance to protect against adverse development for OneBeacon's reserves from 2016 and prior years. During 2018, this risk mitigation strategy resulted in lower volatility in our U.S. dollar claims reserves. In 2019, we completed a loss portfolio transfer for the U.S. healthcare portfolio which significantly reduced reserving exposure to this line of business.

Governmental and/or regulatory intervention — Strategic Risk

Risk we are facing

Our subsidiaries and affiliates are subject to regulation and supervision by 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.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

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

Potential impact

We believe that our subsidiaries are in material compliance with all applicable regulatory requirements. However, it is not possible to predict the future impact of changing federal, states, 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 or in the interpretation of existing laws including with respect to restrictions on the ownership of brokers by insurers and/or the compensation arrangements between insurers and brokers, limitations on the conduct of brokers, or claims handling procedures;
- the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or 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 Board approved thresholds for the regulatory capital ratios in all jurisdictions in which we operated. We operate above these thresholds under normal circumstances to reduce the likelihood of regulatory intervention. Our Enterprise Risk Committee regularly review risks related to solvency and uses 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 hereafter in ***Section 25.8 – Own Risk and Solvency Assessment (ORSA)***.

Failure of an acquisition — Strategic risk

Risk we are facing

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.

We completed the acquisitions of The Guarantee and Frank Cowan on December 2, 2019, and On Side on October 1, 2019. Failure on our part to manage these acquisitions could have a material adverse effect on our business, results of operations and financial condition. We cannot be sure that we will be able to identify appropriate profitability targets or successfully integrate this acquired business into our operations.

Potential impact

With respect to the acquisition of The Guarantee and Frank Cowan, we are faced with a number of integration risks including but not limited to:

- the inability to derive the expected returns from the acquisition, which would lead to a lower future return on equity for shareholders;
- the inability to realize growth and profitability action plans. Under certain adverse circumstances, this may lead to a write down of goodwill; and
- challenges in harmonizing systems and processes.

In addition to the potential financial impact, our reputation may be adversely affected if such an event were to occur. Consequently, it may impact the cost or availability of capital for future acquisitions.

How we manage this risk

We are a proven industry consolidator with 17 successful P&C acquisitions since 1988. We have a dedicated corporate development team that follows a rigorous selection process. Our approach to conducting due diligence to assess all the risks and opportunities is well developed and is consistently executed. We also assign dedicated and experienced task forces to ensure a swift and effective integration with seamless impact to our customers. There is also strong oversight by the Board of Directors regarding acquisitions.

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 and internal audits are regularly 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.

Cyber security failure — Operational risk

Risk we are facing

Information technology and cyber security risks continue to be key risks for many companies. Criminal organizations, hackers, and other external actors have become more active and better equipped to attack even robust systems and networks. Our dependency on technology, network, telephony and critical applications makes our ability to operate and our profitability vulnerable to business interruptions, service disruptions, theft of intellectual property and confidential information, litigation and reputational damage.

The volume and sophistication of cyber-attacks continue to increase. These attacks may include targeted attacks on systems and applications, introduction of malicious software, denial of service attacks, and phishing attacks which could result in the fraudulent use or theft of data, and may involve attempts to fraudulently induce employees, customers or third-party service providers to disclose sensitive information in order to gain access to the Company's data. Distributed Denial of Service (DDos) and Ransomeware attacks continue to increase in frequency and severity. These activities are designed to disrupt the operations of an organization and/or to benefit the attacker financially.

We may be unable to prevent cyber-attacks that result in system disruption or a breach of confidential information, whether personal or corporate in nature. Third party service providers and other suppliers may also be the subject of successful cyber-attacks leading to a material impact on our systems or the theft of confidential information.

Potential impact

Despite our commitment to information and cyber security, we may not be able to fully mitigate all risks associated with the increased sophistication and volume in the threat landscape. As such, we may be the subject to a cyber-attack resulting in system unavailability, data corruption or deletion, or the disclosure of confidential or personal information. Massive denial of service attacks and system intrusion attempts could compromise our ability to operate or we may be unable to safeguard personal and confidential information from public disclosure. Other potential consequences include our inability to provide customers with real-time access to information on their insurance policies, provide quotes for new insurance products or enable customers to report claims electronically.

These events and attacks may lead to wide ranging consequences including:

- financial loss, which also includes lost productivity, remediation costs, and costs associated with potential legal action;
- regulatory action, which may include regulatory fines and/or increased scrutiny by government; and
- reputational damage such as lost consumer confidence and lower customer retention.

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 external trends in cyber security to ensure we are able to rapidly mitigate known vulnerabilities.

We benchmark our information security practices to assess areas of our cyber security program that require additional effort and to learn from industry leading practices.

Our Information Technology Security Committee oversees information security initiatives and ensures effective collaboration across teams. As part of our overall security program, we provide employee information security awareness and training to enhance our ability to resist cyber-attacks. In addition, our Enterprise Risk Committee oversees the establishment of our cyber security strategy and monitors the progress of our mitigation action plans.

In 2019, we conducted a cyber-security exercise to test our ability to respond to a major security incident at OneBeacon and identify opportunities to further strengthen our resilience.

In 2019, we purchased cyber insurance to mitigate a portion of the financial impact in the event of a major cyber security incident affecting our operations.

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. In Canada, we also have national investigative services and a number of investigative tools to help detect and root out fictitious losses or injuries, staged accidents and material misrepresentation or exaggeration of loss amounts or personal injury.

Government authorities also have an incentive to help reduce fraud in the system and maintain affordable insurance for consumers. Ontario Bill 15 - *Fighting Fraud and Reducing Automobile Insurance Rates Act* is one example of government action that aims to reduce auto insurance fraud.

Customer satisfaction risk — Strategic risk

Risk we are facing

Our insurance products and services are ultimately distributed to individual consumers and businesses. From time to time, unsatisfied customers, consumer advocacy groups or the media may generate negative publicity related to our claims handling or underwriting practices. Untimely or poor handling of such negative publicity may increase the impact of a situation and materially affect our reputation and growth prospects.

In addition, a lack of appropriate focus on customers' needs and wants may threaten our ability to meet customer expectations, resulting in poor customer retention.

Potential impact

Negative publicity resulting from unsatisfied customers may result in increased regulation and legislative scrutiny of practices in the P&C insurance industry as well as increased litigation. Such events 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, we have established escalation procedures to help ensure that our customers have multiple channels to express any dissatisfaction. This includes a Customer Experience Team and an Ombudsman's Office which both offer the opportunity for customer dissatisfaction to be resolved. In addition, management proactively identifies potential issues and performs an additional review to help ensure that our customers are treated fairly.

The wording of our insurance policies is 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 Enterprise Risk Committee and Operational Risk Committee regularly monitors our operations to identify situations that can negatively affect customer satisfaction.

We also invest in digital tools to enhance the customer experience and reduce the possibility of negative publicity arising from interactions with our customers.

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

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

The emergence of autonomous vehicles | **Emerging risk**

Risk we are facing

Commercialisation of fully- or semi-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	*How we manage this risk*
If the potential of autonomous vehicles and crash avoidance technology is 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.	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. In 2018, Intact ventures invested in a self-driving start-up, Voyage, to better position the Company as transportation evolves and insurance needs change. We participate in the development of recommendations by the Insurance Bureau of Canada related to the regulation of automated vehicles.

25.7 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, including lawsuits, regulatory examinations, investigations, audits and reassessments by various parties including customers, suppliers, and government regulatory agencies and authorities, 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 North America. 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 employee engagement surveys continue to reveal 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 "senior unsecured debt rating") and our insurance subsidiaries' ability to meet their ongoing policyholder obligations (the "financial strength rating"). ***See Section 19.2 – 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, notice to OSFI is required together with pro forma capital calculations showing internal target capital levels are maintained both before and after such dividends are paid out. Our regulated subsidiaries in the U.S. are also subject to limitations on capital distributions as set out in applicable regulations. 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.

Deferred tax assets

We have a deferred tax asset related to net operating loss carryforwards and tax credit carryforwards, that are subject to carryforward limitations in the U.S. Utilization of these assets and other assets included in our net deferred tax asset is dependent on generating sufficient future taxable income of the appropriate type (i.e. ordinary income or capital gains) in the appropriate jurisdiction. If it is determined that it is more likely that sufficient future taxable income will not be generated, we would be required to increase the valuation allowance (an offset to our deferred tax asset) in future periods, which could have an adverse effect on our results of operations.

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.

25.8 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 Section 19 – Capital management 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 99.5% Value-at-Risk (VaR) 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.

Our 2019 assessment of capital required increased slightly compared to that of 2018, primarily driven by refinements in our risk assessment. Our assessment of available capital resources increased by a greater amount than our assessment of internal capital required leading to an improvement in our assessment of capital adequacy. Our capital sufficiency remains within the Board approved operating range as measured by the ratio of adjusted tangible equity to internal capital required.

The ORSA process is well integrated into our operations and influences the definition of our corporate risk tolerance, the target levels of capital by jurisdiction and in aggregate, and underwriting profit targets by line of business.

Section 26 - Off-balance sheet arrangements

26.1 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 Consolidated financial statements, with a fair value of $1,286 million as at December 31, 2019 ($1,155 million as at December 31, 2018).

Collateral is provided by the counterparty and is held in trust by the custodian for our benefit until the underlying security has been returned to us. The collateral cannot be sold or re-pledged externally by us, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the underlying loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the loaned securities and amounts to $1,353 million as at December 31, 2019 ($1,215 million as at December 31, 2018).

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

Section 27 - Sensitivity analyses

Sensitivity analyses are one risk management technique that assists management in ensuring that risks assumed remain within our risk tolerance level. Sensitivity analyses involve varying a single factor to assess the impact that this would have on our results and financial condition. No management action is considered. Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 26 – Sensitivity analysis (after tax)

For the years ended December 31,	2019						2018		
				Split by geography (total equity impact, estimated)					
	Net income	OCI	BVPS	Canada	U.S.	International	Net income	OCI	BVPS
Equity price risk									
Common share prices (10% decrease)[1]	**3**	**(241)**	**(1.66)**	**68%**	**24%**	**8%**	(11)	(202)	(1.53)
Preferred share prices (5% decrease)[2, 3]	**11**	**(64)**	**(0.37)**	**100%**	**-**	**-**	8	(51)	(0.31)
Interest rate risk (100 basis point increase)									
Debt securities[4]	**(182)**	**(170)**	**(2.46)**	**67%**	**33%**	**-**	(188)	(174)	(2.60)
Preferred shares	**6**	**(36)**	**(0.21)**	**100%**	**-**	**-**	6	(37)	(0.22)
Net claims liabilities	**184**	**-**	**1.29**	**88%**	**12%**	**-**	168	-	1.21
Defined benefit pension plan obligation, net of related debt securities	**-**	**111**	**0.78**	**100%**	**-**	**-**	-	87	0.63
Currency risk (strengthening of the CAD by 10% vs all currencies)[5]									
U.S. Investments supporting P&C Canada	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
International securities	**-**	**(20)**	**(0.14)**	**-**	**-**	**100%**	-	(19)	(0.14)
Book value of foreign operations	**32**	**(236)**	**(1.43)**	**-**	**100%**	**-**	-	(196)	(1.41)

[1] Net of any equity hedges, including the impact of any impairment.
[2] Including the impact on related embedded derivatives.
[3] The preferred share equity price risk sensitivity analysis includes the impact of interest rate movements.
[4] Excludes the impact of debt securities related to the defined benefit pension plan.
[5] After giving effect to forward-exchange contracts.

The above analyses were prepared using the following assumptions:
- shifts in the yield curve are parallel;
- interest rates, equity prices and foreign currency move independently;
- credit, liquidity, spread and basis risks have not been considered;
- impact on our pension plans has been considered; and
- risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.

AFS debt or equity securities in an unrealized loss position, as reflected in AOCI may be realized through sales in the future.

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

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

ADDITIONAL INFORMATION

Section 28 - Financial KPIs and definitions

28.1 Our financial KPIs

Our most relevant key performance indicators are outlined in the table below. *See Section 31 – Non-IFRS financial measures for the reconciliation to the most comparable IFRS measures.*

		2019	2018	2017	2016	2015
Growth	DPW growth	**9.5%**	15.6%	5.5%	4.8%	6.2%
	DPW growth in constant currency	**9.1%**	15.4%	5.5%	4.8%	6.2%
Underwriting performance	Underlying current year loss ratio	**62.4%**	63.8%	64.5%	64.8%	66.1%
	Claims ratio	**66.0%**	65.3%	65.4%	64.9%	61.3%
	Expense ratio	**29.4%**	29.8%	28.9%	30.4%	30.4%
	Combined ratio	**95.4%**	95.1%	94.3%	95.3%	91.7%
Consolidated performance	Underwriting income	**465**	474	486	375	628
	Net investment income	**576**	541	448	429	439
	Distribution EBITA and Other	**209**	175	158	134	123
	NOI	**905**	839	771	660	860
	NOIPS (in dollars)	**6.16**	5.74	5.60	4.88	6.38
	OROE	**12.5%**	12.1%	12.9%	12.0%	16.6%
	ROE	**10.0%**	9.9%	12.8%	9.6%	13.4%
	AROE	**11.4%**	11.8%	13.0%	11.0%	14.3%
	EPS (in dollars)	**5.08**	4.79	5.75	3.97	5.20
	AEPS (in dollars)	**5.75**	5.70	5.82	4.53	5.54
Financial strength	BVPS (in dollars)	**53.97**	48.73	48.00	42.72	39.83
	MCT (Canada)	**198%**	201%	205%	218%	203%
	RBC (U.S.)	**457%**	377%	459%	n/a	n/a
	Total capital margin	**1,222**	1,333	1,135	970	625
	Debt-to-total capital ratio	**21.3%**	22.0%	23.1%	18.6%	16.6%

28.2 Definitions of our financial KPIs

Our most relevant key performance indicators are defined below. *See Section 31 – Non-IFRS financial measures for the reconciliation to the most comparable IFRS measures.*

- **AEPS** and **AROE** are **adjusted measures**, as they exclude the after-tax impact of acquisition-related items, such as amortization of intangible assets recognized in business combinations and integration costs, as well as expenses related to the implementation of significant new accounting standards.
- **NOI, NOIPS** and **OROE** are **operating measures**, as they exclude non-operating items detailed in *Section 30 – Non-operating results.*
- **EPS** and **ROE** are **IFRS measures**, as 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, specific targets, or a combination of both. *See Section 9.3 – IFC's Canadian industry outperformance over time for details on our performance versus the industry.*

Growth	**DPW growth** for a specific period	(DPW for a specified period – DPW for the previous year) / DPW for the previous year	**Written insured risks growth** for a specific period	(# of vehicles and premises in personal insurance - Total # for the previous year) / Total # for the previous year

Underwriting results	**Underwriting income** for a specific period	NEP less net claims incurred, commissions, premium taxes and general expenses, excluding market yield adjustment, the difference between the expected return and discount rate on pension assets and the underwriting results of U.S. Commercial exited lines.		
	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.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

Management's Discussion and Analysis for the year ended December 31, 2019
(in millions of Canadian dollars, except as otherwise noted)

Consolidated performance	**Net investment income** for a specific period	As detailed in Table 11 – Net investment income	**Distribution EBITA and Other** for a specific period	Operating income excluding interest and taxes related to our distribution and supply chain strategies.
	PTOI for a specific period	As detailed in Table 1 – Consolidated performance	**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 37 – Reconciliation of NOI, NOIPS and OROE to net income	**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 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 capital margin** as at the end of a specific period	Aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC) plus available cash in unregulated entities.
	Regulatory capital ratio as at the end of a specific period	Minimum capital test (as defined by OSFI and the AMF in Canada) and Risk-based capital (as defined by the NAIC in the U.S.)	**Debt-to-total 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.

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

Section 29 - Presentation changes

Effective in Q1-2019, we have improved the way we report the performance of our distribution channel and investment/other expenses, to better align our reporting with how management views the results of our business. **We have reclassified comparative figures in order to ensure comparability and consistency with this new presentation.**

Reference to our Q1-2019 MD&A

Section 2.6 – Presentation change for our distribution channel for more details on Distribution EBITA

Section 14 – Presentation changes for the impact on full year 2018 results

The changes, outlined below, have **no impact on Net Operating Income (NOI), net income, or on 2019 growth guidance previously provided for distribution income and net investment income:**

(A) Distribution EBITA: Will replace net distribution income.

(B) Net investment income and other income (expenses): In order to better reflect the advantage of our internal asset management, we will now reflect our actual costs in investment expenses. Previously, investment expenses were presented at market value (with an offset presented in other income (expenses)). This new presentation has resulted in increased net investment income, with a corresponding offset in other expenses, both of which are operating items.

Table 27 – Reclassifications for 2018

For the	Quarter ended December 31, 2018				Year ended December 31, 2018			
	Previously reported	(A)	(B)	Reclassified	Previously reported	(A)	(B)	Reclassified
Underwriting income	210	-	-	**210**	474	-	-	**474**
Net investment income	140	-	3	**143**	529	-	12	**541**
Distribution EBITA/Net distribution income	36	6	-	**42**	146	29	-	**175**
Finance costs	(27)	(3)	-	**(30)**	(103)	(11)	-	**(114)**
Other income (expense)	(6)	-	(3)	**(9)**	(18)	-	(12)	**(30)**
PTOI	353	3	-	**356**	1,028	18	-	**1,046**
Operating tax expense	(72)	(3)	-	**(75)**	(189)	(18)	-	**(207)**
NOI	281	-	-	**281**	839	-	-	**839**
NOIPS (in dollars)	1.93	-	-	**1.93**	5.74	-	-	**5.74**
Operating effective tax rate	20.4%	0.7 pts	-	**21.1%**	18.4%	1.4 pts	-	**19.8%**
Non-operating gains (losses)	(42)	(2)	-	**(44)**	(142)	(5)	-	**(147)**
Non-operating income tax recovery	5	2	-	**7**	10	5	-	**15**
Net income	244	-	-	**244**	707	-	-	**707**
Total effective tax rate	21.5%	0.3 pts	-	**21.8%**	20.2%	1.2 pts	-	**21.4%**

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

Section 30 - 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.

Table 28 – Non-operating results

	Q4-2019	Q4-2018	Change	2019	2018	Change
Realized and unrealized gains (losses) on FVTPL bonds	**(47)**	48	(95)	**115**	(85)	200
Positive (negative) impact of MYA on underwriting	**35**	(36)	71	**(125)**	97	(222)
Gains (losses) excluding FVTPL bonds *(Table 12)*	**16**	11	5	**50**	98	(48)
Amortization of intangible assets recognized in business combinations	**(34)**	(26)	(8)	**(107)**	(94)	(13)
Integration and restructuring costs	**(31)**	(14)	(17)	**(57)**	(63)	6
Difference between expected return and discount rate on pension assets	**(12)**	(12)	-	**(48)**	(49)	1
Underwriting results of exited lines	**(34)**	(7)	(27)	**(66)**	(29)	(37)
Other	**(2)**	(8)	6	**(19)**	(22)	3
Non-operating gains (losses)	**(109)**	(44)	(65)	**(257)**	(147)	(110)
Income tax recovery (expense) on the above items	**24**	5	19	**84**	19	65
Deferred income tax benefit recognized[1]	**22**	-	22	**22**	-	22
U.S. Corporate tax reform	**-**	-	-	**-**	(9)	9
After-tax non-operating gains (losses)	**(63)**	(39)	(24)	**(151)**	(137)	(14)

[1] *See Note 24.1 – Income tax expense recorded in Net income of the Consolidated financial statements for details.*

- **Net 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.
- 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**. MYA is included in Net claims incurred in our consolidated statements of income.
- **Integration and restructuring costs** include items such as acquisition-related expenses, legal fees, severance, retention bonuses, changes in the fair value of the contingent considerations as well as expenses related to the implementation of significant new accounting standards.
- The **difference between the expected return and discount rate on pension assets** is treated as non-operating results, as the gap in these measures is not reflective of our internal investment management expertise and management of our pension asset portfolio.
- **Underwriting results of exited lines** included the results of the U.S. Commercial's business Programs, Architects and Engineers, as well as Healthcare (effective July 1, 2019).

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

Section 31 - Non-IFRS financial measures

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

The non-IFRS financial measures used in this MD&A include measures related to:

- Our underwriting performance *(see Section 31.1)*: Change or growth in constant currency, DPW, underwriting income (loss), combined ratio, NEP, total net claims, underlying current year loss ratio, PYD and underwriting expenses.
- Our consolidated performance *(see Section 31.2)*: Distribution EBITA and Other, finance costs, other income (expense), total income taxes, income before income taxes, NOI, NOIPS, OROE, adjusted net income, AEPS and AROE.

31.1 Underwriting performance

Growth or change in constant currency

- Represents the growth or change between two figures, excluding the impact of foreign currency fluctuations. This is calculated by applying the exchange rate in effect for the current year to the results of the previous year. We believe that this measure enhances the analysis of our results with comparative periods with respect to the KPI of our U.S. segment (namely, DPW and NEP growth, as the impact of currency fluctuations on underwriting ratios is minimal and not considered significant).

DPW

- Represents the total amount of premiums for new and renewal policies written during the reporting period, normalized for the effect of multi-year policies, excluding industry pools, fronting and exited lines. We consider that this measure better reflects the operating performance of our core operations, and that it is the most useful measure in terms of measuring growth, volume of business and market share. This measure matches 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.

Table 29 – Reconciliation of DPW and DPW growth to DPW, as reported under IFRS

	Q4-2019	Q4-2018	2019	2018
DPW, as reported under IFRS	**2,696**	2,377	**11,019**	10,125
Remove: impact of industry pools and fronting	**(39)**	(31)	**(141)**	(105)
Remove: DPW of exited lines	**(10)**	(2)	**(29)**	(17)
DPW (full term)	**2,647**	2,344	**10,849**	10,003
Add impact of the normalization for multi-year policies	**23**	48	**200**	87
DPW, as reported in the MD&A	**2,670**	2,392	**11,049**	10,090
DPW growth	**12%**	4%	**9%**	16%
DPW growth (in constant currency)	**12%**	4%	**9%**	15%

Underwriting income (loss)

Table 30 – Reconciliation of underwriting expenses to underwriting expenses, as reported under IFRS

	Q4-2019	Q4-2018	2019	2018
Underwriting income, as reported under IFRS[1]	**225**	155	**233**	493
Remove: impact of MYA on underwriting results	**(35)**	36	**125**	(97)
Remove: diff. between expected return and discount rate on pension assets	**12**	12	**48**	49
Remove: underwriting results of exited lines	**34**	7	**66**	29
Remove: underwriting results of The Guarantee reported in Other income	**(7)**	-	**(7)**	-
Underwriting income (loss), as reported in the MD&A	**229**	210	**465**	474
NEP, as reported in the MD&A *(see Table 31 hereafter)*	**2,692**	2,509	**10,211**	9,715
Combined ratio	**91.5%**	91.7%	**95.4%**	95.1%

[1] Comprised of the following captions in the Consolidated statements of income: Net earned premiums, Other underwriting revenues, Net claims incurred and Underwriting expenses.

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

Underlying current year loss ratio

- Represents our current year claims ratio excluding catastrophe losses, reinstatement premiums, and PYD.
- Catastrophe events are not predictable and subject to volatility, and as such, excluding them provides clearer insight into our analysis of current year performance.

Table 31 – Reconciliation of NEP before reinstatement premiums to NEP and of current year claims to net claims incurred, as reported under IFRS

	Q4-2019	Q4-2018	2019	2018
NEP, as reported under IFRS	**2,730**	2,516	**10,275**	9,765
Remove: NEP of The Guarantee included in Other income	**(32)**	-	**(32)**	-
Remove: NEP of exited lines[1]	**(6)**	(7)	**(32)**	(50)
NEP, as reported in the MD&A	**2,692**	2,509	**10,211**	9,715
Remove: reinstatement premiums ceded (recovered)	**-**	1	**-**	-
NEP, before reinstatement premiums	**2,692**	2,510	**10,211**	9,715
Net claims incurred, as reported under IFRS	**1,700**	1,624	**6,989**	6,340
Remove: impact of MYA on underwriting results	**35**	(36)	**(125)**	97
Remove: difference between expected return and discount rate on pension assets allocated to net claims incurred	**(5)**	(3)	**(20)**	(20)
Remove: net claims of exited lines	**(37)**	(13)	**(88)**	(75)
Remove: net claims of The Guarantee	**(10)**	-	**(10)**	-
Total net claims, as reported in the MD&A	**1,683**	1,572	**6,746**	6,342
Remove: current year CAT claims	**(115)**	(55)	**(366)**	(330)
Remove: PYD	**39**	50	**-**	185
Current year claims (excluding CATs and PYD)	**1,607**	1,567	**6,380**	6,197
NEP, before reinstatement premiums	**2,692**	2,510	**10,211**	9,715
Underlying current year loss ratio	**59.7%**	62.5%	**62.4%**	63.8%
CAT loss ratio (including reinstatement premiums)	**4.3%**	2.2%	**3.6%**	3.4%
(Favourable) unfavourable PYD ratio *(see Table 32 below)*[2]	**(1.4)%**	(2.0)%	**-%**	(1.9)%
Claims ratio	**62.6%**	62.7%	**66.0%**	65.3%

[1] Includes the impact of the loss portfolio transfer and prospective quota share reinsurance contract *(see Section 18.2 – Reinsurance for details)*.
[2] Calculated using NEP, as reported in the MD&A.

Prior year claims development (PYD)

Table 32 – Reconciliation of PYD to prior year claims development, as reported under IFRS

	Q4-2019	Q4-2018	2019	2018
(Favourable) unfavourable PYD, as reported under IFRS	**(29)**	(46)	**36**	(166)
Remove: unfavourable PYD of exited lines	**(10)**	(4)	**(36)**	(19)
(Favourable) unfavourable PYD, as reported in the MD&A	**(39)**	(50)	**-**	(185)
NEP, as reported in the MD&A	**2,692**	2,509	**10,211**	9,715
(Favourable) unfavourable PYD ratio	**(1.4)%**	(2.0)%	**-**	(1.9)%

Underwriting expenses

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

	Q4-2019	Q4-2018	2019	2018
Underwriting expenses, as reported under IFRS	**837**	765	**3,172**	3,042
Net with: other underwriting revenues	**(32)**	(28)	**(119)**	(110)
Remove: difference between expected return and discount rate on pension assets allocated to underwriting expenses	**(7)**	(9)	**(28)**	(29)
Remove: underwriting expenses of exited lines	**(3)**	(1)	**(10)**	(4)
Remove: underwriting expenses of The Guarantee	**(15)**	-	**(15)**	-
Underwriting expenses, MD&A basis	**780**	727	**3,000**	2,899
NEP, as reported in the MD&A	**2,692**	2,509	**10,211**	9,715
Expense ratio	**28.9%**	29.0%	**29.4%**	29.8%

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

31.2 Consolidated performance

Distribution EBITA, finance costs, other income (expense) and total income taxes.

- Effective in Q1-2019, Distribution EBITA is the measure used to report the performance of our distribution channel, which includes operating income before interest and taxes from our consolidated brokers (including BrokerLink) and our broker associates *(see Section 29 – Presentation changes)*.
- Other income (expense) include general corporate expenses and income, consolidation adjustments, regulatory fees related to our public company status, special projects and other operating items.
- Finance costs (MD&A) and income taxes (MD&A) include finance costs and income taxes (in their respective captions) from our broker associates, which are accounted for using the equity method under IFRS.

Table 34 – Reconciliation of Distribution EBITA and Other, Finance costs and other income (expense) with the Consolidated financial statements

	MD&A Captions				Pre-tax		
As presented in the financial statements	Distribution EBITA and Other	Finance costs	Other inc. (exp.)	Total income taxes	Non-operating losses[1,2]	Operating income	Total F/S caption
For the quarter ended December 31, 2019							
Other revenues	**80**	**-**	**5**	**-**	**-**	**-**	**85**
Share of profits from invest. in ass. & JV	**19**	**(2)**	**-**	**(3)**	**(9)**	**-**	**5**
Other expenses	**(54)**	**-**	**(14)**	**-**	**(27)**	**-**	**(95)**
Finance costs	**-**	**(26)**	**-**	**-**	**-**	**-**	**(26)**
Underwriting income	**-**	**-**	**7**	**-**	**-**	**218**	**225**
Income tax recovery (expense)	**-**	**-**	**-**	**(34)**	**-**	**-**	**(34)**
Total, as reported in MD&A	**45**	**(28)**	**(2)**	**(37)**			
For the quarter ended December 31, 2018							
Other revenues	38	-	1	-	-	-	39
Share of profits from invest. in ass. & JV	17	(3)	-	(1)	(8)	-	5
Other expenses	(13)	-	(10)	-	(26)	-	(49)
Finance costs	-	(27)	-	-	-	-	(27)
Underwriting income	-	-	-	-	-	-	161
Income tax recovery (expense)	-	-	-	(67)	-	-	(67)
Total, as reported in MD&A	42	(30)	(9)	(68)			
For the years ended December 31, 2019							
Other revenues	**196**	**-**	**18**	**-**	**-**	**-**	**214**
Share of profits from invest. in ass. & JV	**97**	**(10)**	**-**	**(17)**	**(39)**	**-**	**31**
Other expenses	**(84)**	**-**	**(48)**	**-**	**(87)**	**-**	**(219)**
Finance costs	**-**	**(110)**	**-**	**-**	**-**	**-**	**(110)**
Underwriting income	**-**	**-**	**7**	**-**	**-**	**226**	**233**
Income tax recovery (expense)	**-**	**-**	**-**	**(79)**	**-**	**-**	**(79)**
Total, as reported in MD&A	**209**	**(120)**	**(30**	**(96)**			
For the years ended December 31, 2018							
Other revenues	136	-	11	-	-	-	147
Share of profits from invest. in ass. & JV	82	(11)	-	(13)	(33)	-	25
Other expenses	(43)	-	(41)	-	(83)	-	(167)
Finance costs	-	(103)	-	-	-	-	(103)
Underwriting income						-	8
Income tax recovery (expense)	-	-	-	(179)	-	-	(179)
Total, as reported in MD&A	175	(114)	(30)	(192)			

[1] Comprised of $34 million relating to amortization of intangible assets recognized in business combinations and $2 million to other non-operating results for the quarter ended December 31, 2019 ($26 million and $8 million respectively for the quarter ended December 31, 2018).

[2] Comprised of $107 million related to amortization of intangible assets recognized in business combinations and $19 million to other non-operating results for the year ended December 31, 2019 ($94 million and $22 million respectively for the year ended December 31, 2018).

Income before income taxes

- Includes income taxes related to broker associates, which are accounted for net of tax under IFRS. This measure is better aligned with how management analyzes the operating performance of our broker associates (recorded in distribution EBITA), which is on a pre-tax basis.

Table 35 – Reconciliation of income before income taxes under IFRS to income before income taxes (MD&A)

	Q4-2019	Q4-2018	2019	2018
Income before income taxes, as reported under IFRS	**274**	309	**833**	886
Add: share of income tax expense of broker associates	**3**	3	**17**	13
Income before income taxes, as reported in the MD&A	**277**	312	**850**	899
Income tax benefit (expense), as reported in the MD&A *(table 34)*	**(37)**	(68)	**(96)**	(192)
Net income	**240**	244	**754**	707
Effective income tax rate, as reported in the MD&A	**13.4%**	21.8%	**11.3%**	21.4%

ROE

- Excludes the dividends declared on preferred shares. Average common shareholder's equity is the mean of the shareholder's equity at the beginning and the end of the period, adjusted for significant capital transactions, if appropriate.

Table 36 – Reconciliation of ROE to net income

	Q4-2019	Q4-2018	2019	2018
Net income	**240**	244	**754**	707
Remove: preferred share dividends	**(11)**	(11)	**(45)**	(40)
Net income attributable to common shareholders	**229**	233	**709**	667
Net income attributable to common shareholders for the last 12 months	**709**	667		
Average common shareholders' equity	**7,057**	6,731		
ROE for the last 12 months	**10.0%**	9.9%		

NOI, NOIPS and OROE

- Exclude non-operating results *(see Section 30 – Non-operating results for details)*.

Table 37 – Reconciliation of NOI, NOIPS and OROE to net income

	Q4-2019	Q4-2018	2019	2018
Net income	**240**	244	**754**	707
Remove: income tax expense (benefit), as reported in the MD&A *(table 35)*	**37**	68	**96**	192
Remove: non-operating losses (gains)	**109**	44	**257**	147
Pre-tax operating income	**386**	356	**1,107**	1,046
Operating income tax benefit (expense)	**(83)**	(75)	**(202)**	(207)
NOI	**303**	281	**905**	839
Remove: preferred share dividends	**(11)**	(11)	**(45)**	(40)
NOI to common shareholders	**292**	270	**860**	799
Divided by weighted-average number of common shares (in millions)	**140.4**	139.2	**139.5**	139.2
NOIPS, basic and diluted (in dollars)	**2.08**	1.93	**6.16**	5.74
NOI to common shareholders for the last 12 months			**860**	799
Average common shareholders' equity, excluding AOCI			**6,874**	6,603
OROE for the last 12 months			**12.5%**	12.1%

AEPS and AROE

- Exclude the after-tax impact of amortization of intangible assets recognized in business combinations, as well as integration and other acquisition-related costs. We believe that these acquisition-related items are not appropriate in assessing our performance compared to our peers.

Table 38 – Reconciliation of AEPS and AROE to net income

	Q4-2019	Q4-2018	2019	2018
Net income	**240**	244	**754**	707
Adjustments, net of tax				
Remove: impact of amortization of intangibles recognized in business combinations	**26**	19	**81**	71
Remove: impact integration and other acquisition-related costs	**22**	10	**40**	47
Remove: impact of deferred income tax benefit recognized	**(22)**	-	**(22)**	
Remove: impact of U.S. Corporate tax reform	**-**	-	**-**	9
Remove: impact of foreign currency gain on an intercompany loan	**(6)**	-	**(6)**	-
Adjusted net income	**260**	273	**847**	834
Remove: preferred share dividends	**(11)**	(11)	**(45)**	(40)
Adjusted net income attributable to common shareholders	**249**	262	**802**	794
Divided by weighted-average number of common shares (in millions)	**140.4**	139.2	**139.5**	139.2
AEPS, basic and diluted (in dollars)	**1.77**	1.88	**5.75**	5.70
Adjusted net income attributable to common shareholders for the last 12 months	**802**	794		
Average common shareholders' equity	**7,057**	6,731		
AROE for the last 12 months	**11.4%**	11.8%		

Section 32 - Accounting and disclosure matters

Reference to our Consolidated financial statements

Significant accounting judgments, estimates and assumptions	Adoption of new accounting standards	Related-party transactions	Standards issued but not yet effective
Note 3	*Note 4*	*Note 30*	*Note 33*

32.1 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:

Reference to our Consolidated financial statements

Description	Note	Description	Note
Business combinations	*Note 5.1*	Impairment of financial assets	*Note 23.2*
Valuation of claims liabilities	*Note 11.2*	Measurement of income taxes	*Note 24.3*
Impairment of goodwill and intangible assets	*Note 15.2*	Valuation of DB obligation	*Note 27.2*

32.2 New accounting standards effective January 1, 2019

On January 1, 2019, we adopted following new standards and amendments to existing standards:

- IFRS 16 – Leases
- IFRIC 23 – Uncertainty over income tax treatments
- Amendments to IAS 19 – Employee benefits

For further details, refer to Note 4 – Adoption of new accounting standards of our Consolidated financial statements.

32.3 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 comprise 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.

32.4 Financial instruments

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

Reference to our Consolidated financial statements		
Significant accounting policies	**Derivative financial instruments**	**Fair value measurement**
Note 2	*Note 7*	*Note 9*

32.5 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* ("NI 52-109") of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2019. 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.

32.6 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.

Management has limited the scope of design of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of The Guarantee and Frank Cowan, which were acquired by IFC on December 2, 2019. The Guarantee and Frank Cowan's total assets and total liabilities represented approximately 7% and 6% of total consolidated assets and total consolidated liabilities, respectively, as at December 31, 2019. The impact of the acquisition on the total consolidated net income for the year ended December 31, 2019 amounted to a net income of $3 million. 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 NI 52-109. 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, 2019.

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 2019 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Section 33 - Shareholder information

33.1 Authorized share capital and outstanding share data

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

Table 39 – Outstanding share data (number of shares)

As at February 4, 2020	
Common shares[1]	**143,018,134**
Class A	
Series 1 preferred shares	**10,000,000**
Series 3 preferred shares	**8,405,004**
Series 4 preferred shares	**1,594,996**
Series 5 preferred shares	**6,000,000**
Series 6 preferred shares	**6,000,000**
Series 7 preferred shares	**10,000,000**

[1] Included 3,829,500 common shares issued on December 2, 2019.

Refer to our Annual Information Form for more detailed information on the rights of shareholders and to Note 20 – Common shares and preferred shares to the Consolidated financial statements for additional information.

33.2 Quarterly dividends declared on common shares and preferred shares

Table 40 – Dividends declared per share

	Q1-2020	Q4-2019
Common shares	**0.83**	**0.76**
Class A		
Series 1 preferred shares	**0.21225**	**0.21225**
Series 3 preferred shares	**0.20825**	**0.20825**
Series 4 preferred shares	**0.2680275**	**0.2708325**
Series 5 preferred shares	**0.325**	**0.325**
Series 6 preferred shares	**0.33125**	**0.33125**
Series 7 preferred shares	**0.30625**	**0.30625**

33.3 BVPS

Table 41 – Evolution of BVPS (in dollars)

As at December 31,	Q4-2019	2019	2018	2017
BVPS, beginning of period	**51.20**	**48.73**	48.00	42.72
EPS	**1.63**	**5.08**	4.79	5.75
Dividends on common shares	**(0.76)**	**(3.04)**	(2.80)	(2.56)
Net impact from issuance of common shares	**1.74**	**1.71**	-	2.59
Impact of market movements on AFS securities[1]	**0.36**	**2.85**	(2.49)	0.22
Net actuarial gains (losses) on employee future benefits[1]	**0.10**	**(0.38)**	(0.13)	(0.49)
Foreign exchange impact[1]	**(0.36)**	**(0.86)**	1.26	-
Impact of the adoption of IFRS 16 (Leases)	**-**	**(0.28)**	-	-
Other[2]	**0.06**	**0.16**	0.10	(0.23)
BVPS, end of period	**53.97**	**53.97**	48.73	48.00
Period-over-period increase	**5%**	**11%**	2%	12%

[1] Reported in AOCI.

[2] Includes share-based payments and NCIB.

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

Section 34 - Selected annual and quarterly information

34.1 Selected annual information

Table 42 – Selected annual information

	2019	2018	2017
Total revenues[1]	**11,056**	10,426	9,157
Underwriting income[2]	**465**	474	486
Net income	**754**	707	792
EPS, basic and diluted (in dollars)	**5.08**	4.79	5.75
Cash dividends declared per share (in dollars)			
Common shares	**3.04**	2.80	2.56
Class A			
Series 1 Preferred Shares	**0.85**	0.85	1.05
Series 3 Preferred Shares	**0.83**	0.83	0.83
Series 4 Preferred Shares	**1.08**	0.97	0.81
Series 5 Preferred Shares	**1.30**	1.30	0.78
Series 6 Preferred Shares	**1.33**	1.33	0.49
Series 7 Preferred Shares	**1.23**	0.72	n/a

[1] Total revenues exclude other underwriting revenues and NEP of exited lines. *Refer to Note 28 – Segment information to the Consolidated financial statements for details.*

[2] *Refer to Section 31 – Non-IFRS financial measures.*

Table 43 – Selected annual information

As at December 31,	2019	2018	2017
Investments	**18,608**	16,897	16,774
Total assets	**32,292**	28,461	27,838
Debt outstanding	**2,362**	2,209	2,241
Shareholders' equity	**8,747**	7,810	7,463

34.2 Selected quarterly information

Table 44 – Selected quarterly information[1, 2]

				2019				2018
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
DPW	**2,670**	**3,012**	**3,152**	**2,215**	2,392	2,708	2,908	2,082
Total revenues[3]	**2,957**	**2,775**	**2,699**	**2,625**	2,697	2,644	2,589	2,496
NEP	**2,692**	**2,581**	**2,500**	**2,438**	2,509	2,462	2,410	2,334
Current year CAT losses	**115**	**53**	**70**	**128**	55	97	142	36
Favourable PYD	**(39)**	**(11)**	**64**	**(14)**	(50)	(28)	(32)	(75)
Underwriting income	**229**	**198**	**75**	**(37)**	210	152	93	19
Combined ratio	**91.5%**	**92.3%**	**97.0%**	**101.5%**	91.7%	93.8%	96.1%	99.2%
Net investment income	**142**	**146**	**148**	**140**	143	136	137	125
Distribution EBITA and Other	**45**	**56**	**72**	**36**	42	41	62	30
NOI	**303**	**277**	**212**	**113**	281	237	201	120
Net income	**240**	**187**	**168**	**159**	244	199	161	103
Per share measures, basic and diluted (in dollars)								
NOIPS	**2.08**	**1.91**	**1.44**	**0.73**	1.93	1.62	1.38	0.81
EPS	**1.63**	**1.26**	**1.13**	**1.06**	1.67	1.34	1.10	0.68

[1] *See Section 29 – Presentation changes.*

[2] *See Section 31 – Non-IFRS financial measures.*

[3] Total revenues exclude other underwriting revenues and NEP of exited lines.

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

34.3 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 driven by weather conditions which may vary significantly between quarters.

The tables below present the unfavourable (favourable) seasonality indicators, in points of combined ratio, of the P&C Canadian insurance business. For instance, in 2019, Q1 and Q2 saw a higher combined ratio (including and excluding CAT losses) than Q3 and Q4, meaning that underwriting results were relatively less profitable in Q1-2019 and Q2-2019.

Table 45 – Seasonal indicator, including CAT losses

	2019	2018	2017	2016	2015	3-year average	5-year average	10-year average
Q1	**7.1 pts**	4.7 pts	4.1 pts	(2.9) pts	1.8 pts	5.3 pts	3.0 pts	1.3 pts
Q2	**1.4 pts**	1.3 pts	0.8 pts	4.1 pts	(0.1) pts	1.2 pts	1.5 pts	0.7 pts
Q3	**(4.4) pts**	(1.3) pts	(2.5) pts	1.7 pts	1.6 pts	(2.7) pts	(1.0) pts	0.4 pts
Q4	**(4.1) pts**	(4.7) pts	(2.4) pts	(2.9) pts	(3.3) pts	(3.7) pts	(3.5) pts	(2.4) pts

Table 46 – Seasonal indicator, excluding CAT losses

	2019	2018	2017	2016	2015	3-year average	5-year average	10-year average
Q1	**5.2 pts**	7.0 pts	3.7 pts	1.2 pts	2.8 pts	5.3 pts	4.0 pts	3.2 pts
Q2	**2.5 pts**	(2.0) pts	(0.5) pts	(0.4) pts	0.2 pts	- pts	- pts	(0.7) pts
Q3	**(2.6) pts**	(2.4) pts	(3.2) pts	(1.4) pts	(1.2) pts	(2.7) pts	(2.2) pts	(2.3) pts
Q4	**(5.1) pts**	(2.6) pts	- pts	0.6 pts	(1.8) pts	(2.6) pts	(1.8) pts	(0.2) pts

34.4 Expected release dates of our financial results

Q1-2020	Q2-2020	Q3-2020	Q4-2020
May 5, 2020	July 28, 2020	November 3, 2020	February 9, 2021

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

Intact Financial Corporation

Consolidated financial statements

For the year ended December 31, 2019

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, management 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 system of internal controls are reviewed and evaluated on an ongoing basis by management and the Company's internal auditors.

The Company's Board of Directors, acting through the Audit Committee, which is composed entirely of independent 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 Appointed Actuaries and the Group Chief Actuary, have full and unrestricted access to the Audit Committee, with and without the presence of management.

The Appointed Actuaries, who are members of management, are appointed by the Board of the Company. The Appointed Actuaries are responsible for discharging the various actuarial responsibilities and conduct a valuation of policy liabilities, in accordance with generally accepted actuarial standards, reporting results to management and the Audit Committee.

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 Auditor's Report to shareholders appears on the following page.

February 4, 2020

Charles Brindamour
Chief Executive Officer

Louis Marcotte
Senior Vice President and
Chief Financial Officer

Independent auditor's report

To the shareholders of
Intact Financial Corporation

Opinion

We have audited the consolidated financial statements of **Intact Financial Corporation** and its subsidiaries [the "Group"], which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards [IFRSs].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's discussion and analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

A member firm of Ernst & Young Global Limited

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ted Di Giorgio.

Ernst & Young LLP [1]

Montréal, Canada
February 4, 2020

[1] CPA auditor, CA, public accountancy permit no. A112431

INTACT FINANCIAL CORPORATION

Consolidated financial statements
For the year ended December 31, 2019

Table of contents

Consolidated balance sheets....3
Consolidated statements of income....4
Consolidated statements of comprehensive income....5
Consolidated statements of changes in shareholders' equity....6
Consolidated statements of cash flows....7

Notes to the Consolidated financial statements

Note 1 – Status of the Company 8
Note 2 – Summary of significant accounting policies 8
Note 3 – Significant accounting judgments, estimates and assumptions 22
Note 4 – Adoption of new accounting standards 23
Note 5 – Business combinations 24
Note 6 – Investments 26
Note 7 – Derivative financial instruments 28
Note 8 – Financial liabilities related to investments 29
Note 9 – Fair value measurement 30
Note 10 – Financial risk 31
Note 11 – Claims liabilities 38
Note 12 – Unearned premiums 41
Note 13 – Insurance risk 41
Note 14 – Reinsurance 44
Note 15 – Goodwill and intangible assets 46
Note 16 – Investments in associates and joint ventures 48
Note 17 – Property and equipment 48
Note 18 – Other assets and other liabilities 49
Note 19 – Debt outstanding 50
Note 20 – Common shares and preferred shares 51
Note 21 – Capital management 53
Note 22 – Net investment income 54
Note 23 – Net gains (losses) 54
Note 24 – Income taxes 55
Note 25 – Earnings per share 57
Note 26 – Share-based payments 58
Note 27 – Employee future benefits 59
Note 28 – Segment information 65
Note 29 – Additional information on the Consolidated statements of cash flows 68
Note 30 – Related-party transactions 68
Note 31 – Commitments and contingencies 69
Note 32 – Disclosures on rate regulation 70
Note 33 – Standards issued but not yet effective 71

INTACT FINANCIAL CORPORATION

Consolidated balance sheets

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

As at December 31,	Note	2019	2018
Assets			
Investments	6		
Cash and cash equivalents		**$ 936**	$ 442
Debt securities		**11,826**	11,701
Preferred shares		**1,465**	1,165
Common shares		**4,063**	3,295
Loans		**318**	294
Investments		**18,608**	16,897
Premiums receivable		**3,588**	3,358
Reinsurance assets	14	**1,511**	864
Income taxes receivable		**14**	88
Deferred tax assets	24	**175**	141
Deferred acquisition costs		**1,026**	903
Other assets	18	**968**	841
Investments in associates and joint ventures	16	**715**	600
Property and equipment	17	**538**	170
Intangible assets	15	**2,523**	2,200
Goodwill	15	**2,626**	2,399
Total assets		**$ 32,292**	$ 28,461
Liabilities			
Claims liabilities	11	**$ 11,846**	$ 10,623
Unearned premiums	12	**5,960**	5,412
Financial liabilities related to investments	8	**295**	289
Income taxes payable		**150**	15
Deferred tax liabilities	24	**286**	239
Other liabilities	18	**2,646**	1,864
Debt outstanding	19	**2,362**	2,209
Total liabilities		**23,545**	20,651
Shareholders' equity			
Common shares	20	**3,265**	2,816
Preferred shares	20	**1,028**	1,028
Contributed surplus		**170**	149
Retained earnings		**3,959**	3,776
Accumulated other comprehensive income			
Available-for-sale securities		**275**	(122)
Translation of foreign operations, net of hedges		**46**	166
Other		**4**	(3)
		8,747	7,810
Total liabilities and shareholders' equity		**$ 32,292**	$ 28,461

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 income

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

For the years ended December 31,	Note	2019	2018
Direct premiums written		**$ 11,019**	$ 10,125
Premiums ceded		**(443)**	(393)
Net premiums written		**10,576**	9,732
Changes in unearned premiums		**(301)**	33
Net earned premiums		**10,275**	9,765
Other underwriting revenues		**119**	110
Investment income	22		
Interest income		**374**	351
Dividend income		**225**	213
Other revenues		**214**	147
Total revenues		**11,207**	10,586
Net claims incurred	11	**(6,989)**	(6,340)
Underwriting expenses		**(3,172)**	(3,042)
Investment expenses		**(23)**	(23)
Net gains (losses)	23	**165**	13
Share of profit from investments in associates and joint ventures	16	**31**	25
Finance costs		**(110)**	(103)
Integration and restructuring costs		**(57)**	(63)
Other expenses		**(219)**	(167)
Income before income taxes		**833**	886
Income tax expense	24	**(79)**	(179)
Net income attributable to shareholders		**$ 754**	$ 707
Weighted-average number of common shares outstanding (in millions)	25	**139.5**	139.2
Earnings per common share, basic and diluted (in dollars)	25	**$ 5.08**	$ 4.79
Dividends paid per common share (in dollars)	20	**$ 3.04**	$ 2.80

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Consolidated statements of comprehensive income

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

For the years ended December 31,	Note	2019	2018
Net income attributable to shareholders		**$ 754**	$ 707
Other comprehensive income (loss)			
Available-for-sale securities:			
net changes in unrealized gains (losses)		**550**	(408)
income tax benefit (expense)		**(127)**	104
reclassification of net losses (gains)		**(34)**	(60)
income tax benefit (expense)		**8**	18
		397	(346)
Foreign exchange gains (losses) on:			
translation of foreign operations		**(217)**	352
net investment hedges		**97**	(176)
		(120)	176
Other, net of tax		**7**	(5)
Items that may be reclassified subsequently to net income		**284**	(175)
Net actuarial gains (losses) on employee future benefits	*27*	**(71)**	(25)
income tax benefit (expense)		**18**	7
Items that will not be reclassified subsequently to net income		**(53)**	(18)
Other comprehensive income (loss)		**231**	(193)
Total comprehensive income attributable to shareholders		**$ 985**	$ 514

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, 2019		**$ 2,816**	**$ 1,028**	**$ 149**	**$ 3,776**	**$ 41**	**$ 7,810**
Impact of the adoption of IFRS 16	4	**-**	**-**	**-**	**(39)**	**-**	**(39)**
Adjusted balance as at January 1, 2019		**2,816**	**1,028**	**149**	**3,737**	**41**	**7,771**
Net income attributable to shareholders		**-**	**-**	**-**	**754**	**-**	**754**
Other comprehensive income (loss)		**-**	**-**	**-**	**(53)**	**284**	**231**
Total comprehensive income (loss)		**-**	**-**	**-**	**701**	**284**	**985**
Common shares issued	20	**449**	**-**	**-**	**-**	**-**	**449**
Dividends declared on:							
common shares	20	**-**	**-**	**-**	**(429)**	**-**	**(429)**
preferred shares	20	**-**	**-**	**-**	**(45)**	**-**	**(45)**
Share-based payments	26	**-**	**-**	**21**	**(5)**	**-**	**16**
Balance as at December 31, 2019		**$ 3,265**	**$ 1,028**	**$ 170**	**$ 3,959**	**$ 325**	**$ 8,747**
Balance as at January 1, 2018		$ 2,816	$ 783	$ 128	$ 3,520	$ 216	$ 7,463
Net income attributable to shareholders		-	-	-	707	-	707
Other comprehensive income (loss)		-	-	-	(18)	(175)	(193)
Total comprehensive income (loss)		-	-	-	689	(175)	514
Preferred shares issued	20	-	245	-	-	-	245
Dividends declared on:							
common shares	20	-	-	-	(390)	-	(390)
preferred shares	20	-	-	-	(40)	-	(40)
Share-based payments	26	-	-	21	(3)	-	18
Balance as at December 31, 2018		$ 2,816	$ 1,028	$ 149	$ 3,776	$ 41	$ 7,810

See accompanying notes to the Consolidated financial statements.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

INTACT FINANCIAL CORPORATION

Consolidated statements of cash flows

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

For the years ended December 31,	Note	2019	2018
Operating activities			
Income before income taxes		$ **833**	$ 886
Income taxes received (paid), net		**(3)**	(382)
Contributions to the defined benefit pension plans	*27*	**(47)**	(55)
Share-based payments		**(7)**	(4)
Net losses (gains)	*23*	**(165)**	(13)
Adjustments for non-cash items	*29*	**363**	294
Changes in other operating assets and liabilities	*29*	**125**	112
Changes in net claims liabilities	*11*	**191**	(5)
Net cash flows provided by (used in) operating activities		**1,290**	833
Investing activities			
Business combinations, net of cash acquired	*5*	**(731)**	-
Proceeds from sale of investments		**10,432**	14,471
Purchases of investments		**(10,322)**	(14,561)
Purchases of brokerages and other equity investments, net		**(104)**	(78)
Purchases of intangibles and property and equipment, net		**(117)**	(117)
Net cash flows provided by (used in) investing activities		**(842)**	(285)
Financing activities			
Payment of lease liabilities		**(51)**	-
Proceeds from securities sold under repurchase agreements	*8*	**20**	-
Proceeds from issuance of debt, net of issuance costs	*19*	**266**	-
Repayment of term notes on maturity	*19*	**(250)**	-
Borrowing (repayment) on the credit facility, net	*19*	**145**	(60)
Proceeds from issuance of common shares, net of issuance costs	*20*	**444**	-
Proceeds from issuance of preferred shares, net of issuance costs	*20*	**-**	243
Repurchase of common shares for share-based payments	*26*	**(43)**	(36)
Payment of dividends on common shares	*20*	**(429)**	(390)
Payment of dividends on preferred shares	*20*	**(45)**	(40)
Net cash flows provided by (used in) financing activities		**57**	(283)
Net increase (decrease) in cash and cash equivalents		**505**	265
Cash and cash equivalents, beginning of year		**442**	163
Exchange rate differences on cash and cash equivalents		**(11)**	14
Cash and cash equivalents, end of year		$ **936**	$ 442
Composition of cash and cash equivalents			
Cash		**269**	205
Cash equivalents		**667**	237
Cash and cash equivalents, end of year		**936**	442
Other relevant cash flow disclosures – operating activities			
Interest paid		**117**	105
Interest received		**384**	347
Dividends received		**246**	228

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

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 and offers specialty insurance products mainly to small and midsize businesses in the United States. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses.

These Consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's significant operating subsidiaries are presented in ***Note 28 – Segment information***.

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

Note 2 – Summary of significant accounting policies

Glossary of abbreviations 9
2.1 Basis of presentation 9
2.2 Basis of consolidation 9
2.3 Insurance contracts 10
a) Revenue recognition and premiums receivable 10
b) Claims liabilities 11
c) Reinsurance assets 11
d) Deferred acquisition costs 11
e) Liability adequacy test 11
2.4 Financial instruments 12
a) Classification and measurement of financial assets and financial liabilities 12
b) Fair value measurement 13
c) Derivative financial instruments and hedging 15
d) Recognition of financial assets and financial liabilities 15
e) Offsetting of financial assets and financial liabilities 16
f) Revenue and expense recognition 16
g) Impairment of financial assets other than those classified as designated as FVTPL 16
2.5 Business combinations 17
2.6 Goodwill and intangible assets 17
a) Goodwill 17
b) Intangible assets 18
2.7 Foreign currency translation 18
2.8 Investments in associates and joint ventures 19
2.9 Property and equipment 19
2.10 Leases 19
a) Policy applicable from January 1, 2019 19
b) Policy applicable before January 1, 2019 20
2.11 Income taxes 20
a) Income tax expense (benefit) 20
b) Recognition and offsetting of current tax assets and liabilities 20
2.12 Share-based payments 20
a) Long-term incentive plan 20
b) Employee share purchase plan 21
c) Deferred share unit plan 21
2.13 Employee future benefits – pension 22
2.14 Integration and restructuring costs 22
2.15 Current vs non-current 22

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

Glossary of abbreviations

ABS	Asset-backed securities	**JV**	Joint ventures
AFS	Available-for-sale	**LAE**	Loss adjustment expenses
AMF	Autorité des marchés financiers	**LTIP**	Long-term incentive plan
AOCI	Accumulated other comprehensive income	**MBS**	Mortgage-backed securities
CAD	Canadian Dollar	**MCT**	Minimum capital test (Canada)
CALs	Company action levels	**MD&A**	Management's Discussion and Analysis
CGU	Cash generating unit	**MYA**	Market-yield adjustment
DB	Defined benefits	**NCI**	Non-controlling interest
DPW	Direct premiums written	**NEP**	Net earned premiums
DSU	Deferred share unit	**NOI**	Net operating income
EBITA	Earnings before interest, taxes and amortization	**OCI**	Other comprehensive income
EPS	Earnings per share to common shareholders	**OSFI**	Office of the Superintendent of Financial Institutions
ESPP	Employee share purchase plan	**P&C**	Property and casualty
FA	Facility Association	**PSU**	Performance stock units
FVTOCI	Fair value through other comprehensive income	**RBC**	Risk-based capital (U.S.)
FVTPL	Fair value through profit and loss	**ROE**	Return on equity
IASB	International Accounting Standards Board	**RSP**	Risk sharing pools
IBNR	Insurance claims incurred but not reported by policyholders	**RSU**	Restricted stock units
IFRIC	International Financial Reporting Interpretations Committee	**U.S.**	United States
IFRS	International Financial Reporting Standards	**USD**	U.S. Dollar

2.1 Basis of presentation

These Consolidated financial statements and the accompanying notes are prepared in accordance with IFRS, as issued by the IASB. They were authorized for issue in accordance with a resolution of the Board of Directors on February 4, 2020.

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, except for the new standard, amendments to existing standards and interpretation adopted on January 1, 2019 as described in ***Note 4 – Adoption of new accounting standards***. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, including the presentation changes described in ***Note 28.2 – Segment operating performance.***

2.2 Basis of consolidation

These Consolidated financial statements include the accounts of the Company and its subsidiaries. ***Table 2.1*** presents the basis of consolidation.

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 and reported as acquisitions or disposals of NCI in the Consolidated statements of changes in shareholders' equity.

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

Table 2.1 – Basis of consolidation

Investment category	Shareholding	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.	Generally, 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 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.	Generally, between 20% to 50% of voting rights	Equity method *Note 2.8 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.	Generally, an equal percentage of voting rights from each party to the joint arrangement	Equity method *Note 2.8 for details*

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 premiums receivable

Premiums written are reported net of cancellations, promotional returns and sales taxes. Premiums written are recognized on the date coverage begins. Premiums written are deferred as Unearned premiums and recognized as NEP (net of reinsurance), on a pro rata basis over the terms of the underlying policies, which is usually 12 months.

Premiums receivable consist of the premiums due for the remaining months of the contracts.

Other underwriting revenues include:

- fees collected from policyholders in connection with the costs incurred for the Company's yearly billing plans, which are recognized over the terms of the underlying policies; and
- fees received for the administration of a portion of the FA policies.

Other revenues are recognized on an accrual basis and include commission revenues received from external insurance providers by consolidated brokers and revenues related to supply chain operations.

b) Claims liabilities

Claims liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts earned at the balance sheet date, including IBNR, 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 (usually referred to as loss adjustment expenses or LAE).

Claims liabilities are first determined on a case-by-case basis as insurance claims are reported. They are reassessed as additional information becomes known. Claims liabilities are estimated by the appointed actuaries using generally accepted 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, as well as changes in the legal and regulatory environment, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The ultimate amount of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the insurance claims incurred. Actuaries are required to include margins in some assumptions to recognize the uncertainty in establishing this best estimate, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits.

Claims liabilities are discounted to consider 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.

Claims liabilities are deemed to be settled when the contract expires, is discharged or cancelled.

c) Reinsurance assets

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 and unearned premiums are presented as assets and are determined on a basis consistent with the related claims liabilities and unearned premiums respectively. 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.

2.4 Financial instruments

a) Classification and measurement of financial assets and financial liabilities

Table 2.2 – Classification of the Company's most significant financial assets and financial liabilities

Classification	Financial instruments	Description	Initial and subsequent measurement
AFS	Debt securities	Investments intended to be held for an indefinite period and which may be sold in response to liquidity needs or changes in market conditions.	Initially measured at fair value using transaction prices at the trade date. Subsequently measured at fair value using bid prices (except as noted below for Level 3 instruments) at end of period, with changes in fair value reported in OCI (when unrealized) or in Net gains (losses) when realized or impaired.
	Common shares and preferred shares	Investments neither classified nor designated as FVTPL.	
	Other instruments	Surplus notes, as well as investments in mutual and private funds.	***Refer to Note 2.4 b) (Level 3) hereafter for more details on the fair value measurement.***
Designated as FVTPL on initial recognition	Debt securities backing its 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.	Initially measured at fair value using transaction prices at the trade date. Subsequently measured at fair value using bid prices (for financial assets) or ask prices (for financial liabilities) at end of period, with changes in fair value reported in Net gains (losses). The effective portion of cash flow hedges, as well as net investment hedges in foreign operations is recorded in foreign exchange gains (losses) in OCI.
Classified as FVTPL	Common shares	Investments purchased with the intention of generating profits in the near term.	
	Derivative financial instruments	Derivatives 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	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. These embedded derivatives are presented in Investments, with the related perpetual preferred shares, on the Consolidated balance sheets.	
	Contingent considerations	Financial liability arising from a business combination to be remeasured at fair value based on future performance.	Initially measured at fair value based on the estimate on the date of the transaction. Subsequently measured at fair value based on revised estimates, with changes in fair value reported in Integration and restructuring costs. ***Refer to Note 2.4 b) (Level 3) hereafter for more details on the fair value measurement.***
Cash and cash equivalents, loans and receivables	Cash and cash equivalents	Highly liquid investments that are readily convertible into a known amount of cash are subject to an insignificant risk of changes in value and have an original maturity of three months or less.	Initially measured at fair value using transaction prices at the trade date. Subsequently measured at amortized cost using the effective interest method, with changes in fair value reported in Net gains (losses) when realized or impaired.
	Loans and receivables	Financial assets with fixed or determinable payments not quoted in an active market (including securities purchased under reverse repurchase agreements).	

Classification	Financial instruments	Description	Initial and subsequent measurement
Other financial liabilities	Debt outstanding	The Company's Senior and medium-term notes and term loan. Amount drawn under a credit facility.	Initially measured at fair value at the issuance date. Subsequently measured at amortized cost using the effective interest method, with changes in fair value reported in Net gains (losses) when the liability is extinguished.
	Securities sold under repurchase agreements	The sale of securities together with an agreement to repurchase them in the short-term, at a set price and date.	Initially measured at fair value at the amount owing. Subsequently measured at amortized cost using the effective interest method.

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. After initial recognition, the fair value of financial instruments is determined based on available information and categorized according to a three-level fair value hierarchy.

Table 2.3 – 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	• U.S. Treasuries, Canadian Federal and Canadian Agency housing trust debt securities • Common shares and preferred shares • Investments in mutual funds • 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)	• All Government and Corporate debt securities, except for U.S. Treasuries, Canadian Federal and Canadian Agency housing trust • Unsecured medium-term notes and 2012 U.S. Senior Notes[1] • ABS and MBS • 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[1] • Embedded derivatives related to perpetual preferred shares with call option • Hedge and private funds • Surplus notes • Contingent considerations

[1] Measured at amortized cost with fair value disclosed.

Level 1

A financial instrument is regarded as quoted in an active market 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.

Level 2

Where the fair values of financial assets and financial liabilities 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.

For discounted cash flow models, 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 condition of counterparties.
- Discount rates are influenced by risk free interest rates and credit risk.

The inputs to these models are derived from observable market data where possible. Inputs used in valuations 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.

Level 3

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.

- ***Loans*** – The fair value of loans 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.

- ***Embedded derivatives related to perpetual preferred shares call options*** – The fair value of the Company's perpetual preferred shares call options (which give the issuer the right to redeem the shares at a particular price) has to be measured separately from 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 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.

- ***Hedge funds and private funds*** – Hedge funds and private funds are measured at fair value for which the net assets value (''NAV'') is generally the practical expedient. The Company employs several procedures to assess the reasonableness of the NAV reported by the fund, including obtaining and reviewing periodic and audited financial statements and discussing each fund's pricing with the fund manager throughout the year. In the event, the Company believes that its estimate of the NAV differs from that reported by the fund due to the illiquidity or other factors, the Company will adjust the fund's reported NAV to more appropriately represent the fair value of its interest in the investment.

- ***Surplus notes*** – The fair value of the surplus notes is based on a discounted expected cash flow model using information as of the measurement date. The estimated fair value is sensitive to changes in public debt credit spreads, as well as changes in estimates with respect to other variables. These variables include a discount to reflect the lack of liquidity due to its private nature, the credit quality, as well as the timing, amount and likelihood of interest and principal payments on the notes which are subject to regulatory approval.

- ***Contingent considerations*** – The fair value of the contingent considerations is based on future revenues or profitability metrics discounted using a rate adjusted for specific risks related to the transaction using information as at the measurement date.

c) Derivative financial instruments and hedging

The Company enters a variety of derivative financial instruments to manage its exposure arising from financial assets and financial liabilities. Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. The Company uses derivatives 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. In certain circumstances, these hedges also meet the requirements for hedge accounting. Risk management strategies eligible for hedge accounting have been designated as cash flow hedges or net investment hedges in a foreign operation.

Derivatives are initially measured at fair value at the trade date and subsequently remeasured at fair value at the end of each reporting date. Derivative financial instruments with a positive fair value are recorded as assets while derivative financial instruments with a negative fair value are recorded as liabilities. Changes in fair value are recorded in Net gains (losses) unless the derivative financial instruments are part of a qualified hedging relationship, as described below.

- **Net investment hedges**
  The Company uses foreign currency derivatives to manage its book value exposure to the USD relative to the CAD. The effective portion of gains or losses on hedging derivatives, together with foreign exchange translation gains or losses on foreign operations, is recorded in Foreign exchange gains (losses) in OCI.

Where the Company has elected to apply hedge accounting, a hedging relationship is designated and documented at inception. Hedge effectiveness is evaluated at inception and throughout the term of the hedge. Hedge accounting is only applied when the Company expects that the hedging relationship will be highly effective in achieving offsetting changes in fair value or changes in cash flows attributable to the risk being hedged.

Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of such derivatives are recognized in Net gains (losses). ***See Note 7 – Derivative financial instruments for details.***

d) Recognition of financial assets and financial liabilities

Refer to Table 2.2 for the initial recognition of financial assets and financial liabilities. Financial assets are no longer recorded when the rights to receive cash flows from the instruments 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.

Securities lending - Financial assets lent by the Company in the course of securities lending operations remain on the Consolidated balance sheet because the Company has not substantially transferred the risks and rewards related to the lent assets.

Securities purchased under reverse repurchase agreements and sold under repurchase agreements - The Company purchases securities from major Canadian financial institutions with an agreement to resell them to the original seller in the short-term (reverse repurchase agreements), at a set price and date. It also sells securities to major Canadian financial institutions together with an agreement to repurchase them in the short-term (repurchase agreements), at a set price and date.

Securities purchased in the course of reverse repurchase agreements are not recognized on the Consolidated balance sheet because the seller substantially retained the risks and rewards related to the assets sold. The commitment to resell the assets purchased is presented in Financial assets related to investments in the line Other assets in the Consolidated balance sheet.

Securities sold in the course of repurchase agreements remain on the Consolidated balance sheet because the Company has not substantially transferred the risks and rewards related to the assets sold. The obligation to repurchase the assets sold is presented in Financial liabilities related to investments in the Consolidated balance sheet.

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 Consolidated balance sheet.

e) Offsetting of financial assets and financial liabilities

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
- an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

f) Revenue and expense recognition

Net investment income

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

Net gains (losses)

- Gains and losses on the sale of AFS debt and equity securities are generally calculated on a first in, first out basis, except for certain equity strategies.
- Transaction costs associated with the acquisition of financial instruments classified or designated as FVTPL are expensed 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 expensed as incurred.
- 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 income.

g) Impairment of financial assets other than those classified or designated as FVTPL

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 preferred shares for the long term or sell them. Objective evidence of impairment includes:

Debt impairment model

- One or more loss events (a payment default for example) that occurred after initial recognition and that has an impact on the estimated future cash flows of the financial asset.
- Increased probability that the future cash flows will not be recovered based on counterparty credit rating considerations.

Equity impairment model

- A significant, a prolonged, or a significant and prolonged decline in the fair value of an investment below cost.
- 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.

Table 2.4 – Objective evidence of impairment for equity impairment model

Unrealized loss position	Common shares
Significant	Unrealized loss of 50% or more
Prolonged	Unrealized loss for 15 consecutive months or more
Significant and prolonged	Unrealized loss for 9 consecutive months or more and unrealized loss of 25% or more

Loans and receivables impairment model

A payment default or when there are objective indications that the counterparty will not honour its obligations.

The following table summarizes the measurement and recognition of impairment losses.

Table 2.5 – Impairment models

	Debt	Equity	Loans and receivables
Application	• Debt securities • Preferred shares redeemable at the option of the holder • Perpetual preferred shares purchased with the intent of holding for the long-term[1]	• Common shares • Perpetual preferred shares not impaired using the debt impairment model[1]	• Loans and receivables: - Significant (tested individually) - Otherwise (grouped by similar characteristics for testing)
Loss measure-ment	Difference between amortized cost and current fair value less any unrealized loss on that security previously recognized	Difference between acquisition cost and current fair value less any impairment loss on that security previously recognized	Difference between amortized cost and the present value of the estimated future cash flows
Reported loss	Impairment loss removed from OCI and recognized in Net gains (losses)		Impairment loss recognized in Net gains (losses)
Subsequent fair value increases	Recognized in Net gains (losses) when there is observable positive development on the original impairment loss event. Otherwise, recognized in OCI	Recognized directly in OCI Impairment losses are not reversed	Provision can be reversed when the event that gave rise to its initial recognition subsequently disappears Recognized in Net 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

[1] 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 preferred shares are assessed for impairment using a debt impairment model.

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.

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 allocated to CGUs, or groups of CGUs, that are expected to benefit from the business combination in which they arose. Impairment testing is performed at least annually, on June 30, or more frequently if there are objective indicators of impairment, by comparing the recoverable amount of a CGU with its carrying amount. Impairment testing is undertaken at the lowest level at which goodwill is monitored for internal management purposes, which corresponds to the Company's operating segments ***(refer to Note 28 – Segment information)***.

Upon disposal of a portion of a CGU, the carrying amount of goodwill related to the portion of the CGU sold is included in the determination of gains and losses on disposal. The carrying amount is determined based on the relative fair value of the disposed portion to the total CGU.

b) Intangible assets

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

- Distribution networks represent the contractual agreements between the Company and unconsolidated brokers for the distribution of its insurance products.
- Customer relationships represent the relationships that exist with the policyholders, either directly (as a direct insurer) or indirectly (through consolidated brokers).

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, intangible assets are 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 2.6 – Amortization methods and terms of intangible assets – finite useful life

Intangible assets	Method	Term
Distribution networks	Straight-line	20 to 25 years
Customer relationships	Straight-line	10 years
Internally developed software	Straight-line	3 to 10 years

Amortization of intangible assets is included in Other expenses in the Consolidated statements of income.

2.7 Foreign currency translation

The Consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of most foreign subsidiaries is their local currency, mainly USD.

Foreign currency transactions
Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction.

- Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income.
- Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined.
- Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.
- Net foreign exchange gains and losses are recognized in income except for AFS equity securities where unrealized foreign exchange gains and losses are recognized in OCI until the asset is sold or becomes impaired.

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

Foreign operations

- Assets and liabilities of foreign operations whose functional currency is other than the Canadian dollar are translated into Canadian dollars using closing exchange rates.
- Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the period.
- Translation gains or losses are recognized in OCI and are reclassified to income on disposal or partial disposal of the investment in the related foreign operation.

The exchange rates used in the preparation of the Consolidated financial statements were as follows:

Table 2.7 – Exchange rates used

	As at December 31,		Average rate for the years	
	2019	**2018**	**2019**	**2018**
USD vs CAD	**1.29835**	1.36490	**1.32685**	1.29618

2.8 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.

2.9 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 methods and terms are shown below.

Table 2.8 – Depreciation methods and terms of property and equipment

Property and equipment	Method	Term
Buildings	Straight-line	15 to 40 years
Furniture and equipment	Straight-line	2 to 7 years
Leasehold improvements	Straight-line	Over the terms of related leases
Right-of-use assets[1]	Straight-line	Over the terms of related leases
Finance leases[1]	Straight-line	Over the terms of related leases

[1] Right-of-use assets were recognized on January 1, 2019, Finance leases were recognized in prior periods *(refer to Note 2.10 - Leases)*.

2.10 Leases

The Company adopted IFRS 16 – *Leases* ("IFRS 16") on January 1, 2019, the comparative information was not restated and continues to be reported under IAS 17 – *Leases* and related interpretations ("IAS 17"). *Refer to Note 4.1 – Leases* for the impact on adoption of IFRS 16.

a) Policy applicable from January 1, 2019

On the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payment made at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate for a similar asset. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentives receivable, and exclude operational costs and variable lease payments. The lease liability is subsequently measured at amortized cost using the effective interest method.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

The Company presents right-of-use assets in Property and equipment and lease liabilities in Other liabilities in the Consolidated balance sheets. The interest and depreciation expense are presented in Finance costs and Underwriting expenses respectively in the Consolidated statements of income.

b) Policy applicable before January 1, 2019

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

2.11 Income taxes

a) Income tax expense (benefit)

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. Income tax expense (benefit) comprises current and deferred tax.

- **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 based on 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 entity for which there is a history of tax losses, deferred tax assets are only recognized in excess of deferred tax liabilities if there is convincing evidence that future profit will be available.

b) Recognition and offsetting of current tax assets and liabilities

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.

2.12 Share-based payments

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

a) Long-term incentive plan

Certain key employees are eligible to participate in the LTIP. Participants are awarded notional share units referred to as PSUs and RSUs. The PSU payout is subject to the achievement of specific targets with regards to:
- the Company's estimated ROE outperformance versus the Canadian P&C industry or a North American P&C industry benchmark (for the three-year cycle ending in 2021), based on a three-year average; or
- the three-year average combined ratio of the U.S. operations compared to a specific target; or
- a combination of both.

Most RSUs automatically vest three years from the year of the grant. Vesting for RSUs is not linked to the Company's performance.

RSUs and PSUs - Subject to the Company's Board of Directors' approval, certain participants can receive cash in lieu of shares of the Company:
- based on the plan structure; or
- if they meet a defined share ownership threshold ("eligible participants") and elect to receive cash.

At the time of the payout, the plan administrator purchases in the market the number of common shares based upon the vested PSUs and RSUs, and elections of eligible participants.

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 LTIP is accounted for as an equity-settled plan, except for the participants that are eligible to receive cash in lieu of shares of the Company (accounted for as a cash-settled plan).

Equity-settled plan

The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to Contributed surplus. 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 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.

Cash-settled plan

The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to Other liabilities. The liability is remeasured at each reporting period based on the number of awards that are expected to vest and the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

b) Employee share purchase plan

Employees who are not eligible for the LTIP are entitled to make contributions to a voluntary ESPP. Eligible employees can contribute up to 10% of their annual base salary through a payroll deduction to purchase IFC common shares in the market. As an incentive to participate in the plan the Company matches, at the end of each year, a number of shares equal to 50% of the common shares purchased by the employees during the year (subject to certain conditions). During the following year, the common shares contributed by the Company are purchased by an independent broker at each pay period and deposited in the employee account evenly each pay. The common shares contributed by the Company are awarded and vested at the time they are deposited in the employee account.

Equity-settled plan

The fair value of awards is estimated at the grant date and 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 awards is recognized as an expense over the vesting period, with a corresponding entry to Contributed surplus. The difference between the market price of the common shares purchased and the cumulative cost for the Company of these vested awards, net of income taxes, is recorded in Retained earnings.

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 common shares of the Company. For the remainder of their compensation, the directors are given the choice of cash, common shares of the Company, DSUs or a combination of the three. Both DSUs and common shares vest at the time of the grant. The DSUs are redeemed upon director retirement or termination and are settled for cash afterwards. 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.

Cash-settled plan

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 remeasured 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.

2.13 Employee future benefits – pension

The actuarial determination of the DB obligation uses the projected unit credit method and management's best estimate assumptions.

DB pension expense

Cost recognized in Net income in the current period includes:
- service cost: benefits cost provided in exchange for employees' services rendered during the year (current service cost) or prior years (past service cost);
- net interest expense: change in the DB obligation and the plan assets resulting from the passage of time; and
- administrative expenses paid from the pension assets.

The discount rate methodology used to determine the DB expense is determined with reference to the yields on high quality corporate bonds with durations that match the various components of the DB expense.

Remeasurement of net DB liability (asset)

The rate used to discount the DB obligation is determined by 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 end of each reporting period.

Remeasurements are recognized directly in OCI in the period in which they occur and 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; and
- changes in actuarial methods and assumptions, such as discount rate used to discount the DB obligation.

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

2.14 Integration and restructuring costs

Integration and restructuring costs include items such as acquisition-related expenses, severances, retention bonuses, changes in the fair value of the contingent considerations as well as expenses related to the implementation of significant new accounting standards.

2.15 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.

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 are as follows:

Description	Reference	Description	Reference
Business combinations	*Note 5.2*	Impairment of financial assets	*Note 23.2*
Valuation of claims liabilities	*Note 11.3*	Measurement of income taxes	*Note 24.3*
Impairment of goodwill and intangible assets	*Note 15.2*	Valuation of DB obligation	*Note 27.6*

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

Note 4 – Adoption of new accounting standards

On January 1, 2019, the Company adopted the following new standard, amendments to existing standards and interpretations:

4.1 Leases

The Company has adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of the adoption was recognized in opening Retained earnings as at January 1, 2019. The comparative information was not restated and continues to be reported under IAS 17 and related interpretations.

The adoption of IFRS 16 resulted in the recognition of operating leases, mainly real estate leases, on the Company's Consolidated balance sheet as right-of-use assets with the corresponding lease liabilities.

At the transition date, right-of-use assets were measured on a lease-by-lease basis at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the Company's incremental borrowing rate as at January 1, 2019; or
- an amount equal to the lease liability.

Lease liabilities were measured at the present value of the remaining lease payments, using the Company's incremental borrowing rate as at January 1, 2019. The weighted-average rate applied was 2.92%.

The Company used hindsight when determining the lease term if the contract contained options to extend or terminate the lease, which is a practical expedient permitted upon transitioning to IFRS 16.

On January 1, 2019, the Company recognized right-of-use assets of $358 million and lease liabilities of $441 million, wrote-off net liabilities recognized under IAS 17 of $29 million and, as a result, recognized a reduction of shareholders' equity of $39 million, net of income taxes.

Table 4.1 – Reconciliation of operating lease commitments and lease liabilities

Operating lease commitments as at December 31, 2018	**1,005**
Operational costs and variable lease payment component	(469)
Additional lease liabilities before discounting as at January 1, 2019	**536**
Discounting	(95)
Additional lease liabilities recognized as at January 1, 2019	**441**
Finance lease liabilities previously recognized under IAS 17 as at January 1, 2019	15
Total lease liabilities as at January 1, 2019	**456**

4.2 Uncertainty over income tax treatments

The Company has adopted IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23"). This interpretation specifies that if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty:

- most likely amount: single most likely amount in a range of possible outcomes; or
- expected value: sum of the probability-weighted amounts in a range of possible outcomes.

This interpretation was adopted retrospectively with no impact on the Consolidated financial statements.

4.3 Plan amendment, curtailment or settlement (amendments to IAS 19 – Employee Benefits)

The Company has adopted amendments to IAS 19 – *Employee Benefits* ("IAS 19"), which specify how companies determine pension expense when changes to a defined benefit pension plan occur. A company now uses updated assumptions from the remeasurement of the net defined benefit asset (liability) to determine the current service cost and net interest for the period. Previously, it would not have updated its calculation of these costs until year-end.

The amendments were adopted prospectively with no impact on the Consolidated financial statements.

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

Note 5 – Business combinations

5.1 Business combinations

The Company completed the following acquisitions during the year ended December 31, 2019:

On Side Restoration

- On October 1, 2019, the Company acquired control of On Side Developments Ltd., the parent company of On Side Restoration (collectively known as "On Side"), a leading Canadian restoration firm based in Vancouver.
- The Company acquired 33% of the participating shares and 51% of the voting shares on October 1, 2019 and will purchase the remaining shares in two equal tranches by the end of 2021, ***refer to Note 2.4 – Financial instruments*** for more information on the contingent consideration.
- The acquisition will deepen the Company's presence in the supply chain to improve customer experience and enhance operation efficiencies.

The Guarantee Company of North America and Frank Cowan Company Limited

- On December 2, 2019, the Company acquired all outstanding shares of The Guarantee Company of North America ("The Guarantee"), a specialty lines insurer in Canada and the U.S. and Frank Cowan Company Limited ("Frank Cowan"), a managing general agent focused on specialty insurance .
- The purchase price was financed by the issuance of $461 million of common equity, debt and excess capital ***(refer to Note 20.2 – New financing and Note 19 – Debt outstanding)***.
- The acquisition will strengthen the Company's leadership position in Canada while building a leading North American specialty insurer.

The following table summarizes the consideration and the preliminary fair value of the assets acquired and liabilities assumed for the above acquisitions as at the acquisition date.

Table 5.1 – Business combinations

As at the acquisition date	The Guarantee and Frank Cowan	On Side	Total
Purchase price			
Cash consideration[1]	1,021	24	1,045
Contingent consideration ***(Note 18.2)***	-	110	110
Total purchase price	1,021	134	1,155
Fair value of the identifiable assets acquired and liabilities assumed			
Assets			
Investments[2]	1,178	-	1,178
Premiums receivable	115	-	115
Reinsurance assets	401	-	401
Deferred acquisition costs	65	-	65
Intangible assets	337	50	387
Other	99	149	248
Liabilities			
Claims liabilities	(887)	-	(887)
Unearned premiums	(289)	-	(289)
Deferred tax liabilities	(36)	(12)	(48)
Debt outstanding	-	(23)	(23)
Other	(134)	(78)	(212)
Total identifiable net assets acquired	849	86	935
Goodwill	172	48	220

[1] On Side's cash consideration includes a 10% holdback.
[2] Includes cash and cash equivalents acquired of $311 million.

The fair value of the acquired distribution networks, customer relationships and other intangible assets are mainly based on a preliminary discounted cash flow analysis. The distribution networks are amortized over a 25-year period and the customer relationships are amortized over a 10-year period. Goodwill reflects the quality of the acquired businesses and the synergies expected following the integration of the acquired businesses. Goodwill is not deductible for tax purposes. The final determination of the fair value of identifiable assets acquired and liabilities assumed will be completed within the prescribed period of one year following the acquisition.

For the year ended December 31, 2019, The Guarantee and Frank Cowan's contribution to NEP, Other revenues and Income before income taxes was $31 million, $2 million and $4 million respectively. On a pro-forma basis, the NEP, Other revenues and Income before income taxes would have been $409 million, $17 million and $45 million (excluding acquisition-related costs) respectively if The Guarantee and Frank Cowan were consolidated from January 1, 2019.

The acquisition-related and integration costs in connection with the acquisitions are reported in the line Integration and restructuring costs in the Consolidated statements of income.

5.2 Significant accounting judgments, estimates and assumptions

Upon initial recognition, the acquiree's assets and liabilities and the contingent consideration have been included in the Consolidated balance sheets at fair value. Management determined the fair values using estimates of 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 regarding 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.

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

Note 6 – Investments

6.1 Classification of investments

Table 6.1 – Classification of investments

	Fair value			Amortized cost	
As at	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents and loans	Total carrying amount
December 31, 2019					
Cash and cash equivalents	**-**	**-**	**-**	**936**	**936**
Short-term notes	**61**	**-**	**-**	**-**	**61**
Fixed income					
Investment grade					
Government	**2,515**	**-**	**2,715**	**-**	**5,230**
Corporate	**1,903**	**-**	**2,443**	**-**	**4,346**
Asset-backed[1]	**540**	**-**	**101**	**-**	**641**
Mortgage-backed					
Agency[2]	**257**	**-**	**329**	**-**	**586**
Non-agency	**450**	**-**	**266**	**-**	**716**
Non-rated	**246**	**-**	**-**	**-**	**246**
Debt securities	**5,972**	**-**	**5,854**	**-**	**11,826**
Investment grade					
Retractable	**24**	**-**	**-**	**-**	**24**
Fixed-rate perpetual	**266**	**-**	**-**	**-**	**266**
Other perpetual	**1,175**	**-**	**-**	**-**	**1,175**
Preferred shares	**1,465**	**-**	**-**	**-**	**1,465**
Common shares	**2,712**	**202**	**1,149**	**-**	**4,063**
Loans	**-**	**-**	**-**	**318**	**318**
	10,149	**202**	**7,003**	**1,254**	**18,608**
December 31, 2018					
Cash and cash equivalents	-	-	-	442	442
Short-term notes	19	-	-	-	19
Fixed income					
Investment grade					
Government	2,248	-	2,899	-	5,147
Corporate	2,180	-	2,240	-	4,420
Asset-backed[1]	505	-	184	-	689
Mortgage-backed					
Agency[2]	182	-	387	-	569
Non-agency	373	-	314	-	687
Non-rated	170	-	-	-	170
Debt securities	5,677	-	6,024	-	11,701
Investment grade					
Retractable	31	-	-	-	31
Fixed-rate perpetual	256	-	-	-	256
Other perpetual	878	-	-	-	878
Preferred shares	1,165	-	-	-	1,165
Common shares	2,316	123	856	-	3,295
Loans	-	-	-	294	294
	9,158	123	6,880	736	16,897

[1] Credit card receivables and auto loans.
[2] Publicly traded MBS which carry the full faith and credit guarantee of the U.S. Government or are guaranteed by a government sponsored entity.

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.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

6.2 Carrying value of investments

Table 6.2 – Carrying value of investments

	FVTPL investments				Other investments	Total investments
As at	Carrying value	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	Carrying value
December 31, 2019						
Cash and cash equivalents	**-**	**936**	**-**	**-**	**936**	**936**
Debt securities	**5,854**	**5,865**	**118**	**(11)**	**5,972**	**11,826**
Preferred shares	**-**	**1,529**	**39**	**(103)**	**1,465**	**1,465**
Common shares	**1,351**	**2,398**	**361**	**(47)**	**2,712**	**4,063**
Loans	**-**	**318**	**-**	**-**	**318**	**318**
	7,205	**11,046**	**518**	**(161)**	**11,403**	**18,608**
December 31, 2018						
Cash and cash equivalents	-	442	-	-	442	442
Debt securities	6,024	5,660	44	(27)	5,677	11,701
Preferred shares	-	1,248	23	(106)	1,165	1,165
Common shares	979	2,401	136	(221)	2,316	3,295
Loans	-	294	-	-	294	294
	7,003	10,045	203	(354)	9,894	16,897

The Company is currently assessing the cash flow characteristics test (solely payments of principal and interest or "SPPI" test). Based on its preliminary assessment, most of the debt securities would pass the SPPI test. The composition of debt securities may change significantly by the time IFRS 9 – *Financial Instruments* ("IFRS 9") is adopted, which is expected to be on January 1, 2022.

6.3 Market neutral equity investment strategy

Table 6.3 – Market neutral equity investment strategy

	2019		2018	
As at December 31,	Fair value	Collateral	Fair value	Collateral
Long positions – reported in Common shares	**195**	**-**	104	-
Short positions – reported in Financial liabilities related to investments *(Table 8.1)*	**(197)**	**202**	(105)	(105)

6.4 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. 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 daily as the market value of underlying loaned securities fluctuates.

Table 6.4 – Securities lending

	2019		2018	
As at December 31,	Fair value	Collateral[1]	Fair value	Collateral[1]
Loaned securities – reported in Investments	**1,286**	**1,353**	1,155	1,215

[1] Representing approximately 105% of the fair value of the securities loaned as at December 31, 2019 and 2018.

Note 7 – Derivative financial instruments

7.1 Types of derivatives used

Table 7.1 – Types of derivatives used

Derivatives	Description	Objective	Intent to hold instrument
Forwards	**Contractual obligations to exchange:**	Mitigate risk arising from foreign currency fluctuations on:	
Currency	one currency for another at a predetermined future date	• foreign currency cash inflows and outflows impacting the Company's operations	Risk management purposes
		• on the Company's net investment in foreign operations	Book value hedge
Futures	**Contractual obligations to buy or sell:**		
Interest rate	an interest rate sensitive financial instrument at a specified price and a predetermined future date	Modify or mitigate exposure to interest rate fluctuations	Mostly for risk management purposes
Equity	a specified amount of stocks, a basket of stocks or an equity index at an agreed price and a specified date	Mitigate exposure to equity market	Risk management purposes
Swaps	**Over-the-counter contracts:**		
Equity	in which two counterparties exchange a series of cash flows based on a basket of stocks, applied to a notional amount	Mitigate exposure to equity market fluctuations	Risk management purposes
Credit default	that transfer credit risk related to an underlying financial instrument from one counterparty to another	Modify exposure to credit	Risk management purposes
Cross currency	in which two counterparties exchange interest and principal payments in two different currencies	Mitigate risk arising from foreign currency fluctuations on the Company's net investment in foreign operations	Book value hedge
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):**		
Inflation caps	an index at a predetermined price, at or by a specified future date	Mitigate exposure to inflation risk	Trading purposes

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements

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

7.2 Fair value and notional amount of derivatives

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.

Table 7.2 – Fair value and notional amount of derivatives by nature of risk

	2019			2018		
	Notional	Fair value		Notional	Fair value	
As at December 31,	**amount**	**Asset**	**Liability**	**amount**	**Asset**	**Liability**
Foreign currency contracts						
Forwards	**2,063**	**23**	**1**	1,636	-	69
Cross currency swaps	**266**	**6**	**-**	392	-	16
Interest rate contracts						
Futures	**516**	**-**	**-**	505	-	-
Equity contracts						
Swaps	**1,139**	**-**	**44**	847	58	-
Futures	**155**	**-**	**-**	160	-	-
Inflation options						
Options	**-**	**-**	**-**	28	-	-
	4,139	**29**	**45**	3,568	58	85
Held for risk management purposes[1]	**4,026**	**29**	**45**	3,492	58	85
Held for trading purposes	**113**	**-**	**-**	76	-	-
	4,139	**29**	**45**	3,568	58	85
Term to maturity:						
less than one year	**3,873**			3,568		
from one to five years	**266**			-		
over five years	**-**			-		
	4,139			3,568		

[1] Includes net investment hedges using forwards and cross currency swaps.

Note 8 – Financial liabilities related to investments

Table 8.1 – Financial liabilities related to investments

As at December 31,	**2019**	**2018**
Equities sold short positions *(Table 6.3)*	**197**	105
Derivative financial liabilities *(Table 7.2)*	**45**	85
Accounts payable to investment brokers on unsettled trades	**33**	99
Securities sold under repurchase agreements	**20**	-
	295	289

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

Note 9 – Fair value measurement

9.1 Categorization of fair values

Table 9.1 – Fair value hierarchy of financial assets and financial liabilities measured at fair value

As at	Level 1 Valued using quoted (unadjusted) market prices	Level 2 Valued using models (with observable inputs)	Level 3 Valued using models (without observable inputs)	Total
December 31, 2019				
Short-term notes	**36**	**25**	**-**	**61**
Fixed income				
Investment grade				
Government	**2,367**	**2,863**	**-**	**5,230**
Corporate	**-**	**4,346**	**-**	**4,346**
Asset-backed	**-**	**641**	**-**	**641**
Mortgage-backed				
Agency	**-**	**586**	**-**	**586**
Non-agency	**-**	**716**	**-**	**716**
Non-rated	**-**	**-**	**246**	**246**
Debt securities	**2,403**	**9,177**	**246**	**11,826**
Preferred shares[1]	**1,465**	**-**	**-**	**1,465**
Common shares	**4,039**	**-**	**24**	**4,063**
Derivative financial assets *(Table 7.2)*	**-**	**29**	**-**	**29**
Total financial assets measured at fair value	**7,907**	**9,206**	**270**	**17,383**
Total financial liabilities measured at fair value	**197**	**45**	**-**	**242**
December 31, 2018				
Short-term notes	19	-	-	19
Fixed income				
Investment grade				
Government	2,667	2,480	-	5,147
Corporate	-	4,420	-	4,420
Asset-backed	-	689	-	689
Mortgage-backed				
Agency	-	569	-	569
Non-agency	-	687	-	687
Non-rated	-	-	170	170
Debt securities	2,686	8,845	170	11,701
Preferred shares[1]	1,165	-	-	1,165
Common shares	3,262	-	33	3,295
Derivative financial assets *(Table 7.2)*	-	58	-	58
Total financial assets measured at fair value	7,113	8,903	203	16,219
Total financial liabilities measured at fair value	105	85	-	190

[1] Includes perpetual preferred shares with call options amounting to $1,296 million as at December 31, 2019 ($1,017 million as at December 31, 2018). The fair value of the embedded derivatives component amounting to $49 million as at December 31, 2019 ($39 million as at December 31, 2018) was determined using a Level 3 methodology.

The fair value of loans was $314 million as at December 31, 2019 ($289 million as at December 31, 2018).

The carrying value of certain short-term financial instruments not measured at fair value is a reasonable approximation of their fair value.

Note 10 – Financial risk

The Company has a comprehensive risk management framework and internal control procedures designed to manage and monitor various risks 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, assessing, responding, monitoring, and reporting on all material risks that the Company is exposed to in the course of its operations. 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 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.

Table 10.1 – 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, foreign exchange rates or commodity market.	Risk that offsetting investments in an economic hedging strategy will not experience price changes that entirely offset each other.	Risk 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	*Notes 10.1 and 10.2*	*Note 10.3*	*Note 10.4*	*Note 10.5*

10.1 Market risk

Table 10.2 – Market risk

	Equity price risk	Interest rate and credit spread 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 credit 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, including pension plan equities.	Significant exposure to changes in interest rates from: • debt securities and preferred shares; • defined benefit pension plan obligations, net of related debt securities; and • net claims liabilities.	A portion of the Company's net investment in foreign operations. Investments supporting the Company's Canadian operations denominated in foreign currencies, mainly USD. A portion of foreign currency inflows and outflows impacting the Company's operations.
Risk management investment policy	Set forth limits in terms of equity exposure.	Set forth limits in terms of interest rate and credit spread 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.	Using interest-rate derivatives. Changes in the discount rate applied to the Company's claims liabilities offers a partial offset to the change in price of interest sensitive assets.	Using foreign currency derivatives.

The Operational Investment Committee and Compliance Review and Corporate Governance Committee regularly monitor and review compliance, respectively, with the Company's investment policies.

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

a) Sensitivity analyses to market risk

Sensitivity analyses are one risk management technique that assists management in ensuring that risks assumed remain within the Company's risk tolerance level. Sensitivity analyses involve varying a single factor to assess the impact that this would have on the Company's results and financial condition. No management action is considered. Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 10.3 – Sensitivity analyses (after tax)

	2019		2018	
For the years ended December 31,	**Net income**	**OCI**	**Net income**	**OCI**
Equity price risk				
Common share prices (10% decrease)[1]	**3**	**(241)**	(11)	(202)
Preferred share prices (5% decrease)[2,3]	**11**	**(64)**	8	(51)
Interest rate risk (100 basis point increase)				
Debt securities[4]	**(182)**	**(170)**	(188)	(174)
Preferred shares	**6**	**(36)**	6	(37)
Net claims liabilities	**184**	**-**	168	-
Defined benefit pension plan obligation, net of related debt securities	**-**	**111**	-	87
Currency risk (strengthening of Canadian dollar by 10% vs all currencies)[5]				
U.S. investments supporting the Company's Canadian operations	**-**	**-**	-	-
International securities	**-**	**(20)**	-	(19)
Net assets of foreign operations	**32**	**(236)**	-	(196)

[1] Net of any equity hedges, including the impact of any impairment.
[2] Including the impact on related embedded derivatives.
[3] The preferred share equity price risk sensitivity analysis includes the impact of interest rate movements.
[4] Excludes the impact of debt securities related to the defined benefits pension plan.
[5] After giving effect to foreign-exchange contracts.

These sensitivity analyses were prepared using the following assumptions:

- shifts in the yield curve are parallel;
- interest rates, equity prices and foreign currency move independently;
- credit, liquidity, spread and basis risks have not been considered;
- impact on the Company's pension plans has been considered; and
- risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.

AFS debt or equity securities in an unrealized loss position, as reflected in AOCI, may be realized through sale in the future.

b) Exposure to currency risk

Table 10.4 – Net foreign currency and translation exposure to the USD

	USD	
As at December 31,	**2019**	**2018**
U.S. investments supporting the Company's Canadian operations	**1,370**	1,255
Less: foreign-currency derivatives, notional amount	**(1,363)**	(1,236)
	7	19
Consolidated net assets of U.S. subsidiaries	**2,176**	1,769
U.S. debt related to the acquisition of The Guarantee and Frank Cowan	**(306)**	-
Less: foreign-currency derivatives, notional amount	**(300)**	(300)
	1,570	1,469
Other net assets denominated in USD	**51**	12
Total net currency exposure to the USD	**1,628**	1,500

In addition, the Company holds international securities amounting to $272 million as at December 31, 2019 ($254 million as at December 31, 2018).

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

10.2 Interest risk

The following table presents the fair value and respective duration of the Company's assets and liabilities measured at fair value, as well as financial instruments that are sensitive to movements in interest rates.

Table 10.5 – Interest risk

	2019		2018	
As at December 31,	**Fair value**	**Duration (in years)**	**Fair value**	**Duration (in years)**
Investments:				
Debt securities	**11,826**	**3.73**	11,701	3.69
Preferred shares	**1,465**	**2.76**	1,165	3.59
Net claims liabilities *(Note 11.1)*	**10,546**	**2.38**	9,877	2.29
Defined benefit pension plans				
Debt securities *(Note 27.3)*	**1,730**	**18.2**	1,285	12.3
Obligation *(Note 27.2)*	**2,756**	**18.8**	2,271	17.7

The Company manages the interest rate risk exposure of its investment portfolio in accordance with its investment policies. Compliance with interest rate risk exposure ranges and targets established in these policies is monitored regularly.

10.3 Basis risk

The use of derivatives exposes the Company to several 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.

10.4 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 premiums receivable, reinsurance assets, and structured settlement agreements entered 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) Credit exposure

The table below presents the Company's maximum exposure to credit risk without considering 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 10.6 – Maximum exposure to credit risk

As at December 31,	**2019**	**2018**
Cash and cash equivalents	**936**	442
Debt securities	**11,826**	11,701
Preferred shares	**1,465**	1,165
Loans	**318**	294
Premiums receivable	**3,588**	3,358
Reinsurance assets	**1,511**	864
Other financial assets[1]	**773**	676
On-balance sheet credit risk exposure	**20,417**	18,500
Structured settlements	**1,454**	1,264
Off-balance sheet credit risk exposure	**1,454**	1,264

[1] Mainly includes Other receivables and recoverables, Industry pools receivable, Financial assets related to investments, Restricted funds, Reinsurance receivable, Accrued investment income, Surplus notes and Contract assets.

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

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

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. If 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. This credit risk is minimal since the Company deals with registered life insurers with credit rating of at least 'A-' at the inception of the contract.

b) Credit quality

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. This credit quality restriction excludes indirect investments through debt funds. In the case of funds, specific policy limits apply to manage the overall exposure to these investments. Management monitors subsequent credit rating changes on a regular basis.

The following tables present the credit quality of the Company's debt securities and preferred shares.

Table 10.7 – Credit quality of debt securities

As at December 31,	2019	2018
Debt securities		
AAA	**41%**	43%
AA	**30%**	31%
A	**19%**	17%
BBB	**8%**	7%
BB and not rated	**2%**	2%
	100%	100%

Table 10.8 – Credit quality of preferred shares

As at December 31,	2019	2018
P2	**77%**	84%
P3	**23%**	16%
	100%	100%

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

c) Credit risk concentration

Concentration of credit risk exists where several 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.

Investments

The Company has a significant concentration of its investments in the financial sector and in Canada. These risk concentrations are closely monitored. To provide sector diversification, the Company holds investment-grade non-financial U.S. corporate bonds. The U.S. and international securities reduce the concentration risk in Canada.

Table 10.9 – Investment breakdown by country of incorporation and by industry

	Investments		Pension assets	
As at December 31,	**2019**	**2018**	**2019**	**2018**
By country of incorporation				
Canada	**71%**	69%	**85%**	85%
U.S.	**27%**	29%	**8%**	7%
Other	**2%**	2%	**7%**	8%
	100%	100%	**100%**	100%
By industry				
Government	**30%**	32%	**46%**	43%
Financials	**26%**	27%	**21%**	24%
ABS and MBS	**11%**	12%	**-**	-
Energy	**6%**	5%	**5%**	5%
Other	**27%**	24%	**28%**	28%
	100%	100%	**100%**	100%

For the Company's regulated subsidiaries, the assets invested in any entity or group of related entities are limited by OSFI and AMF to 5% of the subsidiaries' assets. In the U.S. similar limitations exist and vary depending on the state. The Company also monitors aggregate concentrations of credit risk by country of issuer and by industry regardless of the asset class ***(see Note 14.4 – Risk management and counterparty credit risk)***. 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.

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

d) Counterparty credit risk

Counterparty credit risk arises from reinsurance *(see Note 14.4 – Risk management and counterparty credit risk)*, over-the-counter derivatives, as well as securities lending and borrowing transactions.

Over-the-counter derivatives, as well as securities 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 securities lending and borrowing transactions arises when the counterparty can re-hypothecate or re-pledge the collateral externally. Credit risk from securities 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 securities 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 securities 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 exceeds a specified threshold amount.

The aggregate credit risk exposure was $130 million as at December 31, 2019 ($135 million as at December 31, 2018) and is the sum of the replacement cost net of collateral 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.

10.5 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. Given 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 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 19.3 – Credit facility)*.

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

a) Investments and derivative financial assets by contractual maturity

Table 10.10 – Investments and derivative financial assets by contractual maturity

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2019					
Cash and cash equivalents	**936**	**-**	**-**	**-**	**936**
Debt securities	**993**	**5,668**	**4,919**	**246**	**11,826**
Preferred shares	**3**	**13**	**8**	**1,441**	**1,465**
Common shares	**-**	**-**	**-**	**4,063**	**4,063**
Loans	**12**	**43**	**263**	**-**	**318**
	1,944	**5,724**	**5,190**	**5,750**	**18,608**
Derivative financial assets	**29**	**-**	**-**	**-**	**29**
	1,973	**5,724**	**5,190**	**5,750**	**18,637**
As at December 31, 2018					
Cash and cash equivalents	442	-	-	-	442
Debt securities	1,078	5,559	4,894	170	11,701
Preferred shares	11	12	8	1,134	1,165
Common shares	-	-	-	3,295	3,295
Loans	2	40	252	-	294
	1,533	5,611	5,154	4,599	16,897
Derivative financial assets	58	-	-	-	58
	1,591	5,611	5,154	4,599	16,955

b) Financial liabilities by contractual maturity

Table 10.11 – Financial liabilities by contractual maturity

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2019					
Claims liabilities – undiscounted value	**3,772**	**6,200**	**1,834**	**-**	**11,806**
Debt outstanding	**-**	**1,068**	**1,267**	**27**	**2,362**
Other financial liabilities[1]	**962**	**112**	**29**	**745**	**1,848**
	4,734	**7,380**	**3,130**	**772**	**16,016**
As at December 31, 2018					
Claims liabilities – undiscounted value	4,182	4,700	1,852	-	10,734
Debt outstanding	250	692	1,267	-	2,209
Other financial liabilities	950	77	31	599	1,657
	5,382	5,469	3,150	599	14,600

[1] Excludes lease liabilities *(refer to Table 31.1 – Lease liabilities by contractual maturity).*

The contractual 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.

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

Note 11 – Claims liabilities

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.

11.1 Movements in claims liabilities

Table 11.1 – Movements in claims liabilities

For the years ended	Direct	Ceded	Net
December 31, 2019			
Balance, beginning of year	**10,623**	**746**	**9,877**
Current year claims	**7,016**	**188**	**6,828**
Unfavourable (favourable) prior-year claims development	**163**	**127**	**36**
Increase (decrease) due to changes in discount rate *(Note 11.2)*	**143**	**18**	**125**
Total claims incurred	**7,322**	**333**	**6,989**
Claims paid	**(6,872)**	**(232)**	**(6,640)**
Loss portfolio transfer *(Note 14)*	**-**	**158**	**(158)**
Business combinations *(Note 5)*	**887**	**327**	**560**
Exchange rate differences	**(114)**	**(32)**	**(82)**
Balance, end of year	**11,846**	**1,300**	**10,546**
December 31, 2018			
Balance, beginning of year	10,475	729	9,746
Current year claims	6,783	180	6,603
Unfavourable (favourable) prior-year claims development	(115)	51	(166)
Increase (decrease) due to changes in discount rate *(Note 11.2)*	(111)	(14)	(97)
Total claims incurred	6,557	217	6,340
Claims paid	(6,586)	(241)	(6,345)
Business combinations	(2)	-	(2)
Exchange rate differences	179	41	138
Balance, end of year	10,623	746	9,877

11.2 Fair value of claims liabilities

The Company estimates that the fair value of its net claims liabilities approximates their carrying values.

Table 11.2 – Carrying value of claims liabilities

As at	Direct	Ceded	Net
December 31, 2019			
Undiscounted value	**11,806**	**1,261**	**10,545**
Effect of time value of money[1]	**(605)**	**(74)**	**(531)**
Risk margin	**645**	**113**	**532**
	11,846	**1,300**	**10,546**
December 31, 2018			
Undiscounted value	10,734	731	10,003
Effect of time value of money[1]	(693)	(64)	(629)
Risk margin	582	79	503
	10,623	746	9,877

[1] Using a discount rate of 2.17% for Canada and 2.32% for the U.S. as at December 31, 2019 (2.73% and 3.25% respectively as at December 31, 2018).

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

11.3 Significant accounting judgments, estimates and assumptions

The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including LAE 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 generally accepted actuarial methods.

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 average 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. 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 to reflect their future development which might differ from historical data in the case of catastrophic events. Expected claim cost inflation is also considered when estimating claims liabilities.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, considering the uncertainties involved ("best estimate"). Actuaries are required to include margins in some assumptions to recognize the uncertainty in establishing this best estimate, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits.

The determination of the overall risk margin considers:
- the level of uncertainty in the best estimate due to estimation error, variability of key inflation assumptions and possible economic and legislative changes; and
- the volatility of each line of business and the diversification between the lines of business and geographic regions (referred to as diversification benefit).

At a fixed probability of adequacy, the appropriate risk margin for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. The level of diversification assumed between classes considers industry analysis, historical experience and the judgement of experienced and qualified actuaries. With operations in Canada and the U.S., the risk margin assumption used reflects this diversification benefit as at December 31, 2019 and 2018.

11.4 Sensitivity analysis

The claims liabilities' sensitivity to certain 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 11.3 – Sensitivity analysis (claims liabilities net of reinsurance) – Impact on Net income

		2019		2018	
As at December 31,		**Canada**	**U.S.**	**Canada**	**U.S.**
Average claim costs (severity)	+5%	**(317)**	**(54)**	(282)	(61)
Average number of claims (frequency)	+5%	**(65)**	**(7)**	(52)	(19)
Discount rate	+1%	**161**	**21**	138	24

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 the value of underlying claims liabilities due to changes in discount rates.

Notes to the Consolidated financial statements

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

11.5 Prior-year claims development

The claims development table below demonstrates the extent to which the original claim cost estimates in any one accident year has subsequently developed favourably (lower than originally estimated) or unfavourably. This table illustrates the variability and inherent uncertainty in estimating the claims estimate on a yearly basis. The ultimate claims cost for any accident year is not known until all claims payments have been made. For property insurance, payout of claims liabilities generally occurs shortly after the occurrence of the loss. For casualty (long-tailed) coverages, the loss may not be paid, or even reported, until well after the loss occurred. The estimated ultimate claims payments at the end of each subsequent accident year demonstrate how the original estimate has been revised over time.

The outstanding claims liabilities assumed and revised estimates resulting from a business combination are included in the claims development table from the date of acquisition. Prior years are adjusted to ensure comparability while avoiding the presentation of development in pre-acquisition accident years.

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 11.4 – Prior-year claims development – net

		Accident year										
As at December 31, 2019	**Total**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**Earlier**
Undiscounted claims liabilities outstanding at end of accident year		3,441	3,315	3,414	3,048	2,746	2,639	2,613	2,432	2,344	2,059	-
Revised estimates												
One year later			3,222	3,266	3,085	2,643	2,568	2,552	2,399	2,245	1,944	-
Two years later				3,236	3,091	2,678	2,562	2,516	2,319	2,174	1,917	-
Three years later					3,153	2,699	2,579	2,507	2,277	2,090	1,881	-
Four years later						2,719	2,590	2,503	2,251	2,050	1,857	-
Five years later							2,578	2,513	2,228	2,018	1,813	-
Six years later								2,484	2,224	1,988	1,789	-
Seven years later									2,208	1,966	1,766	-
Eight years later										1,953	1,751	-
Nine years later											1,747	-
Current estimate		3,441	3,222	3,236	3,153	2,720	2,578	2,484	2,208	1,953	1,747	
Claims paid to date			(1,310)	(1,730)	(2,028)	(2,022)	(2,147)	(2,214)	(2,050)	(1,850)	(1,683)	
Net undiscounted claims liabilities	**9,996**	3,441	1,912	1,506	1,125	698	431	270	158	103	64	288
Discounting and risk margin	**(6)**											
Net claims discounted – The Guarantee	**556**	160	93	60	45	36	26	25	15	13	11	72
Net claims liabilities	**10,546**											

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.

To eliminate the distortion resulting from changes in foreign currency rates, all amounts denominated in currencies other than the CAD have been translated into CAD using the exchange rate in effect as at December 31, 2019.

11.6 Industry pools

Canadian operations – When certain automobile owners are unable to obtain insurance via the voluntary insurance market in Canada, 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.

U.S. operations – As a condition of its license to do business in certain states in the U.S., the Company is required to participate in various mandatory shared market mechanisms commonly referred to as residual or involuntary markets. Each state dictates the type of insurance and the level of coverage that must be provided.

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

Note 12 – Unearned premiums

12.1 Movements in unearned premiums

Unearned premiums represent the portion of DPW that the Company has not yet earned as it represents insurance coverage to be provided by the Company after the balance sheet date. There was no premium deficiency as at December 31, 2019 and 2018.

Table 12.1 – Movements in unearned premiums

For the years ended	Direct	Ceded	Net
December 31, 2019			
Balance, beginning of year	**5,412**	**118**	**5,294**
Premiums written	**11,019**	**443**	**10,576**
Premiums earned[1]	**(10,720)**	**(445)**	**(10,275)**
Loss portfolio transfer *(Note 14)*	**-**	**27**	**(27)**
Business combinations *(Note 5)*	**289**	**74**	**215**
Exchange rate differences	**(40)**	**(6)**	**(34)**
Balance, end of year	**5,960**	**211**	**5,749**
December 31, 2018			
Balance, beginning of year	5,365	93	5,272
Premiums written	10,125	393	9,732
Premiums earned	(10,139)	(374)	(9,765)
Exchange rate differences	61	6	55
Balance, end of year	5,412	118	5,294

[1] Premiums earned ceded includes the net cost of $13 million from the loss portfolio transfer ***(see Note 14 - Reinsurance).***

Note 13 – Insurance risk

The Company principally underwrites automobile, home and commercial P&C contracts to individuals and businesses in Canada. The Company also offers a wide range of specialty insurance products to small and midsize businesses in the U.S.

Most of the insurance risk to which the Company is exposed is of a short-tail nature. The average duration of claims liabilities was approximately 2.5 years for Canadian operations and 1.9 years for the U.S. operations as at December 31, 2019 (2.4 years for Canada and 2 years for the U.S. as at December 31, 2018). Policies generally cover a 12-month period.

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

- underwriting and pricing ***(Note 13.1)***;
- fluctuation in the timing, frequency and severity of claims relative to expectations ***(Note 13.2)***;
- large unexpected losses arising from a single event such as a catastrophe ***(Note 13.3)***;
- claims liability risk ***(Note 13.4); and***
- inadequate reinsurance protection ***(Note 14.4)***.

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 LAE incurred with respect to insurance contracts underwritten by the Company.

Claims liabilities are the Company's best estimates of its expected ultimate cost of resolution and administration of claims. Expected claim cost inflation is considered 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.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

13.1 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 insurance legislation, economic environment and climate patterns. The Company also manages emerging risks that may arise.

In order to properly monitor the Company's risk appetite, guidance on pricing targets is provided by the Risk Management Department. Pricing targets are established using a return on equity model and an internal risk-based capital model.

a) Concentration by countries and lines of business

Table 13.1 – Concentration by countries and lines of business

	2019		2018	
As at December 31,	**DPW**	**Net claims liabilities**	**DPW**	**Net claims liabilities**
By countries				
Canada	**84%**	**86%**	84%	82%
U.S.	**16%**	**14%**	16%	18%
	100%	**100%**	100%	100%
By lines of business				
Personal auto	**35%**	**47%**	36%	47%
Personal property	**21%**	**7%**	21%	6%
Commercial lines - Canada	**28%**	**32%**	27%	29%
Commercial lines - U.S.	**16%**	**14%**	16%	18%
	100%	**100%**	100%	100%

Risks associated with commercial lines and personal property insurance contracts may vary in relation to the geographical area of the risk insured by the Company. For instance, legislation for automobile insurance is in place at a provincial level in Canada and this creates differences in the benefits provided among the provinces.

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. Diversification also reduces the uncertainty associated with the unfavourable development of claims liabilities for both our Canadian and U.S. operations. The Company maintains Growth and Profitability Committees responsible for balancing growth and profitability of our insurance business and ensuring we remain adequately compensated for the risks that we underwrite.

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, 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 to lower its risk.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

13.2 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 could 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, 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.

13.3 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 a natural disaster or any climatic, environmental, technological, political, and geopolitical risk. Catastrophes can have a significant impact on the underwriting income of an insurer. Changing climate conditions may add to the unpredictability and frequency of natural disasters and create additional uncertainty as to future trends and exposures.

The Company manages its exposure to catastrophe risk by imposing limits of insurance, deductibles, exclusions and strong underwriting guidelines on 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), but some proportional cessions are performed on specific portfolios. Ceded reinsurance complies with regulatory guidelines. Retention limits for the excess-of-loss reinsurance vary by product line. ***See Note 14.1 – Company's reinsurance net retention and coverage limits by nature of risk.***

13.4 Claims liability 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 claim 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
- risk margin ***(see Note 11.3 for more details).***

See Note 11.4 for the sensitivity analysis of claims liabilities to certain key assumptions.

Most or all 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 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.

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

Note 14 – Reinsurance

14.1 Company's reinsurance net retention and coverage limits by nature of risk

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

Table 14.1 – Company's reinsurance net retention and coverage limits by nature of risk

As at December 31	2019	2018[1]
Single risk events		
Retentions in Canada:		
on property policies	**7.5**	7.5
on liability policies	**5 - 10**	5 - 10
Retentions in the U.S. (in USD):		
on property and liability policies	**3**	3
Multi-risk events and catastrophes		
Retention	**100**	100
Coverage limits	**4,050**	3,800

[1] Since January 1, 2018, OneBeacon Insurance Group, Ltd.'s ("OneBeacon") operations are covered by the multi-risk events and catastrophes reinsurance program. Until April 30, 2018, the losses resulting from any single catastrophe above US$20 million and up to US$130 million were being reinsured externally.

For certain special classes of business or types of risks, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance. For multi-risk events and catastrophes, the Company retains participations averaging 5.5% as at December 31, 2019 (5.6% as at December 31, 2018) on reinsurance layers between the retention and coverage limit. The coverage limit prudently exceeds the Company's risk assessment of an earthquake in Western Canada at a 1-in-500-year return period. As at January 1, 2020, the Company increased its coverage to $5,300 million and retains participations averaging 10.2% on reinsurance layers between the retention and coverage limit to increase its already conservative protection.

With respect to OneBeacon's claims liabilities for accident years 2016 and prior, the Company purchased from a major reinsurer in 2017, an adverse development cover (ADC) subject to an aggregate limit of US$200 million. Capacity remains on this cover as at December 31, 2019.

Loss portfolio transfer

Subsequent to the exit of the U.S Healthcare business in July 2019, OneBeacon entered into a loss portfolio transfer and a prospective quota share reinsurance contract with a reinsurer effective December 31, 2019 (collectively known as the "loss portfolio transfer"). Subject to an aggregate limit, the reinsurer assumed the liabilities and future reserve development for accident years 2017 and subsequent, net of reinsurance. The ceded Healthcare portfolio consisted of Claims liabilities of $158 million and Unearned premiums of $27 million. The net cost of the reinsurance transaction of $13 million was recognized in Premiums ceded in the Consolidated statements of income at inception of the contract.

The Guarantee

As at December 31, 2019, the operations of The Guarantee were covered by their own reinsurance program for single risk events, multi-risk events and catastrophes. Under the property catastrophe reinsurance program, the first $7 million of losses resulting from any multi-risk event are retained, with the coverage limit for the next $168 million of losses being entirely reinsured. The Guarantee also purchased dedicated reinsurance protection for certain lines of business.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

14.2 Components of reinsurance assets

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums.

Table 14.2 – Components of reinsurance assets

As at December 31,	2019	2018
Reinsurers' share of claims liabilities *(Note 11.1)*	**1,300**	746
Reinsurers' share of unearned premiums *(Note 12.1)*	**211**	118
	1,511	864

14.3 Net recovery (expense) from reinsurance

Table 14.3 – Net recovery (expense) from reinsurance

For the years ended December 31,	2019	2018
Ceded earned premiums *(Note 12.1)*	**(445)**	(374)
Ceded claims incurred *(Note 11.1)*	**333**	217
Commissions earned on ceded reinsurance	**45**	42
	(67)	(115)

14.4 Risk management and counterparty credit risk

The Company relies on reinsurance to manage underwriting risk. Under reinsurance programs, management considers that 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 on potential future recoverables and collectability of balances due from reinsurers is important to the Company's financial strength.

The Company is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. 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 monitors the financial strength of its reinsurers on a regular basis. Uncollectible amounts historically have not been significant.

Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at December 31, 2019 and 2018.

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.

Canadian operations

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 $97 million as at December 31, 2019 ($95 million as at December 31, 2018) as guarantees from unregistered reinsurers. This collateral is held in support of policy liabilities of $61 million as at December 31, 2019 ($58 million as at December 31, 2018) and could be used should these reinsurers be unable to meet their obligations.

U.S. operations

The Company has collateral in place to support amounts receivable and recoverable mainly from unauthorized reinsurers. The Company is the assigned beneficiary of collateral consisting of cash, security agreements and letters of credit totalling $147 million as at December 31, 2019 ($154 million as at December 31, 2018) as guarantees from unauthorized reinsurers. This collateral is held in support of policy liabilities of $135 million as at December 31, 2019 ($136 million as at December 31, 2018) and could be used should these reinsurers be unable to meet their obligations.

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

Note 15 – Goodwill and intangible assets

15.1 Summary of goodwill and intangible assets

Table 15.1 – Reconciliation of the carrying value of goodwill and intangible assets.

		Intangible assets			
	Goodwill	Distribution networks and trade names	Customer relationships	Internally developed software	Total intangible assets
Cost					
Balance as at January 1, 2019	**2,399**	**1,786**	**428**	**543**	**2,757**
Acquisitions and costs capitalized	**59**	**-**	**53**	**78**	**131**
Business combinations *(Note 5)*	**220**	**327**	**41**	**19**	**387**
Disposals and write-off	**(8)**	**-**	**(39)**	**(4)**	**(43)**
Exchange rate differences	**(44)**	**(41)**	**-**	**(3)**	**(44)**
Balance as at December 31, 2019	**2,626**	**2,072**	**483**	**633**	**3,188**
Accumulated amortization					
Balance as at January 1, 2019	**-**	**(75)**	**(244)**	**(238)**	**(557)**
Amortization expense	**-**	**(52)**	**(36)**	**(52)**	**(140)**
Disposals and write-off	**-**	**-**	**22**	**4**	**26**
Exchange rate differences	**-**	**3**	**-**	**3**	**6**
Balance as at December 31, 2019	**-**	**(124)**	**(258)**	**(283)**	**(665)**
Net carrying value	**2,626**	**1,948**	**225**	**350**	**2,523**
Cost					
Balance as at January 1, 2018	2,284	1,719	407	517	2,643
Acquisitions and costs capitalized	39	-	22	75	97
Business combinations	4	-	-	-	-
Disposals and write-off	-	-	(1)	(55)	(56)
Exchange rate differences	72	67	-	6	73
Balance as at December 31, 2018	2,399	1,786	428	543	2,757
Accumulated amortization					
Balance as at January 1, 2018	-	(31)	(211)	(240)	(482)
Amortization expense	-	(41)	(34)	(45)	(120)
Disposals and write-off	-	-	1	52	53
Exchange rate differences	-	(3)	-	(5)	(8)
Balance as at December 31, 2018	-	(75)	(244)	(238)	(557)
Net carrying value	2,399	1,711	184	305	2,200

Intangible assets under development amounted to $77 million as at December 31, 2019 ($53 million as at December 31, 2018). These intangible assets are not subject to amortization but are tested for impairment on an annual basis.

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

15.2 Significant accounting judgments, estimates and assumptions

a) Allocation of goodwill and intangible assets with indefinite lives to the group of CGUs

Goodwill and intangible assets with indefinite lives are allocated to CGUs, or groups of CGUs, that are expected to benefit from the business combination in which they arose.

Table 15.2 – Allocation of goodwill and intangible assets with indefinite lives to the groups of CGUs

	Goodwill		Intangible assets	
As at December 31,	**2019**	**2018**	**2019**	**2018**
Canada	**1,737**	1,499	**829**	820
U.S.[1]	**889**	900	**8**	50
	2,626	2,399	**837**	870

[1] In 2019, the Company reviewed the useful life of its intangible assets with indefinite lives as a result it reclassified $40 million from indefinite to finite useful life prospectively.

In connection with the acquisitions completed in 2019, Goodwill in the amounts of $186 and $34 were allocated to the Canada and U.S. groups of CGUs respectively ***(refer to Note 5 – Business combinations)***.

b) Impairment testing of goodwill and intangible assets with indefinite lives

The Company determines whether goodwill and intangible assets with indefinite useful lives (not subject to amortization) are impaired at least annually and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable at the CGU or group of CGUs level.

The annual impairment tests for the groups of CGUs were performed as at June 30, 2019 and 2018.

The Canada and U.S. groups of CGUs, which correspond to the Company's operating segments, were tested for impairment by comparing their carrying value to their recoverable amount, which has been determined based on a value in use calculation using the following key estimates and assumptions:

- Cash flow projections for the next three years are based on financial budgets approved by the Board of Directors and determined using budgeted margins based on past performance and management expectations for the Canada and U.S. groups of CGUs and their industry.
- Cash flow projections beyond the three-year period are extrapolated using estimated growth rates, based mainly on the Canadian and U.S. inflation, as well as demographic or gross domestic product growth perspectives.
- Pre-tax discount rate is based on the weighted-average cost of capital for comparable companies whose activities are similar to the Canada and U.S. groups of CGUs.

Table 15.3 – Key assumptions used (groups of CGUs)

	Growth rate		Pre-tax discount rate	
	2019	**2018**	**2019**	**2018**
Canada	**2.5%**	2.5%	**9.5%**	9.0%
U.S.	**3.9%**	3.9%	**10.6%**	11.6%

No impairment loss on goodwill or intangible assets with indefinite lives has been recognized for these CGUs for the years ended December 31, 2019 and 2018.

The key assumptions used to determine the recoverable amount of each group of CGUs were tested for sensitivity by applying a reasonably possible change to those assumptions, with all other assumptions held constant. The results of the sensitivity analysis would not have resulted in an impairment of the Canada and U.S. groups of CGUs. Since the acquisitions completed in 2019 were recent the related goodwill was already at fair value ***(refer to Note 5 – Business combinations)***.

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

Note 16 – Investments in associates and joint ventures

Table 16.1 – Movement in investments in associates and joint ventures

As at December 31,	2019	2018
Balance, beginning of year	**600**	550
Acquisitions, net of sales	**109**	36
Dividends received	**(20)**	(15)
Share of profit (loss) recorded in:		
net income	**31**	25
OCI	**(5)**	4
Balance, end of year	**715**	600
Of which:		
associates	**431**	436
joint ventures	**284**	164

During 2019, there were no events or changes in circumstances that indicated that the carrying values of Company's investments in associates and joint ventures, all of which are investments in private entities, may not be recoverable.

Note 17 – Property and equipment

17.1 Net carrying value of property and equipment

Table 17.1 – Net carrying value of property and equipment

As at December 31,	2019	2018
Right-of-use assets[1]	**373**	-
Furniture and equipment	**74**	59
Leasehold improvements	**58**	61
Land and buildings	**33**	35
Finance leases	**-**	15
	538	170

[1] Right-of-use assets were recognized on January 1, 2019 and were mainly related to real estate for which additions for the year ended December 31, 2019 amounted to $61 million. Total additions to right-of-use assets related to business combinations was $37 million.

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

Note 18 – Other assets and other liabilities

18.1 Other assets

Table 18.1 – Components of other assets

As at December 31,	2019	2018
Other receivables and recoverables	**178**	92
Industry pools receivable	**137**	104
Financial assets related to investments	**106**	139
Restricted funds	**95**	103
Investments, at cost	**90**	66
Reinsurance receivable	**77**	96
Accrued investment income	**77**	80
Prepaids	**59**	48
Premium and sale taxes receivable	**40**	41
Surplus notes[1]	**36**	28
Contract assets[2]	**34**	-
Other	**39**	44
	968	841

[1] Recorded at fair value based on a discounted cash flow model using information as of the measurement date and classified in Level 3 of the fair value hierarchy.
[2] Unbilled revenues related to supply chain operations.

During 2019, there were no events or changes in circumstances that indicated that the carrying values of Investments at cost may not be recoverable.

18.2 Other liabilities

Table 18.2 – Components of other liabilities

As at December 31,	2019	2018
Lease liabilities *(see Notes 4.1 and 31.1)*	**461**	15
Deposits received in connection with insurance contracts[1]	**363**	366
Pension plans in a deficit position and unfunded plans *(Note 27.1)*	**284**	191
Premium and sale taxes payable	**266**	251
Accrued salaries and related compensation	**252**	244
Commissions payable	**189**	196
Account payables and accrued expenses	**158**	107
Contingent considerations[2]	**143**	21
Industry pools payable	**131**	101
Reinsurance payable	**55**	34
Other post-employment benefits and other post-retirement benefits	**54**	51
Deposits received from reinsurers	**16**	14
Other payables and other liabilities	**274**	273
	2,646	1,864

[1] Unrestricted collateral held by the Company primarily in relation with the surety business.
[2] Recorded at fair value based on future profitability metrics, discounted using information as of the measurement date and classified in Level 3 of the fair value hierarchy *(refer to Note 5 – Business combinations).*

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

Note 19 – Debt outstanding

19.1 Summary of debt outstanding

Table 19.1 – Carrying value of debt outstanding

As at December 31,	Maturity date	Initial term (years)	Fixed rate	Coupon (payment)	Principal amount	Carrying value (net of fees) 2019	Carrying value (net of fees) 2018
Term notes							
Series 1	Sept. 2019	10	5.41%	Mar. & Sept.	250	**-**	250
Series 2	Nov. 2039	30	6.40%	May & Nov.	250	**248**	248
Series 3	July 2061	50	6.20%	Jan. & July	100	**99**	99
Series 4	Aug. 2021	10	4.70%	Feb. & Aug.	300	**300**	299
Series 5	June 2042	30	5.16%	June & Dec.	250	**249**	249
Series 6	Mar. 2026	10	3.77%	Mar. & Sept.	250	**249**	249
Series 7	June 2027	10	2.85%	June & Dec.	425	**422**	422
2012 U.S. Senior Notes	Nov. 2022	10	4.60%	May & Nov.	USD275	**370**	393
Term loan *(see below)*					USD200	**260**	-
Credit facility *(Note 19.3)*						**165**	-
						2,362	**2,209**

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 the Government of Canada Yield at the date of redemption plus a margin or their par value. On September 3, 2019, the Company repaid its Series 1 term notes on maturity.

On November 29, 2019, the Company entered into a US$200 million ($266 million) 18-month term loan agreement at a rate of Libor plus 0.50% and borrowed US$106 million ($141 million) on its credit facility to finance the acquisition of The Guarantee and Frank Cowan. The credit facility was repaid in full on January 2, 2020.

Fair value of debt outstanding amounted to $2,650 million as at December 31, 2019 (December 31, 2018 – $2,365 million) and was established using valuation data from a benchmark firm. As at December 31, 2019 and 2018, the Company was in compliance with all debts covenants.

19.2 Movement in the Company's debt outstanding

Table 19.2 – Movement in the Company's debt outstanding

For the year ended December 31,	2019	2018
Balance, beginning of year	**2,209**	2,241
Cash flows from financing activities		
Proceeds from issuance of debt	**266**	-
Borrowing (repayment) on the credit facility, net	**145**	(60)
Repayment of term notes on maturity	**(250)**	-
Business combinations *(Note 5)*	**23**	
Exchange rate differences	**(27)**	31
Other	**(4)**	(3)
Balance, end of year	**2,362**	2,209

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

19.3 Credit facility

The Company has an unsecured revolving term credit facility available for an amount of $750 million. As at December 31, 2019, there was a balance of US$106 million ($138 million) drawn under this credit facility (December 31, 2018 - nil). In November 2019, the Company extended the maturity of this credit facility by 15 months and now matures on November 26, 2024 and may be drawn as follows:

Type:	At a rate of:
Prime loans	Prime rate plus a margin
Base rate (Canada) advances	Base rate (Canada) plus a margin
Bankers' acceptances	Bankers' acceptance rate plus a margin
Libor advances	Libor rate plus a margin

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, 2019 and 2018.

Note 20 – Common shares and preferred shares

20.1 Authorized

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

20.2 New financing

On December 2, 2019, concurrent to the acquisition of The Guarantee and Frank Cowan, 3,829,500 subscription receipts ("receipts") were converted into 3,829,500 common shares. The Company completed its offering of receipts on August 26, 2019 at a price of $120.45 per receipt, for aggregate gross proceeds of $461 million. Share issuance costs of $17 million ($12 million after tax), were accounted for as a reduction in common shares on the Consolidated balance sheets.

20.3 Issued and outstanding

Table 20.1 – Issued and outstanding shares

	2019		2018	
As at December 31,	Number of shares	Amount (in millions)	Number of shares	Amount (in millions)
Common shares	**143,018,134**	**3,265**	139,188,634	2,816
Preferred shares - Class A Shares				
Series 1	**10,000,000**	**244**	10,000,000	244
Series 3	**8,405,004**	**206**	8,405,004	206
Series 4	**1,594,996**	**39**	1,594,996	39
Series 5	**6,000,000**	**147**	6,000,000	147
Series 6	**6,000,000**	**147**	6,000,000	147
Series 7	**10,000,000**	**245**	10,000,000	245
Total Class A	**42,000,000**	**1,028**	42,000,000	1,028

Issued and outstanding Class A shares rank in priority to common shares with regards to payment of dividends.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

Table 20.2 – Reconciliation of number of shares outstanding

	Common shares (in shares)		Preferred shares Class A shares (in shares)	
As at December 31,	**2019**	**2018**	**2019**	**2018**
Balance, beginning of year	**139,188,634**	139,188,634	**42,000,000**	32,000,000
Issued	**3,829,500**	-	**-**	10,000,000
Balance, end of year	**143,018,134**	139,188,634	**42,000,000**	42,000,000

On May 29, 2018, the Company completed a Class A Series 7 offering of preferred shares (the "Series 7 Preferred Shares") by issuing and selling 10,000,000 Series 7 Preferred Shares, at a price of $25.00 per share, for aggregate gross proceeds of $250 million. Share issuance costs of $7 million ($5 million after tax), were accounted for as a reduction in preferred shares on the Consolidated balance sheets.

20.4 Dividends declared and paid per share

Table 20.3 – Dividends declared and paid per share (in dollars)

For the years ended December 31,	2019	2018
Common shares	**3.04**	2.80
Preferred shares		
Series 1	**0.85**	0.85
Series 3	**0.83**	0.83
Series 4	**1.08**	0.97
Series 5	**1.30**	1.30
Series 6	**1.33**	1.33
Series 7	**1.23**	0.72

The holders of record of the Company preferred shares are entitled to receive non-cumulative preferential cash dividends on a quarterly basis, as and when declared by the Board of Directors of the Company.

- ***Series 1 Preferred Shares*** – The initial fixed-rate period ending on December 31, 2017 was based on an annual rate of 4.20%. The dividend rate that will prevail from and including December 31, 2017 to but excluding December 31, 2022 is 3.396%. Every five years thereafter, the dividend rate will reset at a rate equal to the five-year Government of Canada bond yield plus 1.72%.
- ***Series 3 Preferred Shares*** – The annual dividend rate for the five-year period from and including September 30, 2016 to but excluding September 30, 2021 is 3.332%.
- ***Series 4 Preferred Shares*** – The dividend rate for the 3-month floating rate period from and including September 30, 2018 to but excluding December 31, 2019 was 1.08333% (4.298% on an annualized basis). The floating quarterly dividend rate will be reset every quarter.
- ***Series 5 Preferred Shares*** – The annual dividend rate is 5.20% and is not subject to a rate reset.
- ***Series 6 Preferred Shares*** – The annual dividend rate is 5.30% and is not subject to a rate reset.
- ***Series 7 Preferred Shares*** – The annual dividend rate until June 30, 2023 is 4.90%, the dividend rate will be reset at this time and every five years thereafter. The initial dividend paid on September 28, 2018 amounted to $0.4162 per share.

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

Note 21 – Capital management

21.1 Capital management objectives

The Company's objectives when managing capital consist of:

- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company; and
- maintaining strong regulatory capital levels, to ensure policyholders are well protected.

The Company seeks to maintain adequate 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 capital margin when it foresees growth or actionable opportunities in the near term. Furthermore, the Company may return capital to shareholders through annual dividend increases and, when appropriate, through share buybacks.

Regulatory capital

The amount of capital in any particular company or country depends upon the Company's internal assessment of capital adequacy in the context of its risk profile and strategic plans, as well as local regulatory requirements. The Company's objective is to maintain the capitalization of its regulated operating subsidiaries above the relevant minimum regulatory capital requirements in the jurisdictions in which they operate (referred to as regulator supervisory minimum levels). Regulatory capital guidelines change from time to time and may impact the Company's capital levels. The Company carefully monitors all changes, actual or proposed.

Canada	• The Company's federally chartered Canadian 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 a regulator supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.

U.S.	• The Company's U.S. insurance operations are subject to regulation and supervision in each of the states where they are domiciled and licensed to conduct business. • State insurance departments have established the insurer solvency laws and regulatory infrastructure to maintain accredited status with the National Association of Insurance Commissioners ("NAIC"). • A key solvency-driven NAIC accreditation requirement is a state's adoption of RBC requirements.

21.2 Capital position

As at December 31, 2019 and 2018, all the Company's regulated P&C insurance subsidiaries were well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels, as well as CALs. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 21.1 – Estimated aggregate capital position

As at December 31,	2019	2018
Canadian regulated entities		
Regulatory capital ratio (MCT)	**198%**	201%
Capital above CAL (capital margin)	**554**	530
Other regulated entities		
Capital above CAL (capital margin)[1]	**630**	505
Unregulated entities	**38**	298
Total capital margin[2]	**1,222**	1,333

[1] Includes Atlantic Specialty Insurance (U.S.) ("ASIC"), Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados). ASIC's RBC was 457% as at December 31, 2019 (377% at December 31, 2018). For all entities regulatory capital level well exceeds minimum capital requirements.

[2] Includes the aggregate of capital in excess of CALs in regulated entities (170% MCT for most of the Canadian insurance subsidiaries, 200% RBC for the U.S. insurance subsidiaries, and other CALs in other jurisdictions) plus available cash in unregulated entities.

Annually, the Company performs Capital Adequacy Testing 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 2019 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.

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

Note 22 – Net investment income

Table 22.1 – Net investment income

For the years ended December 31,	2019	2018
Interest income from:		
debt securities		
designated or classified as FVTPL	**182**	190
classified as AFS	**166**	134
loans and cash and cash equivalents	**26**	27
Interest income	**374**	351
Dividend income (expense) from:		
common shares, net		
designated or classified as FVTPL	**66**	63
classified as AFS	**102**	94
preferred shares classified as AFS	**62**	60
equities sold short positions	**(6)**	(4)
investments, at cost	**1**	-
Dividend income	**225**	213
Expenses	**(23)**	(23)
	576	541

Note 23 – Net gains (losses)

23.1 Net gains (losses)

Table 23.1 – Net gains (losses)

For the years ended December 31,	2019			2018		
Portfolios	Fixed Income	Equity	Total	Fixed Income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	**115**	**173**	**288**	(82)	(179)	(261)
classified as FVTPL	**-**	**1**	**1**	(3)	4	1
classified as AFS	**25**	**85**	**110**	(20)	127	107
	140	**259**	**399**	(105)	(48)	(153)
derivatives[1]:						
swap agreements	**-**	**(201)**	**(201)**	-	155	155
forwards and futures	**(11)**	**(34)**	**(45)**	(5)	22	17
other	**-**	**2**	**2**	-	(2)	(2)
	(11)	**(233)**	**(244)**	(5)	175	170
Embedded derivatives	**-**	**(5)**	**(5)**	-	25	25
Net foreign currency gains (losses)	**-**	**-**	**-**	(1)	-	(1)
Impairment losses on common shares	**-**	**(76)**	**(76)**	-	(47)	(47)
	129	**(55)**	**74**	(111)	105	(6)
Other gains (losses)[2]			**91**			19
			165			13

[1] Excluding foreign currency contracts, which are reported in the line net foreign currency gains (losses).
[2] Includes a gain of $72 million recorded in 2019 related to a change of control which was accounted for as a disposal of the subsidiary net assets, including the related goodwill, in exchange for a joint venture investment retained by the Company in the former subsidiary.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

23.2 Significant accounting judgments, estimates and assumptions

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. *See Table 2.4 - Objective evidence of impairment for equity impairment model.*

Note 24 – Income taxes

24.1 Income tax expense recorded in Net income

Table 24.1 – Components of income tax expense recorded in Net income

For the years ended December 31,	2019	2018
Current income tax expense		
Current year[1]	**121**	168
Adjustments to prior years	**-**	(2)
Deferred income tax expense (benefit)		
Change related to temporary differences[2]	**(19)**	2
Adjustments related to changes in tax legislation[3]	**(18)**	-
Adjustments related to the U.S. Corporate Tax reform[4]	**-**	9
Adjustments to prior years	**(5)**	2
	79	179

[1] Includes a non-taxable gain of $72 million recorded in 2019 related to a change of control of a subsidiary.
[2] Includes a deferred income tax benefit of $22 million recorded in 2019 related to the recognition of a capital loss carry forward of $193 million net of unrealized capital gains of $28 million.
[3] Includes a deferred income tax benefit of $17 million recorded in 2019 related to changes in the taxable status of a Canadian subsidiary.
[4] Includes a deferred tax expense of $9 million recorded in 2018 related to the finalization of the OneBeacon purchase price equation.

24.2 Effective income tax rate

The effective income tax rates are different from the combined Canadian federal and provincial statutory 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 24.2 – Effective income tax rate reconciliation

For the years ended December 31,	2019	2018
Income tax expense calculated at statutory tax rate	**26.7%**	26.9%
Increase (decrease) in income tax rates resulting from:		
non-taxable investment income	**(7.5)%**	(4.7)%
foreign income taxed at different rates	**(1.3)%**	(1.7)%
non-taxable income	**-**	(1.0)%
non-deductible losses (non-taxable income) from subsidiaries	**(1.0)%**	(0.8)%
non-deductible losses (non-taxable gains)[1]	**(3.0)%**	(0.3)%
recognition of previously unrecognized capital losses[1]	**(2.6)%**	-
adjustments related to changes in tax legislation[1]	**(2.2)%**	-
adjustments related to the U.S. Corporate Tax reform[1]	**-**	1.1%
non-deductible expenses	**0.9%**	0.3%
other	**(0.5)%**	0.4%
Effective income tax rate	**9.5%**	20.2%

[1] *See Note 24.1 above for details*.

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

24.3 Significant accounting judgments, estimates and assumptions

Management exercises judgment in estimating the provision for income taxes. The Company is subject to income tax law in 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.

24.4 Components of deferred tax assets and liabilities

Table 24.3 – Components of deferred tax assets and liabilities

	Consolidated balance sheets Asset (liability)		Consolidated statements of comprehensive income Expense (benefit)	
As at December 31,	**2019**	**2018**	**2019**	**2018**
Net claims liabilities	**117**	96	**5**	4
Difference between market value and book value of investments	**-**	32	**32**	(17)
Deferred expenses for tax purposes	**64**	55	**(2)**	3
Losses available for carry forward	**186**	155	**(11)**	(15)
DB plans	**76**	50	**(24)**	(14)
Other	**4**	6	**7**	7
Deferred tax assets	**447**	394	**7**	(32)
Intangible assets	**(494)**	(439)	**(54)**	2
Deferred income for tax purposes	**-**	-	**-**	-
Deferred gains and losses on specified debt obligations	**(7)**	(9)	**(2)**	(2)
Property and equipment	**(51)**	(44)	**21**	8
Difference between market value and book value of investments	**(6)**	-	**6**	-
Deferred tax liabilities	**(558)**	(492)	**(29)**	8
Net deferred tax asset (liability) / expense (benefit)	**(111)**	(98)	**(22)**	(24)

The Company believes that it is probable that it will generate sufficient taxable income in the future to realize the above deferred tax assets.

The Company recognizes a deferred tax liability on all temporary differences associated with investments in subsidiaries and associates unless it can control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2019 and 2018, no deferred tax liability has been recognized on the temporary differences of $120 million (2018 – $71 million) associated with investments in subsidiaries and associates.

24.5 Movement in the net deferred tax asset (liability)

Table 24.4 – Movement in the net deferred tax asset (liability)

As at December 31,	**2019**	**2018**
Balance, beginning of year	**(98)**	(122)
Impact of the adoption of IFRS 16	**14**	-
Adjusted balance, beginning of year	**(84)**	(122)
Income tax benefit (expense):		
recorded in net income	**42**	(13)
recorded in OCI	**(20)**	37
recorded in equity	**6**	5
Business combinations and other acquisitions	**(58)**	(4)
Exchange rate differences and other	**3**	(1)
Balance, end of year	**(111)**	(98)
Reported in:		
deferred tax assets	**175**	141
deferred tax liabilities	**(286)**	(239)

Notes to the Consolidated financial statements

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

24.6 Unused tax losses and credits

The following table presents a summary of unused tax losses and credits, as well as the amount for which a deferred tax asset was recognized on the Consolidated Balance sheets as at December 31, 2019 and 2018.

Table 24.5 – Unused tax losses and credits

	2019			2018		
As at December 31,	**Total**	**Recognized**	**Expiry date**	**Total**	**Recognized**	**Expiry date**
Unused net operating losses:						
U.S. subsidiaries	**297**	**297**	**2033-2037**	426	426	2031 - 2037
Canada	**252**	**246**	**2037-2039**	117	111	2037 - 2038
Unused tax credits:						
U.S. subsidiaries	**32**	**32**	**2030-2039**	33	33	2030 - 2038
Unused allowable capital losses:						
Canada	**100**	**100**	**No expiry date**	93	-	No expiry date

Unused tax credits can be used to offset U.S. tax payable in the future. Unused allowable capital losses can be used to reduce future taxable capital gains in Canada.

24.7 Dividend received deduction

In January 2020, the Canada Revenue Agency ("CRA") issued a letter in which it proposes to reassess the Company for an expected amount of $11 million of additional income tax and interest in respect to the 2013 taxation year. The CRA proposes denying certain dividend deductions on the basis that they were part of a "dividend rental arrangement". It is possible that subsequent years up to 2016 may be reassessed for similar activities. The Company is confident that its tax filing position was appropriate and intends to defend itself vigorously. As a result, no amounts have been accrued in the Consolidated financial statements.

Note 25 – 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 25.1 – Earnings per share

For the years ended December 31,	**2019**	**2018**
Net income attributable to shareholders	**754**	707
Less: dividends declared on preferred shares, net of tax	**45**	40
Net income attributable to common shareholders	**709**	667
Weighted-average number of common shares outstanding (in millions)	**139.5**	139.2
EPS – basic and diluted (in dollars)	**5.08**	4.79

Note 26 – Share-based payments

26.1 Long-term incentive plan

a) Outstanding LTIP units and fair value at grant date

Table 26.1 – Outstanding units and weighted-average fair value at grant date by performance cycle

As at December 31,	2019			2018		
Performance cycles	Number of units	Weighted-average fair value at grant date (in $)	Amount (in millions of $)	Number of units	Weighted-average fair value at grant date (in $)	Amount (in millions of $)
2016 - 2018	-	-	-	248,005	90.36	22
2017 - 2019	**277,572**	**93.30**	**26**	246,137	93.30	23
2017 - 2022	**115,991**	**103.88**	**12**	119,733	103.88	12
2018 - 2020	**494,575**	**105.14**	**52**	473,736	105.14	50
2019 – 2021	**469,658**	**102.36**	**48**	-	-	-
	1,357,796	**101.70**	**138**	1,087,611	99.01	107

b) Movements in LTIP units

Table 26.2 – Movements in LTIP share units

For the years ended December 31,	2019 (in units)	2018 (in units)
Outstanding, beginning of year	**1,087,611**	774,783
Awarded	**411,500**	434,583
Net change in estimate of units outstanding	**130,264**	132,079
Units settled	**(271,579)**	(253,834)
Outstanding, end of year	**1,357,796**	1,087,611

c) LTIP expense recognized in Net income

The LTIP is accounted for as an equity-settled plan, except for the participants that are eligible to receive cash in lieu of shares of the Company (accounted for as a cash-settled plan).

Table 26.3 – LTIP expense recognized in Net income

For the years ended December 31,	2019	2018
Cash-settled plans	**15**	4
Equity-settled plans	**43**	42
	58	46

26.2 Employee share purchase plan

a) Movements in restricted common shares

Table 26.4 – Movements in restricted common shares

For the years ended December 31,	2019 (in units)	2018 (in units)
Outstanding, beginning of year	**131,681**	132,491
Accrued	**118,508**	133,871
Awarded and vested	**(129,021)**	(129,416)
Forfeited	**(5,132)**	(5,265)
Outstanding, end of year	**116,036**	131,681

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

b) ESPP expense recognized in Net income

The ESPP is accounted for as an equity-settled plan. For the years ended December 31, 2019, the ESPP expense was $14 million (December 31, 2018 – $13 million).

26.3 Deferred share unit

The DSU is accounted for as a cash-settled plan. For the years ended December 31, 2019, the expense was $5 million (December 31, 2018 - $1 million). The DSU provision amounted to $15 million as at December 31, 2019 (December 31, 2018 - $10 million).

26.4 Common shares repurchased for share-based payments

The settlement in shares with regards to the Company's LTIP and ESPP plans is presented below.

Table 26.5 – Settlement in shares (LTIP and ESPP plans)

For the years ended December 31,	2019	2018
Value of common shares repurchased for share-based payments	**43**	36
Less: cumulative cost of the units for the Company	**36**	32
Excess of market price over the cumulative cost for the Company	**7**	4
Amount recognized in Retained earnings, net of taxes	**5**	3

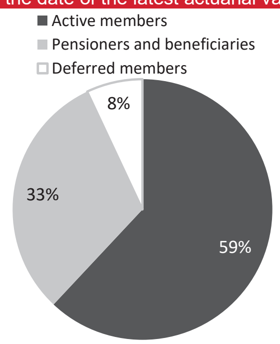
The cumulative cost of the units that vested during the year and were settled through the plan administrator purchasing common shares on the market and remitting them to the participants was removed from Contributed surplus.

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.

Note 27 – Employee future benefits

The Company has funded and unfunded DB pension plans in Canada that provide benefits to members in the form of a guaranteed pension payable for life based on final average earnings and contingent upon certain age and service requirements. In Canada, the Company provides active employees a choice between a DB and a defined contribution pension plan. In the U.S., the Company offers a 401(k) plan to its employees.

DB pension obligation
(as at the date of the latest actuarial valuation)



Subject to applicable pension legislation, the Canadian 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 in Canada require special payments from the Company to amortize any shortfall of registered plans' assets relative to the corresponding funding targets. Security in the form of letters of credit is permitted in lieu of those special payments, up to a limit of 15% of the actuarial liability used to determine the funding target.

Subject to applicable legal requirements in Canada, 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 in certain provinces 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 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 Guarantee sponsors one defined benefit pension plan which has been reflected in this note.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

27.1 Funded status

The DB obligation, net of the fair value of plan assets, is recognized on the Consolidated 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.

Table 27.1 – Movement in the DB obligation

	Pension plans	
As at December 31,	**2019**	**2018**
DB obligation	**(2,756)**	(2,271)
Fair value of plan assets	**2,472**	2,080
Net DB asset (liability)	**(284)**	(191)
Reported in:		
other assets – plans in a surplus position	**-**	-
other liabilities – plans in a deficit position and unfunded plans	**(284)**	(191)
	(284)	(191)
Funded status – funded plans	**94%**	96%

The measurement date for the DB pension plans is December 31. The latest actuarial valuations for the DB pension plans were performed as at December 31, 2018 for the Company's pension plans, with exception of The Guarantee's which was performed as at December 31, 2016. 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.

27.2 DB obligation

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

Table 27.2 – Movement in the DB obligation

	Pension plans	
As at December 31,	**2019**	**2018**
Balance, beginning of year	**2,271**	2,263
Current service cost	**53**	76
Interest expense on DB obligation	**84**	77
Actuarial losses (gains) due to changes in:		
financial assumptions	**340**	(170)
plan experience	**30**	55
life expectancy	**-**	23
Employee contributions	**34**	27
Benefit payments	**(85)**	(80)
Business combinations	**29**	-
Balance, end of year	**2,756**	2,271

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

27.3 Fair value of plan assets

The Company makes contributions to the DB 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 DB 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.

a) Movement in the fair value of plan assets

Table 27.3 – Movement in the fair value of plan assets

	Pension plans	
As at December 31,	**2019**	**2018**
Balance, beginning of year	**2,080**	2,128
Employer contributions	**47**	55
Employee contributions	**34**	27
Actual return on plan assets		
Interest income on plan assets recognized in Net income	**75**	71
Actuarial gains (losses) recognized in OCI	**299**	(117)
Benefit payments	**(85)**	(80)
Business combinations	**26**	-
Other	**(4)**	(4)
Balance, end of year	**2,472**	2,080

b) Composition of pension plan assets

Table 27.4 – Composition of pension plan assets

	2019		2018	
As at December 31,	**Fair value**	**% of total**	**Fair value**	**% of total**
Cash and short-term notes	**4**	**-**	62	3%
Fixed income				
Investment grade				
Government	**1,198**	**49%**	823	40%
Corporate	**530**	**21%**	460	22%
Asset-backed	**2**	**-**	2	-
Debt securities	**1,730**	**70%**	1,285	62%
Common shares	**891**	**36%**	710	34%
Derivative financial instruments	**28**	**1%**	23	1%
Securities sold under repurchase agreements	**(181)**	**(7)%**	-	-
	2,472	**100%**	2,080	100%

Plan assets are essentially all quoted in an active market.

Based on the latest projections of the financial position of all its plans, total cash contributions by the Company are expected to be approximately $48 million in 2020 compared to actual contributions of $47 million in 2019. The contributions will vary depending on the number of active members accruing benefits and their level of pensionable earnings, the results of any new actuarial valuations, the impact of any funding rule changes, the 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.

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

27.4 Employee future benefit expense recognized in Net income

Table 27.5 – Employee future benefit expense recognized in Net income

	Pension plans	
For the years ended December 31,	**2019**	**2018**
Current service cost	**53**	76
Net interest expense		
Interest expense on DB obligation	**84**	77
Interest income on plan assets	**(75)**	(71)
Other	**4**	4
	66	86

27.5 Actuarial gains (losses) recognized in OCI

Table 27.6 – Actuarial gains (losses) recognized in OCI

	Pension plans	
For the years ended December 31,	**2019**	**2018**
Remeasurements related to:		
change in discount rate used to determine the DB obligation	**(340)**	131
actual return on plan assets	**299**	(117)
changes in life expectancy *(Note 27.6)*	**-**	(23)
change in other financial assumptions	**-**	39
changes in plan experience	**(30)**	(55)
	(71)	(25)

27.6 Significant accounting judgments, estimates and assumptions

The cost of the DB plans and the DB 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 actual 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 DB obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date.

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

a) Assumptions used and sensitivity analysis

Table 27.7 – Key weighted-average assumptions used in measuring the Company's pension plans

	Obligation		Expense	
	As at December 31,		For the years ended December 31,	
	2019	**2018**	**2019**	**2018**
Discount rate:				
determination of DB obligation	**3.15%**	3.86%	**n/a**	n/a
current service cost	**n/a**	n/a	**3.91%**	3.58%
interest expense on the DB obligation	**n/a**	n/a	**3.62%**	3.30%
Rate of increase in future compensation:				
next 3 years	**2.75%**	2.75%	**2.75%**	2.75%
beyond 3 years	**2.34%**	2.39%	**2.39%**	2.68%
Rate of inflation	**1.59%**	1.64%	**1.64%**	1.93%
Life expectancy for pensioners at the age of 65:				
male	**22.2**	22.2	**22.2**	21.7
female	**24.6**	24.6	**24.6**	24.1

The rate of compensation increase was based on financial plans approved by management for the next 3 years, and on inflation and long-term expectations of wage salary increase beyond 3 years.

Assumptions regarding life expectancy for pensioners are based on the standard Canadian private sector mortality table published in 2014 by the Canadian Institute of Actuaries ("CPM2014Priv table"). The assumptions also reflect the results of a mortality experience study conducted in 2018.

Table 27.8 – Sensitivity of the DB pension obligation to key assumptions

As at December 31,	Change	2019		2018	
		increase	decrease	increase	decrease
Discount rates	1%	**(461)**	**618**	(360)	482
Rate of increase in future compensation	1%	**121**	**(106)**	97	(85)
Rate of inflation	1%	**88**	**(80)**	74	(67)
Life expectancy	One year	**69**	**(69)**	53	(53)

The effect on the DB 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 approximated by measuring the impact of members being one year younger than their actual age on the valuation date.

27.7 Risk management and investment strategy

Employee DB 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 DB 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 DB liabilities.

The DB 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 expectancy. It is based on estimates of market yields on highly rated 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 Statement of Investment Policies and Procedures of the pension plan (the "SIP&P") 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 SIP&P 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 SIP&P and the review of the pension plans' investment performance.

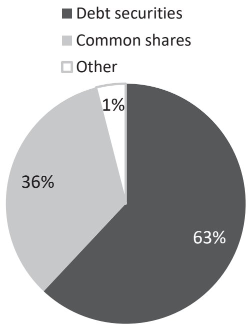
The pension plans investment portfolio is managed by Intact Investment Management Inc., a subsidiary of the Company, in accordance with the SIP&P that focuses on asset diversification and asset-liability matching. The Company regularly monitors compliance with the SIP&P.

Asset diversification

The goal of asset diversification is to limit the potential of sustaining significant 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 SIP&P 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.

Pension plan asset mix
(as at December 31, 2019)



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.

The Company also establishes asset allocation limits to ensure sufficient diversification *(see Note 10.4 – Credit risk)*.

Asset-liability matching

One objective established in the SIP&P is to maintain an appropriate balance between the interest rate exposure of the plans' invested assets and the duration of its contractual liabilities. The Company calculates an interest rate hedge ratio as the interest rate duration of the pension asset portfolio divided by the duration of the funded registered pension plans' obligation. A lower interest rate hedge ratio increases the Company's exposure to changes in interest rates. The interest rate hedge ratio was 70% as at December 31, 2019 (December 31, 2018 – 67%).

A portion of the pension plan liabilities contain an indexation provision linked to the consumer price index (CPI). The Company invests in inflation sensitive assets to partially mitigate the risk of an unanticipated increase in inflation. As at December 31, 2019 21% (December 31, 2018 – 10%) of pension plan assets were invested in Canada Government Real Return Bonds.

The Company used repurchase agreements to partly fund the increase of fixed income securities in the pension plan asset mix with the objective to improve its asset-liability matching.

Note 28 – Segment information

28.1 Reportable segments

The Company has two reportable segments, in line with its management structure and internal financial reporting which is based on country, and the nature of its activities.

Canada

- Underwriting of automobile, home and business insurance contracts to individuals and businesses in Canada distributed through a wide network of brokers and directly to consumers.
- Distribution and other include the results from the Company's wholly-owned subsidiaries (Canada BrokerLink Inc. and Frank Cowan Company Limited) and broker affiliates as well as supply chain operations from On Side.

U.S.

- Underwriting of specialty contracts mainly to small and midsize businesses in the United States. The Company distributes insurance through independent agencies, brokers, wholesalers and managing general agencies.

Corporate and Other ("Corporate") consists of investment management, treasury and capital management activities, as well as other corporate activities, including internal reinsurance. The underwriting results of The Guarantee were included in Corporate other income (expense).

28.2 Segment operating performance

All segment operating revenues presented in ***Table 28.1 – Segment operating performance*** are generated from external customers.

Management measures the profitability of the Company's segments based on pre-tax operating income ("PTOI"). PTOI excludes elements that are not representative of the Company's operating performance because they relate to special items, bear significant volatility from one period to another, or because they are not part of the Company's normal activities. Revenues and expenses not allocated to segments mainly represent non-operating items excluded from PTOI.

The reconciliation of the segment information to the amounts reported in the Consolidated statements of income is presented in ***Table 28.2 – Reconciliation of segment information to amounts reported in the Consolidated statements of income***.

As at January 1, 2019, the Company refined the reporting of its segment information and reclassified the comparative information accordingly.

The following summarizes the changes:

- Investment expenses were previously presented at market value with the offset presented in Other expenses and now reflect the actual cost. For the year-ended December 31, 2018, this resulted in a decrease of $12 million in Investment expenses, with a corresponding offset in Other expenses.

- Net distribution income has been replaced by Distribution EBITA which includes operating income before interest and taxes from both consolidated brokers and broker associates. Broker associates are joint ventures and brokers over which the Company has significant influence. Previously, net distribution income included operating income from consolidated brokers before interest and taxes, and from broker associates after interest and taxes. For the year-ended December 31, 2018, this resulted in an increase of $18 million in PTOI with a corresponding offset in operating tax expense. There was no impact on NOI.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

Table 28.1 – Segment operating performance

	2019				2018			
For the years ended December 31,	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Operating income								
NEP	**8,775**	**1,431**	**5**	**10,211**	8,332	1,380	3	9,715
Investment income	**-**	**-**	**599**	**599**	-	-	564	564
Other	**196**	**-**	**50**	**246**	136	-	11	147
Segment operating revenues	**8,971**	**1,431**	**654**	**11,056**	8,468	1,380	578	10,426
Net claims incurred (before MYA)	**(5,950)**	**(796)**	**-**	**(6,746)**	(5,538)	(804)	-	(6,342)
Underwriting expenses[1]	**(2,462)**	**(538)**	**-**	**(3,000)**	(2,394)	(505)	-	(2,899)
Investment expenses	**-**	**-**	**(23)**	**(23)**	-	-	(23)	(23)
Share of profit from invest. in associates & JV[2,4]	**97**	**-**	**-**	**97**	82	-	-	82
Finance costs[3,4]	**(10)**	**-**	**(110)**	**(120)**	(11)	-	(103)	(114)
Other	**(84)**	**-**	**(73)**	**(157)**	(43)	-	(41)	(84)
PTOI[4]	**562**	**97**	**448**	**1,107**	564	71	411	1,046
Operating income taxes[4]				**(202)**				(207)
NOI[4]				**905**				839
PTOI is comprised of:								
underwriting income	**363**	**97**	**5**	**465**	400	71	3	474
net investment income	**-**	**-**	**576**	**576**	-	-	541	541
distribution EBITA and other	**209**	**-**		**209**	175	-	-	175
finance costs	**(10)**	**-**	**(110)**	**(120)**	(11)	-	(103)	(114)
other income (expense)	**-**	**-**	**(23)**	**(23)**	-	-	(30)	(30)
Investments	**-**	**-**	**18,608**	**18,608**	-	-	16,897	16,897
Net claims liabilities *(Table 11.1)*	**8,568**	**1,422**	**556**	**10,546**	8,151	1,726	-	9,877

[1] Other underwriting revenues are netted against Underwriting expenses when assessing segment performance, as such, are not included in segment operating revenues.
[2] Represents the Company's share of operating income before interest and taxes from broker associates.
[3] Comprised of finance costs presented in the Consolidated statements of income, plus the Company's share of finance costs from broker associates.
[4] *See Section 30 – Non IFRS financial measures* of the Company's MD&A for the definition of related operating measures.

Table 28.2 – Reconciliation of segment information to amounts reported in the Consolidated statements of income

For the years ended December 31,	**2019**	**2018**
Segment operating revenues *(Table 28.1)*	**11,056**	10,426
Add: other underwriting revenues	**119**	110
Add: NEP from OneBeacon exited lines	**32**	50
Revenues, as reported	**11,207**	10,586
Segment PTOI *(Table 28.1)*	**1,107**	1,046
Non-operating items:		
net gains (losses)	**165**	13
positive (negative) impact of MYA on underwriting	**(125)**	97
amortization of intangible assets recognized in business combinations	**(107)**	(94)
integration and restructuring costs	**(57)**	(63)
difference between expected return and discount rate on pension assets	**(48)**	(49)
underwriting results from OneBeacon exited lines	**(66)**	(29)
other non-operating costs	**(19)**	(22)
Pre-tax income, as reported in the MD&A	**850**	899
Less: income taxes from broker associates	**(17)**	(13)
Pre-tax income, as reported	**833**	886

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements

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

28.3 Information by geographic areas

Table 28.3 – Geographic areas

	Revenues		Total assets	
As at December 31,	**2019**	**2018**	**2019**	**2018**
Canada	**9,627**	9,060	**24,907**	22,023
U.S.	**1,580**	1,526	**7,385**	6,438
	11,207	10,586	**32,292**	28,461

Revenues and assets are allocated based on the country where the risks originate. The Company's significant operating subsidiaries by geographic areas of operations are presented below.

Table 28.4 – Significant operating subsidiaries by geographic areas

Operations	Legal entities	
Canada	• Belair Insurance Company Inc. • Canada Brokerlink Inc. • Equisure Financial Network Inc. • Frank Cowan Company Limited • Intact Insurance Company • IB Reinsurance Inc.	• Jevco Insurance Company • Novex Insurance Company • On Side Developments Ltd.[1] • The Guarantee Company of North America • The Nordic Insurance Company of Canada • Trafalgar Insurance Company of Canada
U.S.	• Atlantic Specialty Insurance Company • OneBeacon Insurance Group Holdings; Ltd.	• OneBeacon U.S. Financial Services Inc. • Split Rock Insurance, Ltd. • The Guarantee Company of North America USA

[1] The Company holds 51% of the voting shares and 33% of the participating shares *(refer to Note 5 – Business Combinations)*.

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

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

Note 29 – Additional information on the Consolidated statements of cash flows

29.1 Adjustments for non-cash items

Table 29.1 – Adjustments for non-cash items

For the years ended December 31,	2019	2018
Depreciation of property and equipment[1]	**95**	38
Amortization of intangible assets	**140**	120
Net premiums on debt securities classified as AFS	**15**	20
DB pension expense	**66**	86
Share-based payments expense	**72**	59
Share of profit from investments in associates and joint ventures	**(31)**	(25)
Other	**6**	(4)
	363	294

[1] 2019 includes depreciation of right-of-use assets of $56 million *(see Note 4.1 – Leases and Note 17 – Property and equipment)*.

29.2 Changes in other operating assets and liabilities

Table 29.2 – Changes in other operating assets and liabilities

For the years ended December 31,	2019	2018
Unearned premiums, net	**274**	(33)
Premiums receivable, net	**(136)**	19
Deferred acquisition costs, net	**(63)**	(13)
Other operating assets	**(5)**	(13)
Other operating liabilities	**35**	137
Dividends received from investments in associates and joint ventures	**20**	15
	125	112

Note 30 – 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.

30.1 Transactions with associates and joint ventures

Table 30.1 – Transactions with associates and joint ventures

As at December 31,	2019	2018
Income and expenses reported in:		
net investment income	**6**	7
underwriting expenses	**302**	266
Assets and liabilities reported in:		
loans and other receivables	**144**	129
commissions payable	**33**	35

30.2 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 $27 million for the year ended December 31, 2019 ($28 million for the year ended December 31, 2018).

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.

Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

30.3 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 $7 million for the year ended December 31, 2019 ($6 million for the year ended December 31, 2018). The Company made contributions to pension plans of $47 million for the year ended December 31, 2019 ($55 million for the year ended December 31, 2018).

Note 31 – Commitments and contingencies

31.1 Commitments

The Company has entered into commercial leases mainly related to real estate right-of-use assets, as well as other commitments. The remaining life of these commitments ranges from one to 15 years.

a) Lease liabilities

The following table presents lease liabilities by contractual maturity excluding operational costs and variable lease payments. The Company has extension options for its real estate leases. Such extensions were excluded from the measurement of lease liabilities as management concluded that it is not reasonably certain that they will be exercised.

Table 31.1 – Lease liabilities by contractual maturity

As at December 31,	2019
Lease liabilities – undiscounted value	
Less than 1 year	69
From 1 to 5 years	220
Over 5 years	243
Total	532
Discounting	(71)
Lease liabilities *(Note 18.2)*[1]	461

[1] See *Note 17 – Property and equipment* for details on the related right-of-use assets.

b) Other non-cancellable commitments

The following table presents other non-cancellable commitments including operational costs and variable lease payments.

Table 31.2 – Other non-cancellable commitments

As at December 31, 2019	Leases[1]	Other	Total
Less than 1 year	53	56	109
From 1 to 5 years	173	117	290
Over 5 years	218	12	230
	444	185	629

[1] Includes variable lease payments not based on an index or rate, such as property taxes.

c) Amounts recognized in the Consolidated statements of income

Table 31.3 – Amounts recognized in the Consolidated statements of income

For the year ended December 31,	2019
Interest expense on lease liabilities	13
Operational costs and variable lease payment expenses	58

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

31.2 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 32 – Disclosures on rate regulation

32.1 Canada

The Company's Canadian insurance subsidiaries are licensed under insurance legislation in each of the provinces and territories in which they conduct business. Personal and commercial 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 32.1 – Rate filing categories

Category	Description
File and approve	Insurers must wait for specific approval of filed rates before they may be used.
File and use	Insurers file their rates with the relevant authorities and wait for a prescribed period and then implement the proposed rates.
Use and file	Rates are filed following use.

In Canada, essentially all provinces and territories use a "file and approve" rate setting mechanism except for Quebec, which uses a "use and file" mechanism. Automobile DPW covered by a "file and approve" rate setting mechanism totalled $3.6 billion, or 75% of the Canadian Company's automobile DPW for the year ended December 31, 2019 ($3.3 billion, or 74%, for the year ended December 31, 2018).

32.2 U.S.

Nearly all states have insurance laws requiring property and casualty insurance companies to file their rates, rules and policy or coverage forms with the state's regulatory authority. In most cases, such rates, rules and forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that rates are not excessive, unfairly discriminatory or used to engage in unfair price competition. The Company's ability to increase rates and the timing of the process are dependent upon the regulatory requirements in each state.

Note 33 – Standards issued but not yet effective

33.1 Insurance contracts

In May 2017, the IASB published IFRS 17 – *Insurance Contracts* ("IFRS 17") a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, which replaces IFRS 4 – *Insurance Contracts* ("IFRS 4") and introduces consistent accounting for all insurance contracts.

The standard applies to annual periods beginning on or after January 1, 2021. Earlier application is permitted if IFRS 9 is also applied. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with IFRS 9.

In June 2019, the IASB issued an exposure draft which proposes amendments to IFRS 17, including the deferral of the effective date by one year to annual periods beginning on or after January 1, 2022. The exposure draft was subject to public consultation and addresses concerns and implementation challenges raised by stakeholders. The Company continues to monitor developments and industry discussions related to this standard.

IFRS 17 provides a general measurement model for the recognition of insurance contracts, which requires measuring insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. In addition, entities have the option to use a simplified measurement model (premium allocation approach) for short-duration contracts, which is similar to the current approach; this model will be applicable to most property and casualty insurance contracts.

The main features of the standard that would be applicable to property and casualty insurance contracts are as follows:

- the concept of portfolio, which is composed of groups of contracts covering similar risks and managed together as a single pool. The presentation of insurance and reinsurance contracts on the balance sheet is determined at the portfolio level;
- the concept of group, which is composed of sets of contracts with similar profitability issued within the same year. The following are determined at the group level: the measurement model, the revenue pattern, the allocation of deferred acquisition costs, the calculation of risk adjustment, onerous contracts and the application of the discount rate;
- the loss component of onerous contracts measured based on projected profitability will be recognized in Net income as soon as insurance contracts are issued;
- insurance liabilities will be discounted at a rate that reflects the characteristics of the liabilities (as opposed to a rate based on asset returns) and the duration of each portfolio. The effect of changes in discount rates will be recorded either in Net income or in OCI, according to the accounting policy choice;
- changes in balance sheet presentation where the premiums receivable, deferred acquisition costs, claims liabilities, unearned premiums and other related assets and liabilities will be presented together by portfolio on a single line called insurance contract liabilities or assets. Reinsurance assets, reinsurance receivable, deferred acquisition costs ceded, and other related assets and liabilities will be presented together by portfolio on a single line called reinsurance contract assets or liabilities;
- direct premiums written will no longer be presented in statements of income. The new insurance revenue will reflect services that have been provided during the period (similar to the current earned premiums);
- insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately;
- extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The Company has devoted considerable resources and efforts to the implementation of IFRS 17 since its issuance in May 2017. A project governance and plan has been established. A dedicated multi-disciplinary team comprising of representatives from Finance, Actuarial and Information Technology assists project sponsors who report regularly to the Executive Steering Committee.

The Company completed among other activities, a preliminary gap analysis of the differences between IFRS 4 and IFRS 17 as well as data and systems. The Company also began developing technological solutions and formulating initial accounting policies. Throughout 2019, the Company had regular discussions with industry groups and other stakeholders.

In 2020, the Company will primarily continue developing its technological solutions, evaluating the impacts on processes and regulatory changes and formulating its accounting policies.

The Company is currently evaluating the impact that IFRS 17, in conjunction with IFRS 9, will have on its Consolidated financial statements but has not yet determined the impact.

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

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

33.2 Financial instruments

IFRS 9 is a three-part standard that will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") and will be effective for annual periods beginning on or after January 1, 2018. However, the Company meets the eligibility criteria of the temporary exemption from IFRS 9 as provided by IFRS 4 and has elected to defer the application of IFRS 9 until the effective date of the new insurance contracts standards IFRS 17 *(see Note 33.1 – Insurance contracts)*. The Company is currently evaluating the impact that IFRS 9, in conjunction with IFRS 17, will have on its Consolidated financial statements but has not yet determined the impact.

Classification and measurement

The classification of debt instruments is dependent on the business model and the cash flows characteristics. A debt instrument will be classified in accordance with the table below if its contractual term gives rise on specific dates to cash flows that are solely payments of principal and interest. It would otherwise be classified as FVTPL.

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.	Classification when the debt instrument does not meet the objective of the amortized cost or FVTOCI business models, or election to measure them as FVTPL instead of amortized cost or FVTOCI if doing so eliminates or significantly reduces an accounting mismatch.

Cash and cash equivalents, deposits with financial institutions, and receivables pass the SPPI test and are held at amortized cost, whereby the amortized cost is assumed to approximate fair value due to the short-term nature of the assets.

Equity instruments and derivatives are usually measured at FVTPL. 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.

Expected credit loss

This new impairment model applies only to financial assets classified as amortized cost and debt securities classified 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 life-time expected credit losses if the credit risk increases significantly.

As an exception from the general requirements, an entity may assume that the criterion for recognizing lifetime expected credit losses is not met if the credit risk on the financial instrument is low ("investment grade") at the reporting date.

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.

33.3 Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – *Business Combinations*. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

33.4 Definition of material

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. The amendments apply prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

33.5 Conceptual framework for financial reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised Conceptual Framework for Financial Reporting ("Conceptual Framework"), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards.

The revised Conceptual Framework's effective date is January 1, 2020, with earlier application permitted. The Company does not expect any impact upon its adoption.

33.6 Interest rate benchmark reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 – *Financial Instruments: Disclosures*. The objective of these amendments is to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates. The amendments enable entities to use hedge accounting despite the uncertainties surrounding the use of interbank offered rates and require entities to provide additional information about their hedging relationships which are directly affected by these uncertainties.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company will not early adopt the amendments and does not expect a significant impact on its Consolidated financial statements.

Glossary

This glossary includes IFRS and Non-IFRS financial measures, as well as other insurance-related terms used in our financial reports. See our MD&A for the year ended December 31, 2019 for further details.

Actuarial gains (losses)
Effect of changes in actuarial assumptions and experience adjustments (effect of differences between the previous actuarial assumptions and what has occurred).

Adjusted earnings per share (AEPS)[1]
Calculated as net income for a specific period less preferred share dividends, adjusted for the after-tax impact on net income of amortization of intangible assets recognized in business combinations, integration costs and acquisition-related items, divided by the weighted-average number of common shares outstanding during the same period.

Adjusted return on equity (AROE)[1]
Calculated as net income for a 12-month period less preferred share dividends, adjusted for the after-tax impact on net income of amortization of intangible assets recognized in business combinations, integration costs and acquisition-related items, 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.

Affiliated brokers
Brokers in which we hold an equity investment or provide financing.

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.

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.

CAT loss ratio[1]
Current accident year catastrophe losses, net of reinsurance, including net reinstatement premiums, expressed as a percentage of Net earned premiums (MD&A basis) before reinstatement premiums.

Catastrophe losses
Any one claim, or group of claims, equal to or greater than $7.5 million for P&C Canada (US$5 million for P&C U.S.) before reinsurance, related to a single event. Reported catastrophe losses excluded those of U.S. Commercial exited lines.

Claims liabilities
Technical accounting provisions comprising: case reserves, claims incurred but not reported by policyholders ("IBNR"), and a risk margin as required by accepted actuarial practice. Claims liabilities are discounted to take into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date.

Claims ratio[1]
Claims incurred, net of reinsurance (as determined in accordance with IFRS), excluding the market yield adjustment, the difference between expected return and discount rate on pension assets and claims incurred from U.S. Commercial exited lines, during a specific period and expressed as a percentage of Net earned premiums (MD&A basis) for the same period.

Combined ratio[1]
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.

Company action levels (CALs)
Thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Change in constant currency[1]
The growth or change between two figures, excluding the impact of foreign currency fluctuations, calculated by applying the exchange rate in effect for the current period results to the results of the previous period.

Debt-to-total capital ratio
Total debt outstanding divided by the sum of total shareholders' equity and total debt outstanding, at the same date.

Direct premiums written (DPW) (IFRS)
The total amount of premiums for new and renewal policies written during a specific period, as determined in accordance with IFRS.

Direct premiums written (DPW) (MD&A basis)[1]
DPW (IFRS) normalized for the effect of multi-year policies, excluding industry pools, fronting and U.S. Commercial exited lines. 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.

Distribution EBITA and Other[1]
Operating income excluding interest and taxes related to our distribution and supply chain strategies for a specific period. Distribution EBITA and Other includes the operating results of our consolidated brokers (including our wholly-owned broker, BrokerLink), our share of operating results of our broker associates, as well as the operating results of Frank Cowan Company Limited and On Side Developments Ltd.

Earnings per share to common shareholders ("EPS")
Net income attributable to common shareholders divided by the weighted-average number of common shares outstanding during the same period.

Expense ratio[1]
Underwriting expenses, net or reinsurance and other underwriting revenues, including commissions, premium taxes and general expenses related to underwriting activities but excluding the difference between expected return and discount rate on pension assets and underwriting expenses from U.S. Commercial exited lines, for a specific period and expressed as a percentage of Net earned premiums (MD&A basis) for the same period.

Frequency (of claims)
Average number of claims reported in a specific period.

Full-time equivalent number of employees
A unit of measurement equivalent to an employee with a full-time workload. If two employees each have a 50% workload, they would represent one full-time equivalent employee.

Funding ratio
Pension plan's assets expressed as a percentage of funded plans' obligations.

Incurred but not reported ("IBNR") claims reserve
Reserves for estimated claims that have been incurred but not reported by policyholders, including a reserve for future developments on claims which have been reported.

Industry pools
Canadian operations – When certain automobile owners are unable to obtain insurance via the voluntary insurance market in Canada, they are insured via the Facility Association ("FA"). In addition, entities can choose to cede certain risks to the FA administered Risk Sharing Pool ("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.

U.S. operations – As a condition of its license to do business in certain states in the U.S., the Company is required to participate in various mandatory shared market mechanisms commonly referred to as residual or involuntary markets. Each state dictates the type of insurance and the level of coverage that must be provided.

Integration and restructuring costs
Integration and restructuring costs include items such as acquisition-related expenses, legal fees, severance, retention bonuses, changes in the fair value of the contingent considerations as well as expenses related to the implementation of significant new accounting standards.

1. These are non-IFRS financial measures, which do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to similar measures presented by other companies.

Interest rate hedge ratio
A ratio calculated by the Company as the sum of the dollar duration of the pension asset portfolio divided by the dollar duration of the registered pension plans' obligation. A lower hedge ratio increases the Company's exposure to changes in interest rates.

Large loss
A single claim larger than $0.25 million for P&C Canada (US$0.25 million for P&C U.S.) but smaller than the catastrophe threshold of $7.5 million for P&C Canada (US$5 million for P&C U.S).

Market-based yield[1]
The annualized total pre-tax investment income (before expenses) divided by average net investments.

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.

Minimum capital test ("MCT")
Ratio of total capital available to total capital required, as defined by the Office of the Superintendent of Financial Institutions (OSFI) and Autorité des marchés financiers (AMF).

Net earned premiums (NEP) (IFRS)
Net premiums written recognized for accounting purposes as revenue during a specific period including net reinstatement premiums, as determined in accordance with IFRS.

Net earned premiums (NEP) (MD&A basis)[1]
NEP (IFRS), excluding net earned premiums of U.S. Commercial exited lines.

Net operating income ("NOI")[1]
Calculated as net income for a specific period, excluding the after-tax impact Non-operating results.

Net operating income per share ("NOIPS")[1]
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 (MD&A basis) for a specific period plus assumed premiums from industry pools, less premiums ceded to reinsurers during the same period.

Non-catastrophe weather event
A group of claims, which is considered significant but that is smaller than the catastrophe threshold of $7.5 million for P&C Canada (US$5 million for P&C U.S.), related to a single weather event.

Non-operating results[1]
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. These include the amortization of intangible assets recognized in business combinations, integration and restructuring costs, net gains (losses), difference between expected return and discount rate on pension assets, market yield adjustment on underwriting, underwriting results of U.S. Commercial exited lines, as well as other costs or revenues that are not representative of our operating performance.

Non-weather catastrophe losses
Catastrophe losses mostly related to large commercial losses, including non-weather-related fires, surety and liability losses.

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.

Operating return on equity ("OROE")[1]
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.

Policies in force
The number of insurance policies in effect at a specific date. If two or more separate risks are covered under the same insurance policy, this counts as one policy in force.

Prior year claims development (PYD) (IFRS)
Change in total prior year claims liabilities during a specific period. A decrease to claims liabilities is referred to as favourable prior year claims development. An increase in claims liabilities is referred to as unfavourable prior year claims development.

Prior year claims development (PYD) (MD&A basis)[1]
PYD (IFRS basis), net or reinsurance, adjusted to exclude the PYD related to U.S. Commercial exited lines.

PYD ratio[1]
PYD (MD&A basis), expressed as a percentage of Net earned premiums (MD&A basis).

Regulatory capital ratios
Minimum capital test (MCT), as defined by the Office of the Superintendent of Financial Institutions (OSFI) and the Autorité des marchés financiers (AMF) in Canada and Risk-based capital requirements (RBC) as defined by the National Association of Insurance Commissioners (NAIC) in the U.S.

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

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.

Risk-based Capital ("RBC")
Risk-based capital, as defined by the National Association of Insurance Commissioners (NAIC) in the U.S.

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.

Total capital margin
Total capital margin includes the aggregate of capital in excess of company action levels in regulated entities plus available cash in unregulated entities. The CAL is 170% MCT for most Canadian insurance subsidiaries and 200% RBC for U.S. insurance subsidiaries.

Underlying current year loss ratio[1]
Current year claims, net of reinsurance, excluding catastrophe losses and prior year claims development, expressed as a percentage of Net earned premiums (MD&A basis) before reinstatement premiums.

Underwriting income (MD&A basis)[1]
Net earned premiums less net claims incurred, commissions, premium taxes and general expenses, excluding market yield adjustment, the difference between the expected return and discount rate on pension assets and the underwriting results of U.S. Commercial exited lines.

Written insured risks
The number of vehicles in personal automobile insurance and the number of premises in personal property insurance written during a specific period.

1 These are non-IFRS financial measures, which do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to similar measures presented by other companies.

i Company profile
1 Our purpose, values and core belief
2 Financial highlights
4 CEO's message
11 Chairman's message
13 Board of Directors
13 Executive Committee Members
14 MD&A and Financial Statements
179 Glossary
181 Five-year financial history
182 Three-year quarterly financial history
183 Shareholder and corporate information
184 ESG content map
185 Social impact
BACK Why Invest with Intact

Five-year financial history

This table contains non-IFRS financial measures. Refer to Section 31 – Non-IFRS financial measures of the MD&A for the year ended December 31, 2019 for further details.

	2019	2018	2017	2016	2015	**3-year average**	**5-year average**	**10-year average**
Consolidated performance								
Direct premiums written[1]	**11,049**	10,090	8,730	8,277	7,901	**9,956**	**9,209**	**7,722**
Net earned premiums[1]	**10,211**	9,715	8,530	7,946	7,535	**9,485**	**8,787**	**7,384**
Underwriting income (loss)[1]	**465**	474	486	375	628	**475**	**486**	**401**
Net investment income	**576**	541	448	429	439	**522**	**487**	**433**
Distribution EBITA and Other[1]	**209**	175	158	134	123	**181**	**160**	**n/a**
Net operating income[1]	**905**	839	771	660	860	**838**	**807**	**684**
Non-operating gains (losses)[1]	**(257)**	(147)	(36)	(156)	(219)	**(147)**	**(163)**	**-91**
Effective income tax rate	**11.3%**	21.4%	17.0%	22.2%	20.1%	**16.6%**	**18.4%**	**18.5%**
Net income attributable to shareholders	**754**	707	792	541	706	**751**	**700**	**625**
Combined ratio[1]	**95.4%**	95.1%	94.3%	95.3%	91.7%	**94.9%**	**94.4%**	**94.5%**
Per share measures ($)								
Net operating income per share[1]	**6.16**	5.74	5.60	4.88	6.38	**5.83**	**5.75**	**5.05**
Earnings per share	**5.08**	4.79	5.75	3.97	5.20	**5.21**	**4.96**	**4.62**
Book value per share	**53.97**	48.73	48.00	42.72	39.83	**50.23**	**46.65**	**39.42**
Dividend per common share	**3.04**	2.80	2.56	2.32	2.12	**2.80**	**2.57**	**2.10**
Return on equity								
Operating return on equity[1]	**12.5%**	12.1%	12.9%	12.0%	16.6%	**12.5%**	**13.2%**	**14.1%**
Return on equity	**10.0%**	9.9%	12.8%	9.6%	13.4%	**10.9%**	**11.1%**	**12.6%**
Underwriting performance								
Personal auto								
Direct premiums written[1]	**4,067**	3,750	3,818	3,792	3,591	**3,878**	**3,804**	**3,353**
Net earned premiums	**3,818**	3,727	3,782	3,704	3,508	**3,776**	**3,708**	**3,292**
Combined ratio[1]	**97.7%**	99.5%	101.7%	99.9%	95.4%	**99.6%**	**98.8%**	**96.7%**
Personal property								
Direct premiums written[1]	**2,337**	2,186	2,135	2,030	1,864	**2,219**	**2,110**	**1,771**
Net earned premiums	**2,184**	2,098	2,040	1,880	1,736	**2,107**	**1,988**	**1,665**
Combined ratio[1]	**92.5%**	88.3%	89.1%	90.9%	85.9%	**90.0%**	**89.3%**	**93.4%**
Commercial lines – Canada								
Direct premiums written[1]	**2,995**	2,665	2,470	2,455	2,446	**2,710**	**2,606**	**2,253**
Net earned premiums	**2,773**	2,507	2,382	2,362	2,291	**2,554**	**2,463**	**2,113**
Combined ratio[1]	**96.0%**	94.6%	86.5%	91.5%	90.3%	**92.4%**	**91.8%**	**92.4%**
Commercial lines – U.S. (in canadian dollars)[2]								
Direct premiums written[1]	**1,650**	1,489	307	–	–	**n/a**	**n/a**	**n/a**
Net earned premiums[1]	**1,431**	1,380	326	–	–	**n/a**	**n/a**	**n/a**
Combined ratio[1]	**93.2%**	94.8%	97.4%	–	–	**n/a**	**n/a**	**n/a**
Financial condition								
Total capital margin	**1,222**	1,333	1,135	970	625	**1,230**	**1,057**	**836**
Debt-to-total capital ratio	**21.3%**	22.0%	23.1%	18.6%	16.6%	**22.1%**	**20.3%**	**19.4%**
Investments								
Total investments	**18,608**	16,897	16,774	14,386	13,504	**17,426**	**16,034**	**13,931**
Market-based investment yield[1]	**3.50%**	3.44%	3.20%	3.36%	3.55%	**3.38%**	**3.41%**	**3.62%**

1. These are non-IFRS financial measures. See glossary on page 179 for definitions.
2. 2017 only includes Q4 results.

Three-year quarterly financial history

This table contains non-IFRS financial measures. Refer to Section 31 – Non-IFRS financial measures of the MD&A for the year ended December 31, 2019 for further details.

	2019				2018				2017			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance												
Direct premiums written[1]	**2,670**	**3,012**	**3,152**	**2,215**	2,392	2,708	2,908	2,082	2,293	2,203	2,497	1,737
Net earned premiums[1]	**2,692**	**2,581**	**2,500**	**2,438**	2,509	2,462	2,410	2,334	2,400	2,082	2,051	1,997
Underwriting income (loss)[1]	**229**	**198**	**75**	**(37)**	210	152	93	19	178	170	103	35
Net investment income	**142**	**146**	**148**	**140**	143	136	137	125	125	105	109	109
Distribution EBITA and Other[1]	**45**	**56**	**72**	**36**	42	41	62	30	34	36	59	29
Net operating income[1]	**303**	**277**	**212**	**113**	281	237	201	120	236	219	193	123
Non-operating gains (losses)[1]	**(109)**	**(119)**	**(62)**	**33**	(44)	(37)	(46)	(20)	(60)	(62)	56	30
Effective income tax rate	**13.4%**	**20.8%**	**15.0%**	**(14.0)%**	21.8%	23.5%	21.5%	15.6%	6.1%	23.3%	19.5%	19.8%
Net income attributable to shareholders	**240**	**187**	**168**	**159**	244	199	161	103	232	171	243	146
Combined ratio[1]	**91.5%**	**92.3%**	**97.0%**	**101.5%**	91.7%	93.8%	96.1%	99.2%	92.6%	91.8%	95.0%	98.2%
Per share measures ($)												
Net operating income per share[1]	**2.08**	**1.91**	**1.44**	**0.73**	1.93	1.62	1.38	0.81	1.63	1.61	1.44	0.90
Earnings per share	**1.63**	**1.26**	**1.13**	**1.06**	1.67	1.34	1.10	0.68	1.60	1.25	1.82	1.08
Book value per share	**53.97**	**51.20**	**49.90**	**50.21**	48.73	49.27	48.64	47.32	48.00	46.56	42.16	43.14
Dividend per common share	**0.76**	**0.76**	**0.76**	**0.76**	0.70	0.70	0.70	0.70	0.64	0.64	0.64	0.64
Return on equity												
Operating return on equity[1]	**12.5%**	**12.4%**	**12.0%**	**11.9%**	12.1%	11.6%	11.9%	12.4%	12.9%	13.3%	12.1%	10.6%
Return on equity	**10.0%**	**10.2%**	**10.6%**	**10.6%**	9.9%	9.8%	10.0%	11.7%	12.8%	12.7%	12.3%	9.5%
Underwriting performance												
Personal auto												
Direct premiums written[1]	**941**	**1,126**	**1,204**	**796**	818	1,003	1,137	792	824	1,028	1,163	803
Net earned premiums	**1007**	**962**	**939**	**910**	934	939	935	919	952	962	949	919
Combined ratio[1]	**96.5%**	**93.4%**	**99.5%**	**101.9%**	97.3%	99.9%	95.6%	106.4%	101.2%	105.1%	97.8%	102.6%
Personal property												
Direct premiums written[1]	**566**	**653**	**679**	**439**	517	606	640	423	505	591	625	414
Net earned premiums	**566**	**555**	**537**	**526**	534	531	521	512	522	517	506	495
Combined ratio[1]	**82.0%**	**89.1%**	**99.6%**	**99.8%**	78.5%	83.8%	102.7%	88.3%	79.7%	85.0%	99.5%	92.8%
Commercial lines – Canada												
Direct premiums written[1]	**821**	**712**	**844**	**618**	732	630	757	546	657	584	709	520
Net earned premiums	**729**	**717**	**679**	**648**	661	644	613	589	600	603	596	583
Combined ratio[1]	**93.5%**	**91.8%**	**92.8%**	**106.7%**	91.6%	94.9%	92.9%	99.5%	87.4%	76.5%	86.7%	95.9%
Commercial lines – U.S. (in canadian dollars)												
Direct premiums written[1]	**342**	**521**	**425**	**362**	325	469	374	321	307	–	–	–
Net earned premiums[1]	**389**	**346**	**343**	**353**	379	347	340	314	326	–	–	–
Combined ratio[1]	**88.8%**	**95.9%**	**94.8%**	**94.0%**	96.7%	93.5%	93.8%	95.3%	97.4%	–	–	–
Financial condition												
Total capital margin	**1,222**	**1,116**	**1,269**	**1,367**	1,333	1,177	1,243	1,067	1,135	1,155	1,014	1,034
Debt-to-total capital ratio	**21.3%**	**19.3%**	**21.6%**	**21.5%**	22.0%	21.7%	22.5%	23.4%	23.1%	24.7%	22.8%	18.5%
Investments												
Total investments	**18,608**	**17,766**	**17,446**	**17,281**	16,897	16,999	16,946	16,424	16,774	17,093	14,890	14,227
Market-based investment yield[1]	**3.39%**	**3.51%**	**3.62%**	**3.48%**	3.58%	3.44%	3.51%	3.22%	3.11%	3.10%	3.30%	3.32%

1. These are non-IFRS financial measures. See glossary on page 179 for definitions.

Credit rating

	A.M. Best	DBRS	Fitch	Moody's
IFC senior unsecured debt ratings	a-	A	A-	Baa1
OneBeacon senior unsecured debt ratings	a-	Not rated	A-	Baa2
IFC's principal Canadian P&C insurance subsidiaries' financial strength ratings	A+	AA (low)	AA-	A1
IFC's principal U.S. P&C insurance subsidiaries' financial strength ratings	A+	Not rated	AA-	A2

DBRS has assigned a rating of "Pfd-2" with a Stable trend for the Non-cumulative Rate Reset Class A Series 1 preferred shares, Non-cumulative Rate Reset Class A Series 3 preferred shares, Non-cumulative Floating Rate Class A Series 4 preferred shares, Non-cumulative Class A Series 5 preferred shares, Noncumulative Class A Series 6 preferred shares. Non-cumulative Class A Series 7 preferred shares and Non-cumulative Class A Shares Series 9 (the "Series 1 Preferred Shares", "Series 3 Preferred Shares", "Series 4 Preferred Shares", "Series 5 Preferred Shares", "Series 6 Preferred Shares". "Series 7 Preferred Shares", and "Series 9 Preferred Shares" respectively) issued on July 12, 2011, August 18, 2011, September 30, 2016, May 24, 2017, August 18, 2017, May 29, 2018 and February 18, 2020, respectively. Fitch Ratings has assigned a rating of "BBB" with a Stable outlook to the Series 1 Preferred Shares, Series 3 Preferred Shares, Series 4 Preferred Shares, Series 5 Preferred Shares, Series 6 Preferred Shares, Series 7 Preferred Shares and Series 9 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
Series 4 Preferred Shares Ticker Symbol: IFC.PR.D
Series 5 Preferred Shares Ticker Symbol: IFC.PR.E
Series 6 Preferred Shares Ticker Symbol: IFC.PR.F
Series 7 Preferred Shares Ticker Symbol: IFC.PR.G
Series 9 Preferred Shares Ticker Symbol: IFC.PR.I

Annual meeting of the shareholders
Date: Wednesday, May 6, 2020
Time: 12:30 p.m. (Eastern Time)
Place: Virtual-only meeting via live audio webcast. The webcast will be available at www.virtualshareholdermeeting.com/IFC2020. Detailed information on how to participate in the Meeting is included in our Management Proxy Circular.

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

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Ernst & Young LLP

Earnings conference call dates
Q1 – May 6, 2020
Q2 – July 29, 2020
Q3 – November 4, 2020
Q4 – February 10, 2021

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Dividend reinvestment
Shareholders can reinvest their cash dividends in common shares of Intact Financial Corporation on a commission-free basis either through a broker, subject to eligibility as determined by the broker, or through Canadian ShareOwner Investments Inc. Full details can be obtained by visiting the Investors 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. 16, 2019	**Dec. 31, 2019**	**$0.76**
Sept. 16, 2019	**Sept. 30, 2019**	**$0.76**
June 14, 2019	**June 28, 2019**	**$0.76**
Mar. 15, 2019	**Mar. 29, 2019**	**$0.76**
Dec. 14, 2018	Dec. 31, 2018	$0.70
Sept. 14, 2018	Sept. 28, 2018	$0.70
June 15, 2018	June 29, 2018	$0.70
Mar. 15, 2018	Mar. 29, 2018	$0.70
Dec. 15, 2017	Dec. 29, 2017	$0.64
Sept. 15, 2017	Sept. 29, 2017	$0.64
June 15, 2017	June 30, 2017	$0.64
Mar. 15, 2017	Mar. 31, 2017	$0.64

Common share prices and volume

	High	Low	Close	Volume
2019 Q1	**$114.13**	**$96.37**	**$113.08**	**15,928,946**
2019 Q2	**$124.32**	**$107.00**	**$121.02**	**17,278,057**
2019 Q3	**$133.97**	**$122.68**	**$133.34**	**16,017,749**
2019 Q4	**$140.96**	**$131.64**	**$140.42**	**16,380,891**
2019 YE	**$140.96**	**$96.37**	**$140.42**	**65,605,643**
2018 Q1	$105.00	$94.57	$96.81	14,148,701
2018 Q2	$98.85	$92.53	$93.25	12,649,563
2018 Q3	$109.17	$91.65	$107.40	14,146,639
2018 Q4	$107.69	$95.75	$99.19	16,274,245
2018 YE	$109.17	$91.65	$99.19	57,219,148
2017 Q1	$97.56	$91.40	$94.58	13,471,916
2017 Q2	$98.29	$91.41	$97.96	15,096,910
2017 Q3	$104.33	$95.14	$103.07	13,125,539
2017 Q4	$109.33	$99.35	$104.99	15,359,434
2017 YE	$109.33	$91.40	$104.99	57,053,799

Data items are not adjusted for stock splits and consolidations. This data is provided "AS IS". TSX, its affiliates, their respective service providers, suppliers and licensors: (i) make no warranties or representations of any kind, express, implied or otherwise regarding this data or its accuracy, completeness or timeliness, (ii) disclaim the implied warranties of merchantability and fitness for a particular purpose, and (iii) assume no liability in making this data available.

ESG Content Map

The Company's disclosure with respect to Environmental, Social and Governance factors is included across our annual disclosure documentation:

- **2019 Annual Report (which includes the Company's consolidated financial statements and management's discussion and analysis for the fiscal year ended December 31, 2019)**
- **2019 Annual Information Form**
- **2020 Management Proxy Circular**
- **2019 Social Impact Report**

You will find below a quick and easy reference guide to our ESG content:

	Pages			
	2019 Annual Report	**2019 Social Impact Report**	**2020 Management Proxy Circular**	**2019 Annual Information Form**
Public Accountability Statement		45 to 47		
Principles of Sustainable Insurance		48 to 50		
Environmental				
Task-Force on Climate Related Financial Disclosure (TCFD)		20 to 22		
Carbon emissions		22		
Climate adaptation and resiliency	49 to 50, 73	20 to 31		
Social				
Workplace culture			41 to 45	
Labour relations		13 to 19	43 to 45	
Human capital management		13 to 19	43 to 45	
Workforce demographics		19		
Diversity and inclusion		13 to 19	60 to 64	
Talent attraction and retention		13 to 19	43 to 45	
Executive compensation			82 to 117	
Employee compensation and benefits		17 to 18	43 to 45	
Customer centric approach and complaints handling		8 to 10	41 to 43	
Community engagement		30 to 39		
Governance				
Board of Directors				
Structure and oversight functions		40 to 41	46 to 48	
Director independence			51 to 52	
Director nomination and renewal process			53 to 56	
Orientation and continuing education			58 to 59	
Ethical conduct and compliance framework		40 to 41	41 to 43	
Risk management	67 to 86			13
Shareholder engagement			64 to 65	
Data privacy and data security		10 to 12	42	
Strategy	45 to 52		47	
Investment management - proxy voting guidelines		44	4	
Shareholder rights plan			15 to 16, 122 to 124	16

Social impact

Employees are excited to volunteer with Breakfast Club of Canada.

Breakfast Club of Canada volunteers celebrate

Employees volunteering with Coastal Action to prevent coastal erosion

In 2019:

We invested
$2.5 million
to address root causes of child poverty across North America

We donated over
$5.7 million
to more than 700 organizations across North America

Our employees volunteered over
16,200 hours
and donated over $2 million to charities

We announced a
$2.3 million
investment in 16 climate change adaptation projects that will make Canada more climate resilient

Why invest with Intact

LARGEST PROVIDER
of P&C insurance in Canada and a leading provider of specialty insurance in North America

Consistently
OUTPERFORMS INDUSTRY
leveraging disciplined underwriting, scale advantage and in-house claims expertise

TRACK RECORD
of strong capital generation, earnings growth and annual dividend increases

PROVEN
industry consolidator

FINANCIAL STRENGTH
reinforced by prudent risk management

Attracts and retains
TOP TALENT
as a best employer

See the full suite of our reports here:
intactfc.com

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