Make it Intact

Intact Financial Corporation
Annual Report 2020

We believe that insurance is about people, not things. Our purpose is clear – **to help people, businesses and society prosper in good times and be resilient in bad times**.

Our purpose extends beyond simply getting customers back on track after a crisis. We combine our financial strength and deep industry expertise to help build a resilient society.

Our strength is based on living our Values, caring for people, being open and honest, taking accountability, and driving change.

Our Values Guide Us

We won't compromise on our Values because they matter as much as results.

Integrity

Being honest, open and fair, setting high standards, and standing up for what is right.

Respect

Being kind, seeing diversity as a strength, and being inclusive and collaborative.

Customer-driven

Listening to our customers, making it easy, finding solutions, and delivering second-to-none experiences.

Excellence

Acting with discipline, driving to outperform, embracing change, improving every day, and celebrating success, yet remaining humble.

Generosity

Helping others, protecting the environment, and making our communities more resilient.

We envision a future where we will continue to play an impactful role in helping customers and society to be more resilient.

What we aim to achieve

Our customers are our advocates:
3 out of 4 customers are our advocates, and 3 out of 4 customers actively engage with us digitally.

Our people are engaged:
Be recognized as a best employer and be a destination for top talent and experts.

Our Specialty Solutions business is a leader in North America:
Achieve combined ratio in the low 90s, and generate $6 billion in annual DPW by 2025.

Our company is one of the most respected:
Exceed industry ROE by five points and grow NOIPS 10% yearly over time.

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 $12 billion in total annual premiums. The Company has over 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, 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 Company, a leading managing general agent, distributes public entity insurance programs including risk and claims management services in Canada.

In the U.S., Intact Insurance Specialty Solutions provides a range of specialty insurance products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies. Products are underwritten by the insurance company subsidiaries of Intact Insurance Group USA, LLC.

DPW[1] **$12B total**

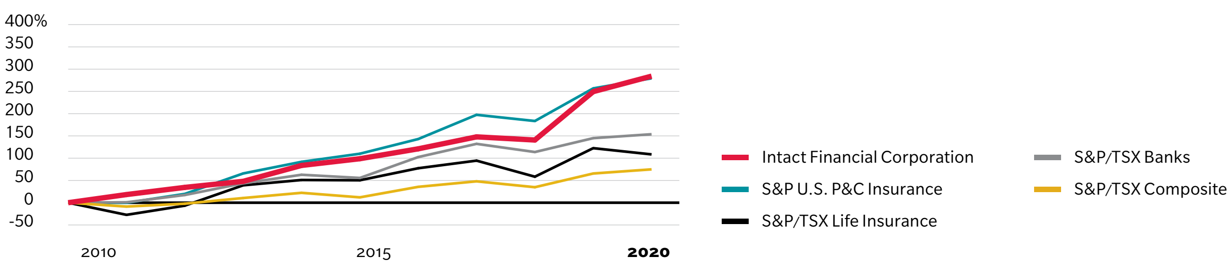
By line of business

- **36%** Personal auto
- **21%** Personal property
- **28%** Commercial lines – Canada
- **15%** Commercial lines – U.S.

By brand

- **63%** Intact Insurance
- **9%** BrokerLink
- **13%** belairdirect
- **15%** Intact Insurance Specialty Solutions (U.S.)

Total shareholder return **14% CAGR** over the past ten years



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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, diversity and inclusion, market conditions and the impact on the Company of the occurrence of and response to the COVID-19 pandemic and ensuing events, the proposed acquisition (the "RSA Acquisition") of RSA Insurance Group Plc. ("RSA") and the completion and timing for completion of the RSA Acquisition. 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. Estimates and assumptions have been made regarding, among other things, the timely receipt of all requisite approvals relating to the RSA Acquisition and on terms acceptable to the Company, the realization of the expected strategic, financial and other benefits of the RSA Acquisition, and economic and political environments and industry conditions. There can be no assurance that the RSA Acquisition will be completed, or if completed, that the strategic and financial benefits expected to result from the RSA Acquisition will be realized. 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.

1 These are non-IFRS financial measures. See Glossary on page 196 for definitions.

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2020 Financial Highlights

DPW[1]
$12B ↑ **9%**

NOIPS[1]
$9.92 ↑ **61%**

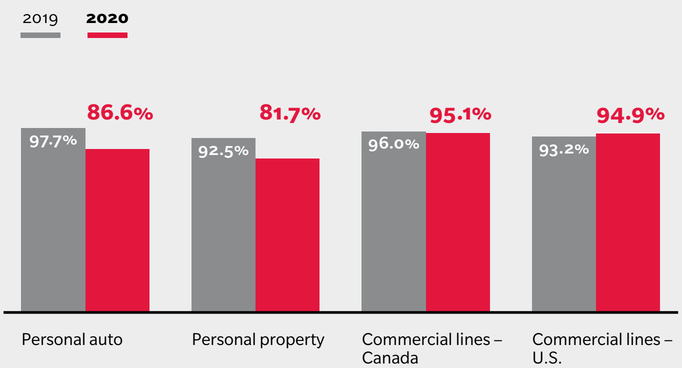
OROE[1]
18.4% ↑ **5.9 points**

Combined ratio[1]
89.1% ↓ **6.3 points**

Net investment income
$577M **Stable**

Distribution EBITA and Other[1]
$275M ↑ **32%**

Combined ratio by line of business[1]



Combined ratio by segment[1]

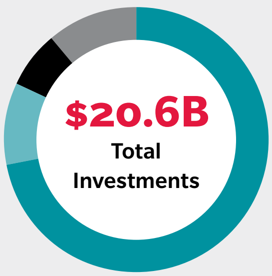
Canada
88.0%

U.S.
94.9%

IFC
89.1%

Investment portfolio

Investment mix (net exposure)



72% Fixed income

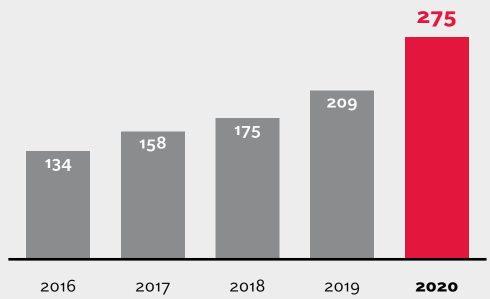
10% Common shares

7% Preferred shares

11% Cash, cash equivalents, short-term notes and loans

Distribution EBITA and Other[1]

(in $ millions)



Financial strength

Book value per share
$58.79

Debt-to-total capital ratio
24.1%

Total capital margin
$2.7B

[1] These are non-IFRS financial measures. See Glossary on page 196 for definitions.

Canadian Industry Outperformance

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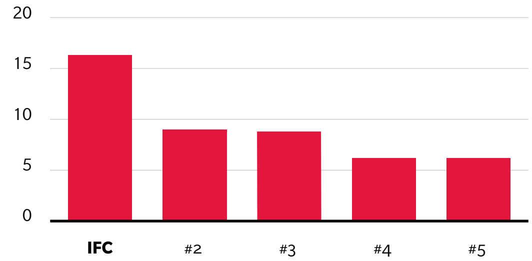
Market share by company (%)[1]

[1] Market share data is based on the latest available data from MSA Research Inc. (FY 2020).

16%
Market share

With a market share of 16%, we are 16 times the size of the average P&C insurer in Canada.

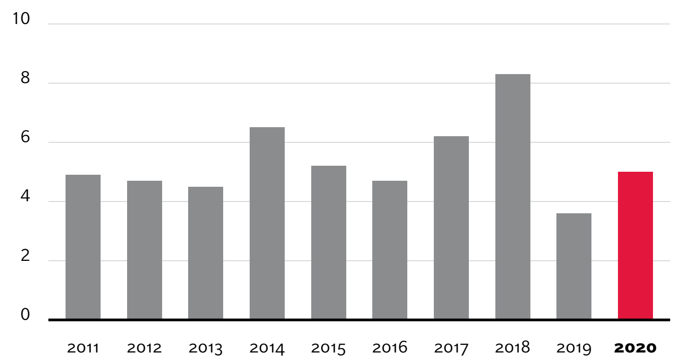


Canadian combined ratio outperformance (in pts)[1]

[1] For comparison purposes, IFC combined ratio is based on financial statements presentation.

5.4pts
10-yr average outperformance

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

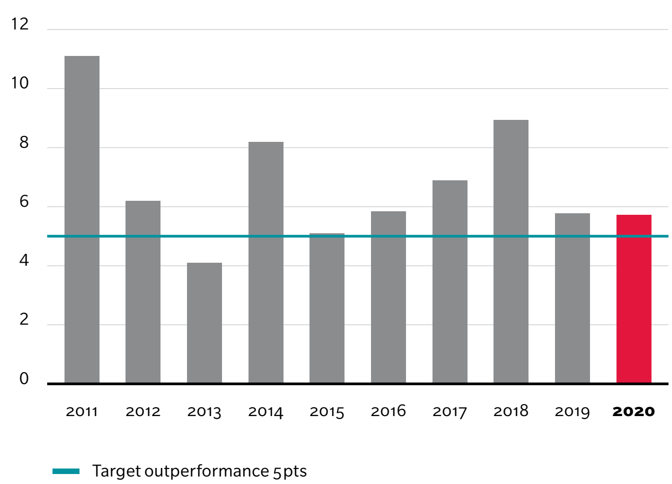


Return on equity outperformance (in pts)[1]

[1] IFC's ROE is the consolidated adjusted return on equity ("AROE"), a non-IFRS financial measure. See glossary on page 196 for the definition.

6.8pts
10-yr average outperformance

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



CEO's Letter

Chief Executive Officer
Charles Brindamour

Introduction

Just over a year ago the world changed with the onset of COVID-19. While I'm optimistic for the future, the pandemic continues to have a profound impact on people, the global economy and society.

Our strong financial position helped us pivot our business to support employees, brokers and customers through this extraordinarily difficult period, while we made meaningful progress on our strategic objectives and continued to outperform in 2020.

That outperformance and financial strength underpinned our ability to provide significant relief to customers who needed our help. And to take on our biggest acquisition to date – RSA Insurance Group PLC – a company that we have admired for more than a decade.

The CAD$12.5 billion offer, made in partnership with Scandinavian insurer Tryg A/S, was done entirely virtually, and is on track to close in Q2 of 2021. It will be transformational – accelerating our leadership in Canada, expanding our specialty lines platform with international expertise and giving us entry into the UK and Ireland with scale. Above all, it will allow us to invest more heavily in our core capabilities to deliver second-to-none customer services, and to strengthen our outperformance.

We couldn't have achieved these milestones without the commitment and dedication of our employees across Intact – they adapted at an incredible pace last year and with the highest levels of engagement we've seen yet.

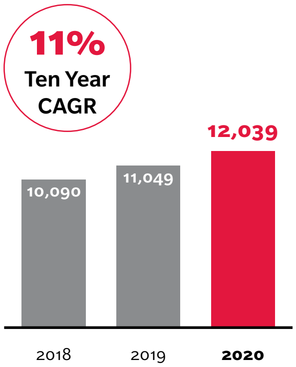
Our ability to deliver strong results, accelerate our strategy and provide relief to customers this past year also comes from being grounded in our Values and purpose. Our purpose – to help people, businesses and society prosper in good times and be resilient in bad times – mattered more than ever.

The pandemic has driven home the importance of good risk management practices and the need to prepare for large tail-risk events. While we collectively continue to fight COVID-19, we cannot forget about the existential threat of climate change. Governments, businesses and communities must work together to build a climate-resilient society.

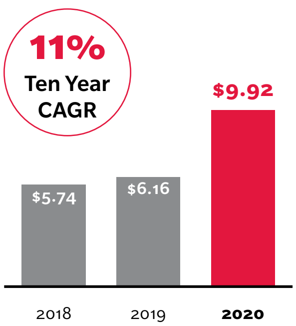
We are committed to elevating our role in helping customers and society ***Make it Intact*** – building back stronger and being better prepared for the future.

DPW[1]

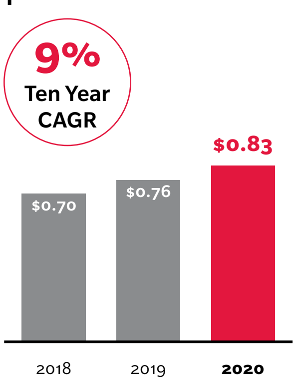
(in $ millions)



NOIPS[1]



Quarterly dividend per common share



[1] These are non-IFRS financial measures. See Glossary on page 196 for definitions.

Our response to COVID-19

Leadership in a crisis is grounded in experience and a strong sense of purpose. We were able to leverage our leaders' can-do attitude, our employees' willingness to step up, and our strong financial position to offer help for people in need while continuing to execute on our strategy.

Right from the start we took a problem-solving approach and moved quickly to provide relief to both our personal and small business customers. In fact, we were ahead of the industry in our risk-based and needs-based relief efforts. We've helped more than 1.2 million personal and commercial customers, amounting to $530 million in relief. This took the form of policy adjustments, premium reductions, and flexible payment options. Our Intact Small Business Relief Program offered $50 million in financial support for about 100,000 small business customers most impacted by the pandemic.

We will continue to provide further support through customer-driven rate strategies, product enhancements and the accelerated deployment of Usage Based Insurance (UBI). Customers who drive less, and safely, can see meaningful reductions in auto premiums though UBI. Late last year we also began offering increased liability and property coverage to new and existing personal lines customers who work from home. As well, we included free access to online mental health and well-being programs for a year.

The first part of 2021 will continue to be difficult for many – especially those affected by the deepening impacts of extended lockdowns. But as large-scale vaccination picks up speed, I'm more optimistic about the remainder of the year. It's important that businesses continue to protect and support their employees and communities. We will continue to do our part – our capital position remains strong and we've shown that our business is tremendously resilient.

2020 performance in review

The fundamentals across all our businesses have remained robust. We saw solid premium growth of 9% in 2020, driven by market conditions, new business and the Guarantee Company of North America acquisition. Our combined ratio of 89.1% was strong and driven by our action plans, the impact of reduced driving and benign weather conditions.

In our distribution business, we saw EBITA increase by 32% on strong organic growth, good expense management and broker acquisitions. Our accretive acquisitions of On Side and Frank Cowan Company also contributed to this strong growth. Investment income was flat year-over-year as we continue to face lower reinvestment yields.

This performance led to net operating income per share (NOIPS) increasing 61% to $9.92 in 2020, a strong Operational ROE of 18.4%, and a 9% increase in book value to $58.79. Included in these results are $106 million in losses directly related to the COVID-19 pandemic.

At Intact, we've had a simple capital management philosophy since our inception: to have significant capital available in good and in bad times. Our strong balance sheet position at year-end is the result of this disciplined approach. We ended 2020 with $2.7 billion in total capital margin, which includes funds to acquire RSA, and strong regulatory capital levels in Canada and the U.S.

Our financial objectives are to increase NOIPS 10% annually over time and outperform the industry ROE by 500 bps every year. We continue to meet and exceed this objective, with NOIPS well over 10% this year, and our ROE outperformance sitting at 570 bps. Our track record over the last decade is strong with NOIPS compounding at 11% annually and our ROE outperformance averaging 680 bps.

"The pandemic has driven home the importance of good risk management practices and the need to prepare for large tail-risk events. While we collectively continue to fight COVID-19, we cannot forget about the existential threat of climate change. Governments, businesses and communities must work together to build a climate-resilient society."

Charles Brindamour, Chief Executive Officer

Outlook

We are expecting an extended period of economic disruption in Canada and the U.S. While Canada is widely accepted to be in the midst of a rebound, the speed of recovery will be tightly tied to the vaccine rollout and how quickly the pandemic can be controlled. Economic recovery in the U.S. will depend upon how efficiently the Biden administration is able to deliver on the promised raft of health and economic measures to manage the pandemic.

The pandemic has had an extraordinary impact on our collective physical and mental well-being, and on healthcare systems in Canada and the U.S. While immunity in the general population is still some time away, the vaccination data we are seeing related to vulnerable populations, including those in long-term care and seniors, is promising. As society continues to grapple with the introduction of COVID-19 variants, the importance of mass testing and contact tracing remains critical.

Over the past year, we have seen governments around the world take quick and decisive action. However, the pandemic has also highlighted the vital importance of preparedness and the need to have policy mechanisms in place to be able to act quickly. As we brace for a third wave of COVID-19, it is critical that governments adopt a risk-based approach to protecting the health and safety of individuals and society while also focusing on re-opening the economy and getting back on track.

The effects of the pandemic are highly uneven across society. We are likely to see permanent changes in consumer behaviour, the economy and society more broadly. Customers are increasingly adopting digital solutions and are more anchored to value for money. The business landscape will likely see more consolidation of smaller and mid-sized businesses. As well, the gaps in racial and economic equality are rising, as is the resulting political polarization. Business has an important role to play in coming to the table with solutions and narrowing these gaps.

At the Canadian insurance industry level, with the 3-year average ROE in the mid-single digit range and the average combined ratio close to 100%, we expect corrective measures to continue. In commercial lines, we expect hard market conditions, and in personal property we see firm market conditions. Personal auto was the most impacted segment of the industry, given the reduction in driving and claims activity. We expect personal auto conditions to be temporarily soft, until driving activity returns to normal. In the U.S. commercial lines segment, we expect hard market conditions to continue in 2021.

The Canadian P&C industry remains highly fragmented and competitive, which is conducive to further consolidation. We anticipate that 10-15 points of market share will change hands in the coming years, and we are keen to continue to lead.

Our strategy – delivering strong, sustainable performance

Our teams across North America didn’t miss a beat on delivering on our objectives and meaningfully advancing our ten-year strategic roadmap in 2020. We did so while navigating volatile markets and global uncertainty. Our acquisition of RSA will significantly accelerate our strategy and add a fifth pillar to our strategic roadmap.

Here is an update on our roadmap:

1. Expanding our leadership position in Canada

Our objective is to have 3 out of 4 customers as advocates and 3 out of 4 customers actively digitally engaged with us, and we’ve made significant progress this year.

We met increased customer demand for digital options through our market-leading insurance apps and telematics capabilities, and our user-friendly digital tools to file claims. Our mobile app more than doubled the number of monthly users. One out of three claims are now being reported digitally – twice the pre-crisis levels. And, we achieved a major milestone at belairdirect with 3 out of 4 customers now digitally engaged with us.

We also made product enhancements in personal lines to respond to the needs of our customers by accelerating our UBI program and increasing coverage and protection in personal property.

Strengthening distribution continues to be a key focus. BrokerLink reached an important milestone last year achieving more than $2 billion in DPW, and we have set a new $3 billion target. We will continue to deploy *insurance simplified* at belairdirect. By simplifying our products and enhancing the claims process and digital experience, we will make it easier to buy online and engage with us. Value for money will be an increasingly important aspect coming out of the pandemic and belairdirect is well positioned to capture this shift.

We have neared completion of the integration of the Guarantee Company of North America and Frank Cowan Company, and we announced the RSA acquisition in November.

Acquiring RSA’s business will expand our leadership by 30% at home, while bringing complementary offerings in commercial lines and a well-known affinity business with Johnson Insurance. Canada is where we see the most meaningful value-creation opportunities to drive our outperformance, provide a wider offering to our brokers and deliver second-to-none customer service.

2. Building a specialty solutions leader

Specialty Solutions premiums grew to $3 billion in 2020, meeting our original objective and setting us on a course to achieve $6 billion in DPW by 2025. Achieving a combined ratio in the low 90s is within sight but progress was slowed somewhat this year with the pandemic.

We expanded our distribution capabilities with the acquisition of IB&M, a privately held brokerage specializing in international trade markets. IB&M and Frank Cowan Company are meaningful investments in the MGA channel, where we see the opportunity to build an attractive stream of distribution earnings and put our underwriting capacity to work. We’ve got the appetite to do more in this channel.

We also announced a new cyber solutions product delivered in partnership with Resilience Insurance. We now focus on 20 specialty lines, nine of which serve both Canada and the U.S. And lastly, we brought together our North American specialty capabilities under a single brand – Intact Insurance Specialty Solutions.

With the acquisition of RSA, we will expand and broaden our distribution footprint by adding international capabilities and expertise in Europe, creating a $4 billion+ leading specialty solutions platform. Our specialty lines teams also see a compelling opportunity to build international leadership in Marine, Specialty Property and E&O/D&O. As well, RSA has a strong global network, which we look forward to capitalizing on to accelerate our outperformance.

3. Strengthening a leading position in the UK and Ireland

We will enter the large UK and Ireland markets at scale. RSA has a 300-year heritage and strong presence in the UK and will play an important role as a hub for our new combined organization to create second-to-none customer experiences and drive future success.

While these markets are new to us, the products and competitors are not. RSA has leading positions in commercial lines and personal property – we have built outperformance in Canada in the same business lines against many of the same players.

We look forward to working with RSA to build on their strengths and share our core expertise in data, risk selection, claims and supply chain management to further drive sustainable outperformance.

Scott Egan will continue to run the UK and International business once the transaction closes. This sends a strong message to RSA’s people, brokers and customers – that we believe in the business. Scott is an impressive leader, there is great chemistry, and I look forward to him joining Intact’s Executive Committee.

"Leadership in a crisis is grounded in experience and a strong sense of purpose. We were able to leverage our leaders' can-do attitude, our employees' willingness to step up, and our strong financial position to offer help for people in need while continuing to execute on our strategy."

Charles Brindamour, Chief Executive Officer

4. Transforming our competitive advantages

Transforming our competitive advantages is key to our outperformance mindset. We are delivering on our objective to exceed industry ROE by five points and grow NOIPS 10% yearly over time.

That mindset helps us deliver value to our customers and create capabilities that are hard to replicate. Our industry-leading capabilities were built over decades and will be particularly important as we integrate RSA.

These core capabilities, our unparalleled access to data and an astounding rate of digital acceleration by customers led to improved experiences and increased operational efficiencies in 2020.

Our team of AI experts has grown by over 40% this year and we've doubled our models in production. We've developed next-generation algorithms to improve segmentation and risk selection and launched our first Sales and Claims chatbots.

Our customers' claims experience continues to improve. Through our mobile app, customers can now file a claim and have it appraised digitally by uploading photos – close to 40% of all eligible claims are now being handled in this manner.

We acquired On Side Restoration – a leader in home restoration in Canada – over a year ago. We have grown its top line by over 20%, expanded operations in seven provinces and improved margins by a third. And we have significantly increased customer satisfaction with job cycle times cut by 15%. The On Side team is executing well and there is lots of momentum in this business.

Through the RSA acquisition we will grow the top line by two-thirds. This will give us an unmatched ability to further invest data, risk selection, claims and supply chain management.

And finally, our strong capital management and investment teams navigated a turbulent year with incredible rigour. When the crisis hit in early March last year, they moved quickly to protect our balance sheet and improve liquidity. These early moves, as well as discipline throughout the year, awarded us the flexibility to provide real relief to our customers, protect our employees, and provided the ideal conditions for RSA.

5. Investing in our people

Our people are at the heart of our strategy – it's why being a best employer with a highly engaged team is a key strategic objective. We are committed to providing employees with the opportunity to shape the future, win as a team, and grow with us.

The importance of investing in our people has never been clearer. Within a two-week period in March 2020 nearly every employee began working from home. We invested quickly in the necessary IT infrastructure and tools to work virtually. And we doubled down on communication across the organization and enhanced mental health support.

We've continued to improve the experience throughout the last year. We invested in the rollout of digital collaboration tools and a new e-learning platform to help our employees adapt and succeed and as we prepare for the workplace of the future.

The COVID-19 crisis also brought many social justice issues – including systemic racism – to the forefront. It was a wake-up call for society. My leadership team and the Board have committed to accelerating our Diversity and Inclusion strategy by taking concrete actions to address gaps in our organization.

These actions include adding a new strategic objective to ensure our leaders and employees are representative of the communities we serve, with new targets to increase the diversity at all levels of management – including at the Board of Directors and the Executive Committee.

Despite the challenges, we've had record-high levels of engagement in 2020 and our people have not missed a beat. They have been there day in and day out for our customers, brokers and communities. I commend their can-do attitude, flexibility and empathy over the past year.

One of the rewarding aspects of building through acquisitions is the ability to bring new talent into our Intact family quickly. It provides an opportunity to build the best team with a shared outperformance mindset. To our RSA colleagues: I'm looking forward to welcoming you and seeing what we can achieve together.

Social impact and climate resilience

The pandemic created a level of societal upheaval not seen since the Great Depression. While we can't eliminate deep-rooted societal problems overnight, businesses can mobilize quickly to take concrete actions and be a part of the solution.

With that in mind, we've challenged ourselves to redefine and build a stronger social impact mandate at Intact in the areas of climate resiliency, and in creating opportunity for children and families living in poverty. We are working on a framework to measure our success in building resilient communities as part of our strategic objective to be recognized as one of the most respected companies.

Helping people through the pandemic

While our social impact action framework lays out a longer-term plan, we were also focused on immediate action in 2020. Within days of pandemic lockdowns, we committed an initial $2 million to help the most vulnerable members of our society. This doubled to $4 million as the impact of the pandemic worsened. From food security, to support for the elderly, to financial support to help accelerate COVID-19 treatments, it was a chance for us to live our purpose.

Through our Generosity in Action campaign we doubled our employee donations match in 2020. Together, we raised over $5.2 million nationally for the United Way and other community level organizations – an exemplary demonstration of our value of Generosity, and how our employees continue to help people in need.

Building a climate resilient society

While the pandemic has been top of mind, the ongoing threat and impacts of climate change didn't slow down, with 2020 tied for the warmest year on record. Climate change is a multi-faceted issue, with a critical call to action for society to adapt to a world where disruptive severe weather events are becoming more common.

For Intact, climate change is not simply an Environmental Social and Governance (ESG) issue – it's embedded in our strategy. Climate risk management has been built into our strategy for more than 10 years and we continue to adapt. Over the years, we have implemented several actions to manage the impacts of changing weather patterns including improved risk selection, pricing, product changes, supply chain enhancements and a greater emphasis on and investment in prevention. You can read more about this in our **Social Impact Report**.

A critical aspect of our approach to prevention is partnerships. In the midst of the pandemic, we committed more than $1.3 million to five new climate adaptation partners to accelerate solutions at the community level. In addition, we renewed our long-standing partnership with the Intact Centre on Climate Adaptation at the University of Waterloo for another five years. We are working with the Intact Centre to establish best practices to limit the impacts of floods, wildfires and extreme heat. We're focused on helping build the capacity of these partnerships to create, validate and scale solutions to withstand the impacts of climate change.

Simply put – economic resilience requires climate resilience. In order to prosper and grow Canada's economic competitiveness, adaptation and resilience must be integrated into economic policy. We have a collective responsibility to ensure that our most vulnerable and climate-affected communities are climate resilient and we will continue to use our strengths to protect them.

Conclusion

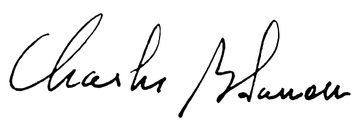
While the social and economic upheaval caused by COVID-19 will likely continue for some time, our focus has always been on the long term. Returning to the 'new normal' will be a shared responsibility to be coordinated across governments, businesses and society.

We delivered outstanding results throughout a challenging year, and I want to thank our people across North America – you really stepped up.

Our acquisition of RSA will help us to further accelerate our strategy and strengthen our ability to outperform – and we especially look forward to welcoming RSA employees into the Intact family.

As we embark upon 2021, I know that we have the best teams, a business that is tremendously resilient, and strong momentum to surpass our financial objectives.

We're ready to continue delivering strong results and to play a role in rebuilding our communities and the economy. We are energized by the possibilities ahead.



Charles Brindamour
Chief Executive Officer

Chairman's Letter

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Chairman of the Board
Claude Dussault

When reflecting on the past year, it was certainly a time of unprecedented challenges. Responding to and withstanding these obstacles required extraordinary agility from the company and that need continues as this report is issued. The Board is working closely with the management team to soundly manage risks and ensure the resiliency of our business to deliver value for our customers, brokers and shareholders.

Intact's Values of integrity, respect, being customer-driven, excellence and generosity allowed the company to enter the COVID-19 crisis in a position of strength, both financially and operationally, and with exceptional leadership of the management team. Strong governance and high ethical standards are a critical component of the company's success, enabling not only enhanced value for shareholders and long-term viability, but also delivering on Intact's purpose to help people, businesses and society prosper in good times and be resilient in bad times.

Intact ended the year with very strong results, a testament to the bench strength of the leadership team and the enormous resilience of employees, brokers and their support of customers. Direct premiums written grew by 9% and net operating income per share was up 61%, with strong underlying results in Canada and the U.S., strong distribution results and stable net investment income.

Strong results came from disciplined execution of Intact's sound strategy while continuing to strengthen its competitive advantages in 2020. As well, Intact carefully deployed capital to accelerate its outperformance. Our acquisition of RSA Insurance Group PLC, the largest acquisition to date, will significantly accelerate Intact's strategy, leadership and capabilities.

In 2020, Intact also provided both immediate COVID-19 relief to affected customers and instituted longer-term measures to help them cope with the ongoing fallout of the pandemic. Intact provided more than $530 million of relief to over 1.2 million customers in 2020.

The COVID-19 crisis has exacerbated many underlying societal challenges from poverty to racism. Many changes need to occur for our society to be inclusive. It is clear that businesses in Canada have work to do in addressing the diversity of Boards. Intact has made a commitment to move beyond words and take action. One of those actions is approving an update to our Board and Senior Management Diversity Policy to include additional diversity targets.

Intact's approach to building the best team is to provide a workplace that attracts, retains and develops current and future high-performing employees from the broadest talent pool. Building the best team means having different experiences, perspectives, abilities and backgrounds around the table.

Against the backdrop of a global pandemic, society continues to grapple with difficult and complex challenges that continue to accelerate. Being a purpose-driven business provides a clear focus to help people, businesses and society prosper in good times and be resilient in bad times. For Intact, addressing broader societal issues such as climate change is both an ESG position and business strategy.

You have heard from Charles Brindamour that economic resilience requires climate resilience. To this point, Intact's response to managing risks related to climate change has been embedded in the company's strategy. We invite you to read more about how Intact manages climate change and works to build a resilient society in the Social Impact Report, Management Proxy Circular and MD&A.

Among Intact's objectives is to be recognized as one of the most respected companies, and the Board and management have taken another step in the right direction. Intact attained the top position in The Globe & Mail Board Games 2020 rankings. Board Games evaluates the quality of governance practices and disclosure for Canadian publicly traded companies. This recognition reinforces the importance of Intact's clear purpose, Values and strong governance.

An important aspect of strong governance, and in line with Intact's value of integrity, are transparent discussions between shareholders, the Board and Management. With my colleagues on the Board, I met virtually with shareholders representing 33% of our investor base in 2020. Shareholders interested in discussions can contact the Board of Directors any time through the office of the Corporate Secretary.

Last year, we bid farewell to long-standing Board member Stephen Snyder. Later this year, Carol Stephenson – after a tenure of more than 20 years – is retiring from our Board. Both Stephen and Carol were among those who oversaw Intact establishing itself as a fully independent company in 2009, and have since contributed greatly to its growth and evolution. I am thankful to Stephen and Carol for their much-valued leadership and service over the years.

I am pleased to welcome two new members of the Board in 2021. Carolyn Wilkins joins the Board of Directors after a distinguished twenty-year career at the Bank of Canada. Carolyn served as Senior Deputy Governor for the last six and a half years of her tenure, and we welcome her strategic leadership and economic and financial expertise. I am delighted to also share the nomination of Dr. Indira Samarasekera. She is internationally recognized as a leading metallurgical engineer, including for her work on steel process engineering for which she was appointed an Officer of the Order of Canada. With her nomination, Indira brings expertise and leadership in technology, ESG, governance, and public affairs to the Board of Directors.

The financial results, support for customers and strategic progress of the past year are due in great measure to the customer-driven focus and engagement of employees across Intact. They are essential to the success of the organization and I want to thank them for living the Intact Values every day.

I would like to thank Charles Brindamour and his leadership team as they continue to realize opportunities and face challenges with calm, confidence and a steadfast stewardship of the interests of all stakeholders.

Also, thank you to our customers, brokers and shareholders for your trust and dedication this year. Intact's strength and resilience were showcased again this year and I look forward to seeing the company outperform in the years ahead.

Claude Dussault
Chairman of the Board

Recognized as a best employer

KINCENTRIC
Best Employer
CANADA 2020

KINCENTRIC
Best Employer
NORTH AMERICA 2020

KINCENTRIC
Best Employer
UNITED STATES 2020

Board of Directors

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

Charles Brindamour
Chief Executive Officer

Janet De Silva (3), (4)
President and CEO, Toronto Region Board of Trade

Jane E. Kinney (1), (4)
Corporate Director

Robert G. Leary (1), (4)
Corporate Director

Sylvie Paquette (3), (4)
Corporate Director

Timothy H. Penner (2), (3)
Corporate Director

Stuart J. Russell (3), (4)
Professor of Electrical Engineering and Computer Sciences at University of California at Berkeley

Frederick Singer (1), (2)
Chief Executive Officer, Echo360

Carol Stephenson (2), (3)
Corporate Director

Carolyn A. Wilkins (1), (4)
Corporate Director

William L. Young (1), (2)
Corporate Director, Chair of Magna International Inc. and Chair of SNC-Lavalin Group Inc.

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

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

Executive Committee Members*

Charles Brindamour
Chief Executive Officer

Ken Anderson
Senior Vice President, Investor Relations & Corporate Development

Patrick Barbeau
Senior Vice President, Claims

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, Quebec and Digital Distribution Intact Insurance

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

Louis Gagnon
President, Canadian Operations

Isabelle Girard
Senior Vice President, Personal Lines

Darren Godfrey
Senior Vice President, Commercial Lines

Natalie Higgins
Senior Vice President, Atlantic Canada

Karim Hirji
Senior Vice President & Managing Director, Intact Ventures

Mathieu Lamy
Executive Vice President & Chief Operating Officer

Tracy Laughlin
Senior Vice President, Intact Prestige

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

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

Benoit Morissette
Senior Vice President and Chief Risk and Actuarial Officer

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

Lynn O'Leary
Chief Operations Officer, Specialty Solutions

Carla Smith
Senior Vice President, Specialty Solutions, Canada

Mark A. Tullis
Vice Chair

Peter Weightman
Senior Vice President and Chief Underwriting Officer, Specialty Solutions, North America

*As at December 31, 2020. No changes have occured as of March 1, 2021.

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 100**;
Financial Statements – **pages 1 to 75**.

INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the year ended December 31, 2020

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

Management's Discussion and Analysis for the year ended December 31, 2020

(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, 2020. 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, 2020, compared to the corresponding periods in 2019. It should be read in conjunction with our Consolidated financial statements for our fiscal year ended December 31, 2020. This MD&A is dated February 9, 2021. "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.

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: direct premiums written (DPW), DPW growth in constant currency, 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 36 – Non-IFRS financial measures for the definition and reconciliation to the most comparable IFRS measures.***

Important notes

- Non-IFRS financial 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***.
- Abbreviations and definitions of selected key terms used in this MD&A are defined in ***Section 40 – Glossary and definitions.***
- When relevant, to enhance the analysis of our results with comparative periods, we present changes in constant currency, which exclude the impact of fluctuations in foreign exchange rates from one period to the other. Approximately 15% of our DPW is denominated in USD.
- On November 18, 2020, we announced that, together with the Scandinavian P&C leader Tryg A/S, we have reached an agreement to acquire RSA Insurance Group plc (RSA). A significant portion of the financing for the RSA Acquisition was raised in Q4-2020. ***See Section 2 – Acquisition of RSA's Canadian, UK and International operations.***
- 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, 2020, and are subject to change after that date. This MD&A contains forward-looking statements with respect to the proposed acquisition (the "RSA Acquisition") of RSA Insurance Group PLC ("RSA") and the completion of and timing for completion of the RSA Acquisition, as well as with respect to the acquisition of The Guarantee and Frank Cowan Company Limited ("FCC") and with respect to the impact of COVID-19 and related economic conditions on the Company's operations and financial performance.

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. In addition to other estimates and assumptions which may be identified herein, estimates and assumptions have been made regarding, among other things, the receipt of all requisite approvals relating to the RSA Acquisition in a timely manner and on terms acceptable to the Company, the realization of the expected strategic, financial and other benefits of the RSA Acquisition, and economic and political environments and industry conditions. However, the completion of the RSA Acquisition is subject to customary closing conditions, termination rights and other risks and uncertainties, including, without limitation, regulatory approvals, and there can be no assurance that the RSA Acquisition will be completed. There can also be no assurance that if the RSA Acquisition is completed, the strategic and financial benefits expected to result from the RSA Acquisition will be realized. 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 regulatory processes and outcomes in connection with its business;
- 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, including the impact of the COVID-19 pandemic and related economic conditions, 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 high net worth and personal auto lines of business;
- government regulations designed to protect policyholders and creditors rather than investors;
- litigation and regulatory actions, including with respect to the COVID-19 pandemic;
- 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 and the impact of COVID-19 and related economic conditions on such brokers and third parties;
- 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 uncertainty of obtaining in a timely manner, or at all, the regulatory approvals required to complete the RSA Acquisition;
- unfavourable capital markets developments or other factors that may adversely affect the Company's ability to refinance the bridge for the RSA Acquisition;
- the Company's ability to improve its combined ratio, retain existing and attract new business, retain key employees and achieve synergies and maintain market position arising from successful integration plans relating to the RSA Acquisition, as well as management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the RSA Acquisition and resulting impact on growth and accretion in various financial metrics;
- the Company's ability to otherwise complete the integration of the business acquired within anticipated time periods and at expected cost levels, as well as its ability to operate in new jurisdictions relating to the RSA Acquisition;
- the Company's profitability and ability to improve its combined ratio in the United States;
- 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 occurrence of and response to public health crises including epidemics, pandemics or outbreaks of new infectious diseases, including, most recently, the COVID-19 pandemic and ensuing events;
- 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 the impact on the ability of our workforce to perform necessary business functions remotely, as well as 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, including those adopted in response to COVID-19 that would, for example, require insurers to cover business interruption claims irrespective of terms after policies have been issued, and could result in an unexpected increase in the number of claims and have a material adverse impact on the Company's results;
- COVID-19 related coverage issues and claims, including certain class actions and related defence costs, could negatively impact our claims reserves;
- 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, including in the context of the COVID-19 crisis;
- the Company's ability to hedge exposures to fluctuations in foreign exchange rates, including those related to purchase price and book value related to the RSA Acquisition;
- 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 9, 2021 are qualified by these cautionary statements and those made in the section entitled Risk management (Sections 28-33) of this MD&A for the year ended December 31, 2020. 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.

OVERVIEW

Section 1 - About Intact Financial Corporation

1.1 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.

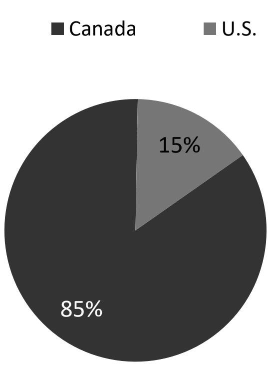
Our values of **Integrity, Respect, Customer-driven, Excellence and Generosity** guide how we work with customers, employees, shareholders and defines our role in society.

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.

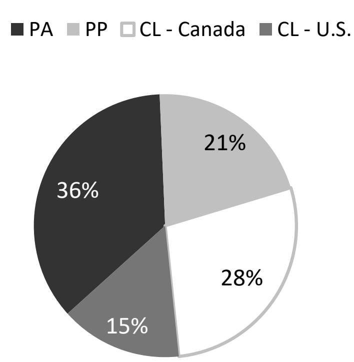
1.2 Who we are

- Largest provider of P&C insurance in Canada and a leading provider of specialty insurance in North America, with over $12 billion in annual DPW.
- A recognized best employer in Canada and the U.S, with over 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 Company, a leading MGA, distributes public entity insurance programs including risk and claims management services in Canada.
- In the U.S., Intact Insurance Specialty Solutions provides a range of specialty insurance products and services sold through independent agencies, regional and national brokers, wholesalers and managing general agencies. Products are underwritten by the insurance company subsidiaries of Intact Insurance Group USA, LLC.
- Our North American specialty operations are now under a single brand – Intact Insurance Specialty Solutions.
- Proven industry consolidator with a track record of 17 successful P&C acquisitions since 1988.

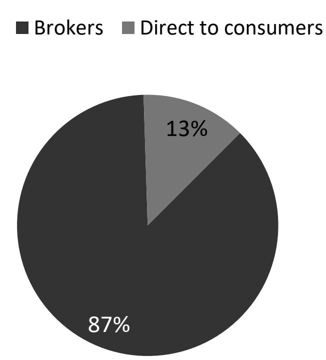
2020 DPW by business segment



2020 DPW by line of business



2020 DPW by distribution channel



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

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

Section 2 - Acquisition of RSA's Canadian, UK and International operations

2.1 Highly strategic, with significant shareholder value creation

On November 18, 2020, we announced that, together with the Scandinavian P&C leader Tryg A/S, we have reached an agreement to acquire RSA Insurance Group Plc. (RSA). RSA is a multinational insurance group with strong positions in the P&C insurance market in the UK, Scandinavia and Canada along with supporting international business in Ireland, Continental Europe and the Middle East.

Pursuant to the Transaction, we will retain RSA's Canadian, UK and International operations, Tryg will retain RSA's Swedish and Norwegian businesses, and Intact and Tryg will co-own RSA's Danish business.

The acquisition was approved by the Boards of Directors of all three companies on announcement and was approved by RSA's shareholders on January 18, 2021. The Transaction is expected to close during Q2-2021, subject to receipt of the relevant approvals or clearances from the relevant regulatory and antitrust authorities and the satisfaction of the other conditions.

With the RSA Acquisition, we are taking a significant step to accelerate our strategy. The acquisition will expand our leadership position in Canada, create a leading specialty lines platform with international expertise, and provide entry into the UK and Ireland market at scale. The acquisition will also strengthen our ability to outperform with increased investments in our core capabilities of data, risk selection, claims and supply chain management. The RSA Acquisition will create significant value for our shareholders.

Expands our leadership position in Canada	• Bolsters our Canadian business, unlocking synergies and opportunities for growth • Enhances commercial lines, and both direct and broker channels simultaneously • Builds on our strengths in data, claims, pricing and segmentation
Creates a leading specialty lines platform	• Expands North American specialty lines and broadens distribution footprint • Adds international capabilities and expertise in Europe • Creates a $4 billion+ specialty solutions leader
Entry into the UK & Ireland at scale	• Opportunity to apply risk selection and claims management expertise to improve underwriting performance • Attractive commercial and SME portfolio to share our successful operating model • Opportunity to apply our customer driven and digital advantages in personal lines
Financially compelling	• Net assets to be acquired at 0.9x book value with expected internal rate of return (IRR) in excess of our 15% threshold • Expected high-single-digit NOIPS accretion in the first year, increasing to upper teens within 36 months • Expected to maintain mid-teens OROE; BVPS expected to increase in excess of 25% at closing • Over $1.7 billion total capital margin estimated at closing; debt-to-total-capital ratio expected to return to 20% within 36 months

See Section 18 – Our evolved strategic roadmap for the next decade.

The acquisition of the Canadian, UK and International operations (UK&Intl.) of RSA is expected to increase our annual premiums from approximately $12 billion to $20 billion, with premiums in Canada and Specialty Lines each increasing by approximately 30%.

We expect to generate significant value through DPW growth, loss ratio and expense ratio improvements across the operations. The acquisition of RSA's Canadian operations is expected to drive approximately 75% of the value creation, with UK and International operations accounting for approximately 20% and Specialty Lines accounting for approximately 5%. Over $250 million of pre-tax annual run-rate synergies are expected within 36 months, before risk selection improvements.

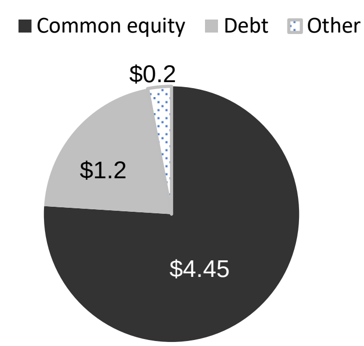
Integration and transition planning is on track. Strategic planning is taking place across all lines, including the Denmark business.

2.2 Financing and hedging

RSA shareholders will receive 685 pence per ordinary share in cash, representing a total consideration of approximately £7.2 billion ($12.5 billion).

- We will pay £3.0 billion ($5.2 billion) for the acquisition of RSA's Canadian, UK and International operations, and our co-share of RSA's Danish business.
- Tryg will pay £4.2 billion ($7.3 billion) for the acquisition of RSA's Swedish and Norwegian businesses and its co-share of RSA's Danish business.

Total financing: $5.9 billion



Financing for the purchase price of approximately $5.2 billion (£3.0 billion) and expected related transaction costs of approximately $0.7 billion has been raised with $4.45 billion of private placement subscription receipts, €392 million ($600 million) bank term loan facility to be drawn on closing and $600 million of medium-term notes. The remaining balance of approximately $200 million will be raised in 2021 with the issuance of preferred shares or other financing.

Our purchase price is set in GBP, with the CAD equivalent fluctuating with foreign exchange rates. In November 2020, in connection with the RSA Acquisition, we have hedged the purchase price and other items to foreign currency fluctuations.

See Section 25.5 – Managing leverage for details on the new financing in connection with the acquisition of RSA.
See Section 27.1 – Currency hedging in relation with the RSA Acquisition.

2.3 Estimated capital position upon closing

We expect to maintain a strong capital position at close, with an estimated capital margin above $1.7 billion and an MCT ratio above 194% in Canada, a Solvency II coverage ratio above 160% in the UK and an RBC ratio above 400% in the U.S.

Our debt-to-total-capital ratio at close of the Transaction is expected to be approximately 26%, and is expected to return to 20% within 36 months. Our credit ratings have been affirmed following the RSA Acquisition announcement.

Further information related to our RSA Acquisition can be found on the Intact website at www.intactfc.com.

Section 3 - Building sustainable competitive advantages

We have many unique advantages which have enabled us to consistently outperform P&C insurers in North America. These competitive advantages, which we will continue to strengthen and share across the RSA operations, are described below.

Building a leading P&C Insurer	
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 3,000 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 our 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 underwriting business is well diversified across segments (with presence in Canada, the U.S. and, following RSA closing, the UK and Europe) and lines of business (personal, commercial and specialty). • Our growing distribution stream of earnings, as well as our investment income, provides earnings diversification and reduces volatility.
Global leader in leveraging data and AI for pricing and risk selection	• Our AI and machine learning expertise combined with our data advantage 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. As well, we have invested directly in the supply chain to strengthen our network. • This provides an opportunity for simpler, faster and superior experience for the customer and translates into a competitive advantage, as we can settle claims at a lower cost.
Strong capital and investment management expertise	• In-house investment management provides greater flexibility in support of our insurance operations at a competitive cost. 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	• Acquisitions play an important role in accelerating execution on the strategy. • We are a proven industry consolidator with 17 successful acquisitions since 1988. RSA will mark our 18th acquisition and will expand our leadership position in Canada and advance our objective to build a specialty solutions leader. • 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 and core expertise in data, pricing and segmentation, and claims and supply chain management.

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

PERFORMANCE

Section 4 - Consolidated performance

4.1 Consolidated performance

Table 1 - Consolidated performance[1]

		Q4-2020	Q4-2019	Change	2020	2019	Change
DPW *(growth in constant currency)*		**2,872**	2,670	8%	**12,039**	11,049	9%
Canada	*6.1*	**2,471**	2,328	6%	**10,216**	9,399	9%
U.S.	*7.1*	**401**	342	19%	**1,823**	1,650	9%
NEP		**2,879**	2,692	7%	**11,220**	10,211	10%
Operating income							
Underwriting income		**415**	229	186	**1,227**	465	762
Net investment income		**143**	142	1	**577**	576	1
Distribution EBITA and Other		**72**	45	27	**275**	209	66
Finance costs		**(32)**	(28)	(4)	**(126)**	(120)	(6)
Other income (expense)		**2**	(2)	4	**(37)**	(23)	(14)
Pre-tax operating income (PTOI)		**600**	386	214	**1,916**	1,107	809
Net operating income (NOI)		**467**	303	164	**1,471**	905	566
Pre-tax non-operating gains (losses)		**(125)**	(109)	(16)	**(535)**	(257)	(278)
Net income		**378**	240	138	**1,082**	754	328
Effective income tax rates							
Operating		**22.1%**	21.5%	0.6 pts	**23.2%**	18.3%	4.9 pts
Total		**20.4%**	13.4%	7.0 pts	**21.7%**	11.3%	10.4 pts
Per share measures, basic and diluted (in dollars)							
NOIPS		**3.18**	2.08	53%	**9.92**	6.16	61%
EPS		**2.55**	1.63	56%	**7.20**	5.08	42%
BVPS		**58.79**	53.97	9%			
Return on equity for the last 12 months							
OROE		**18.4%**	12.5%	5.9 pts			
AROE		**15.0%**	11.4%	3.6 pts			
ROE		**12.8%**	10.0%	2.8 pts			
Total capital margin		**2,729**	1,222	1,507			
Debt-to-total capital ratio		**24.1%**	21.3%	2.8 pts			

[1] *See Section 36 – Non-IFRS financial measures.*

Table 2 – Underwriting ratios

	Section	Q4-2020	Q4-2019	Change	2020	2019	Change
Claims ratio		**55.1%**	62.6%	(7.5) pts	**57.8%**	66.0%	(8.2) pts
Expense ratio		**30.5%**	28.9%	1.6 pts	**31.3%**	29.4%	1.9 pts
Combined ratio		**85.6%**	91.5%	(5.9) pts	**89.1%**	95.4%	(6.3) pts
Canada	*6.1*	**84.0%**	92.0%	(8.0) pts	**88.0%**	95.9%	(7.9) pts
U.S.	*7.1*	**92.0%**	88.8%	3.2 pts	**94.9%**	93.2%	1.7 pts

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

	Q4-2020 and full year 2020
Highlights	• **Net operating income per share of $3.18 in Q4-2020 and OROE of 18.4%,** driven by strong underwriting performance and distribution results • **Premiums grew 8% in the quarter and 9% for the full year** with solid growth in all lines and The Guarantee acquisition • **Combined ratio of 85.6% in Q4-2020** included $74 million of CAT losses, with $23 million related to the COVID-19 crisis • **Our COVID-19 related relief** has helped more than 1.2 million customers, with $530 million of support provided in 2020 • **Full year EPS of $7.20** and BVPS up 9% in 2020 to $58.79 • **RSA Acquisition is progressing well and on track for Q2-2021 closing**

COVID-19 crisis

- In 2020, we have provided $530 million of relief, including premium reductions of $439 million, as well as payment flexibility, to more than 1.2 million customers to recognize hardship, changing driving behaviours and lower business activity resulting from the COVID-19 crisis. Included in the $530 million of relief is a $50 million targeted relief program, which provided an additional support to approximately 100,000 vulnerable small business customers in Q4-2020.
- Premium reductions lowered DPW by $419 million (4 points) in 2020 and NEP by $236 million (2 points).
- In 2020, we recorded $106 million for COVID-19 CAT losses for commercial line and specialty line exposure in Canada and the U.S. and $34 million of bad debt expense.

See Section 13 – COVID-19 crisis update.

	Q4-2020 vs Q4-2019	2020 vs 2019
Premiums growth ***in constant currency***	• **Premiums growth was solid at 8%**, after reflecting an estimated 5 points of customer premium relief measures. The acquisition of The Guarantee contributed 4 points of growth.	• **Premiums grew 9%,** reflecting strong growth on both sides of the border, tempered by an estimated 4 points of customer premium relief measures. The acquisition of The Guarantee contributed 5 points of growth.
	• **In Canada, premium growth was solid at 6%,** after reflecting $135 million (6 points) of customer premium relief measures, driven by market conditions and unit growth. The acquisition of The Guarantee contributed 3 points of growth.	• **In Canada, premium growth was strong at 9%,** after reflecting $419 million (4 points) of customer premium relief measures, driven by market conditions and unit growth. The acquisition of The Guarantee contributed 5 points of growth.
	• **In the U.S., premium growth of 19% on a constant currency basis,** including 6 points from the acquisition of The Guarantee, was driven by hard market conditions, strong new business growth and solid retention.	• **In the U.S., premium growth of 9% on a constant currency basis,** including 6 points from the acquisition of The Guarantee, was driven by hard market conditions, increased new business and strong renewals.
Underwriting performance	• **Overall combined ratio of 85.6%**, driven by strong underlying performance in Canada. During Q4-2020, we also increased COVID-19 CAT losses by $23 million and provided $50 million of targeted relief to our small business customers.	• **Overall combined ratio improved by 6.3 points to a strong at 89.1%,** driven by strong underlying performance in Canada and the U.S. The combined ratio of 89.1% for 2020 also reflected $106 million (0.9 points) of COVID-19 CAT losses.
	• **In Canada, combined ratio improved to a strong 84.0% in Q4-2020 and 88.0% in 2020,** mainly driven by lower claims frequency, which includes the benefits of our profitability actions and better weather conditions, partially offset by the impact of relief measures. The combined ratio of 88.0% for 2020 also reflected $64 million of COVID-19 CAT losses, and $32 million of bad debt expense recorded in Q2-2020.	
	• **In the U.S., combined ratio of 92.0% increased by 3.2 points,** mainly due to adverse PYD and higher weather-related losses. Most lines of business are performing very well.	• **In the U.S, combined ratio of 94.9%**, reflecting 1.8 points of COVID-19 CAT losses and elevated CAT and non-CAT weather-related losses, partly offset by favourable PYD.

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

<table>
<tr><th></th><th>Q4-2020 vs Q4-2019</th><th>2020 vs 2019</th></tr>
<tr><td>Net investment income</td><td colspan="2">• As expected, net investment income of $143 million for Q4-2020 and $577 million for full year 2020 were essentially in line with last year, as the benefit of higher invested assets was offset by lower reinvestment yields.</td></tr>
<tr><td>Distribution EBITA and Other</td><td>• Distribution EBITA and Other grew 60% to a very strong $72 million, driven by strong organic growth, accretive acquisitions and expense management.</td><td>• Distribution EBITA and Other grew 32% to $275 million, reflecting strong organic growth, accretive acquisitions, expense management, as well as the acquisitions of Frank Cowan and On Side.</td></tr>
<tr><td>NOIPS</td><td colspan="2">• NOIPS increased to $3.18 in Q4-2020 and $9.92 in 2020, driven by strong underwriting performance and distribution results.</td></tr>
<tr><td>Non-operating results (see Section 35 for details)</td><td>• Non-operating losses increased by $16 million to $125 million, mainly driven by acquisition-related expenses of $42 million relating to the RSA Acquisition, partially offset by realized gains from favourable equity markets.</td><td>• Non-operating losses increased by $278 million to $535 million, mainly due to impairment losses of $151 million and RSA acquisition-related expenses of $42 million. Impairment losses included $96 million of equity impairment in Q1-2020, mostly related to the energy sector.</td></tr>
<tr><td>Effective income tax rates[1]</td><td colspan="2">• Operating effective income tax rate of 22.1% for Q4-2020 and 23.2% for 2020, mainly reflected strong Canadian underwriting results leading to a higher proportion of Canadian underwriting income over pre-tax operating income, and the unfavourable impact of the change in U.S. tax legislation.
• Operating and effective income tax rate for Q4-2020 and 2020 were in line with expectations.</td></tr>
<tr><td>EPS</td><td colspan="2">• EPS increased to $2.55 in Q4-2020 and $7.20 in 2020, driven by strong growth in net operating income.</td></tr>
<tr><td>Return on equity</td><td colspan="2">• Operating ROE for the last 12 months improved by 5.9 points to 18.4%, driven by strong underwriting performance and distribution results.</td></tr>
<tr><td>BVPS (see Section 25.4)</td><td>• BVPS increased by 5% to $58.79, driven by strong operating performance and mark-to-market investments gains.</td><td>• BVPS increased by 9% to $58.79, driven by strong operating performance, net of common share dividends.</td></tr>
<tr><td>Debt-to-total capital ratio (leverage ratio)</td><td colspan="2">• Leverage ratio increased to 24.1% after issuing $600 million of medium-term notes in December 2020 to partially fund the RSA Acquisition, representing an impact of 3.8 points on the leverage ratio, and another $300 million earlier in 2020.
• We expect the leverage ratio to be 26% at closing of the RSA Acquisition and return to 20% within 36 months following closing.</td></tr>
<tr><td>Financial condition</td><td colspan="2">• We ended the year in a strong financial position, with $2.7 billion of total capital margin, including the net proceeds from the medium-term note issuances in December 2020 to partly finance the RSA Acquisition. See Section 25 – Capital management.</td></tr>
</table>

[1] *See Note 24.2 – Effective income tax rate to the Consolidated financial statements for further details.*

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

Section 5 - Segment performance

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 set out below.

Intact Financial Corporation	
Canada (CAN)	**U.S.**
Underwriting and distribution activities in Canada	**Underwriting activities in the U.S.**
Section 6 – Canada	*Section 7 – U.S.*

Corporate and Other consists of activities managed at the Corporate level, including investing related to P&C insurance, treasury and capital management, as well as other corporate activities. *See Section 8 – Corporate and Other.*

Table 3 – Operating performance by segment[1]

For the quarters ended Dec. 31,	2020				2019			
	CAN	U.S.	Corporate	Total	CAN	U.S.	Corporate	Total
DPW	**2,471**	**401**	**-**	**2,872**	2,328	342	-	2,670
Growth in constant currency	***6%***	***19%***	**-**	***8%***	*13%*	*5%*	-	*12%*
NEP	**2,446**	**432**	**1**	**2,879**	2,302	389	1	2,692
Operating income								
Underwriting income[2]	**392**	**35**	**(12)**	**415**	184	44	1	229
Including COVID-19 CAT losses[2]	***14***	***(4)***	***13***	***23***	-	-	-	-
Net investment income	**-**	**-**	**143**	**143**	-	-	142	142
Distribution EBITA and Other	**72**	**-**	**-**	**72**	45	-	-	45
Finance costs	**(3)**	**-**	**(29)**	**(32)**	(2)	-	(26)	(28)
Other income (expense)	**-**	**-**	**2**	**2**	-	-	(2)	(2)
PTOI	**461**	**35**	**104**	**600**	227	44	115	386
NOI				**467**				303
NOIPS (in dollars)				**3.18**				2.08
For the years ended Dec. 31,	**2020**				**2019**			
	CAN	**U.S.**	**Corporate**	**Total**	**CAN**	**U.S.**	**Corporate**	**Total**
DPW	**10,216**	**1,823**	**-**	**12,039**	9,399	1,650	-	11,049
Growth in constant currency	***9%***	***9%***	**-**	***9%***	*9%*	*8%*	-	*9%*
NEP	**9,633**	**1,582**	**5**	**11,220**	8,775	1,431	5	10,211
Operating income								
Underwriting income[2]	**1,154**	**81**	**(8)**	**1,227**	363	97	5	465
Including COVID-19 CAT losses[2]	***64***	***29***	***13***	***106***	-	-	-	-
Net investment income	**-**	**-**	**577**	**577**	-	-	576	576
Distribution EBITA and Other	**275**	**-**	**-**	**275**	209	-	-	209
Finance costs	**(11)**	**-**	**(115)**	**(126)**	(10)	-	(110)	(120)
Other income (expense)	**-**	**-**	**(37)**	**(37)**	-	-	(23)	(23)
PTOI	**1,418**	**81**	**417**	**1,916**	562	97	448	1,107
NOI				**1,471**				905
NOIPS (in dollars)				**9.92**				6.16

[1] *See Section 36 – Non-IFRS financial measures.*
[2] In Q4-2020, $13 million of U.S. COVID-19 CAT losses were ceded under the internal CAT reinsurance treaty. *See Section 8 – Corporate and Other.*

Section 6 - Canada

Canada segment
Underwriting and distribution activities in Canada

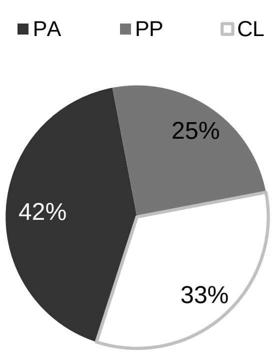
INSURANCE: P&C Canada *(see Section 6.1 – P&C Canada)*

- Largest P&C insurer in Canada, with more than $10 billion in annual DPW and an approximate market share of 17% (22% proforma for the RSA Acquisition).
- 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 (including specialty lines).
- The RSA Acquisition will bolster our leadership position by adding approximately $3 billion in annual premiums in Canada.
- 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.

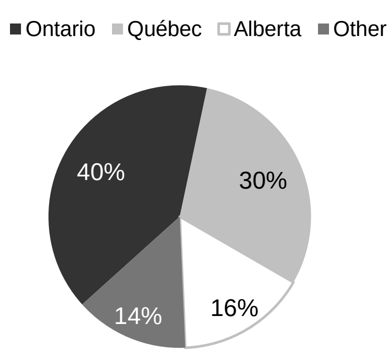
DISTRIBUTION AND OTHER *(see Section 6.2 – Distribution and other activities)*

- 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 over $2 billion of written premiums in 2020.
- Distribution and Other is reported on a pre-tax and pre-interest basis and includes 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.

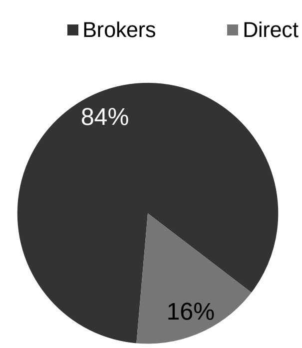
2020 DPW by line of business



2020 DPW by region



2020 DPW by distribution channel



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

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

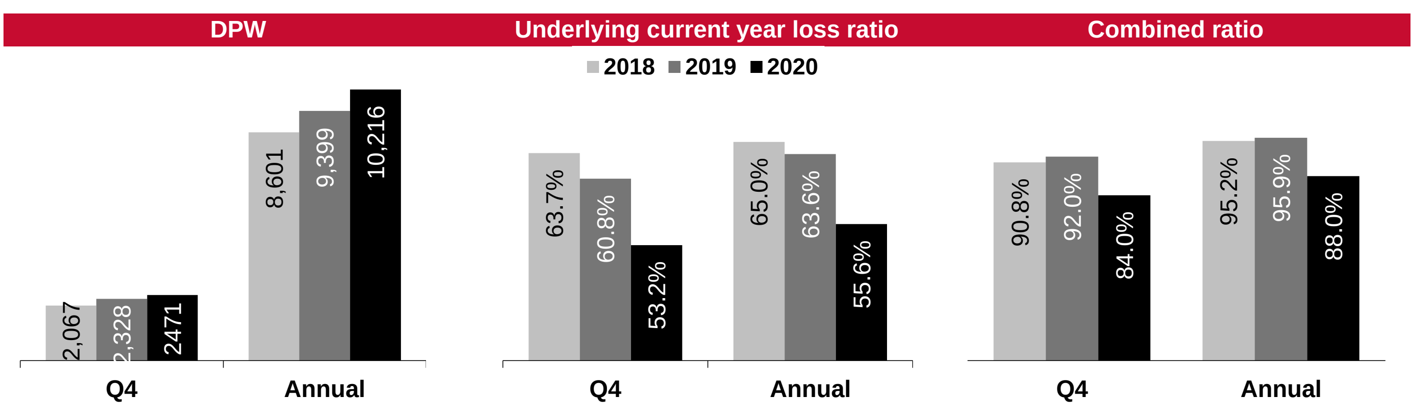
6.1 P&C Canada

Underwriting results exclude the impact of the BC exit effective in Q4-2020, with no restatement of comparatives.

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

		Q4-2020	Q4-2019	Change	2020	2019	Change
DPW		**2,471**	2,328	6%	**10,216**	9,399	9%
Personal auto	*9.1*	**984**	941	5%	**4,322**	4,067	6%
Personal property	*9.2*	**623**	566	10%	**2,586**	2,337	11%
Commercial lines	*9.3*	**864**	821	5%	**3,308**	2,995	10%
NEP		**2,446**	2,302	6%	**9,633**	8,775	10%
Current year claims (excluding CAT claims)		**1,300**	1,399	(99)	**5,357**	5,577	(220)
Current year CAT claims		**65**	111	(46)	**299**	362	(63)
(Favourable) unfavourable PYD		**(33)**	(32)	(1)	**(85)**	11	(96)
Total net claims		**1,332**	1,478	(146)	**5,571**	5,950	(379)
Underwriting expenses		**722**	640	82	**2,908**	2,462	446
Underwriting income		**392**	184	208	**1,154**	363	791
Underwriting ratios							
Underlying current year loss ratio		**53.2%**	60.8%	(7.6) pts	**55.6%**	63.6%	(8.0) pts
CAT loss ratio		**2.7%**	4.8%	(2.1) pts	**3.1%**	4.1%	(1.0) pts
(Favourable) unfavourable PYD ratio		**(1.4)%**	(1.4)%	-	**(0.9)%**	0.1%	(1.0) pts
Claims ratio		**54.5%**	64.2%	(9.7) pts	**57.8%**	67.8%	(10.0) pts
Commissions		**16.0%**	14.9%	1.1 pts	**16.5%**	15.3%	1.2 pts
General expenses		**10.2%**	9.4%	0.8 pts	**10.1%**	9.2%	0.9 pts
Premium taxes		**3.3%**	3.5%	(0.2) pts	**3.6%**	3.6%	- pts
Expense ratio		**29.5%**	27.8%	1.7 pts	**30.2%**	28.1%	2.1 pts
Combined ratio		**84.0%**	92.0%	(8.0) pts	**88.0%**	95.9%	(7.9) pts
Personal auto		**82.6%**	96.5%	(13.9) pts	**86.6%**	97.7%	(11.1) pts
Personal property		**73.2%**	82.0%	(8.8) pts	**81.7%**	92.5%	(10.8) pts
Commercial lines		**95.3%**	93.5%	1.8 pts	**95.1%**	96.0%	(0.9) pts

[1] *See Section 36 – Non-IFRS financial measures.*



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

Q4-2020 vs Q4-2019	2020 vs 2019
• **Premium growth was solid at 6%,** including 3 points from the acquisition of The Guarantee, but also reflecting an estimated 6 points of customer premium relief measures.	• **Premium growth was strong at 9%,** including 5 points from the acquisition of The Guarantee, but also reflecting an estimated 4 points of customer premium relief measures.

- Excluding these items, DPW growth was driven by market conditions and unit growth.
- **Underlying current year loss ratio improved to a strong at 53.2% in Q4-2020 and 55.6% in 2020**, reflecting lower claims frequency across the business, the impact of our profitability actions and better weather conditions, all of which were partially offset by the impact of relief measures.

Q4-2020 vs Q4-2019	2020 vs 2019
• **CAT losses of $65 million in Q4-2020** reflected the impact of wind and water events in Central Canada, as well as non- weather-related losses, including $14 million of COVID-19 related losses ***(see Section 14 – Weather)***.	• **CAT losses of $299 million in 2020** were mostly weather-driven but also included $64 million of COVID-19 related losses in commercial lines.
• **PYD ratio was favourable at 1.4%** and in line with last year.	• **PYD ratio was favourable at 0.9%,** with all lines showing favourable development.
• **Expense ratio increased to 29.5% across all lines of business,** mainly due to the impact of relief measures on NEP, higher variable commissions and accelerated spent in technology.	• **Expense ratio increased to 30.2% across all lines of business,** mainly due to higher variable commissions, the impact of relief measures on NEP and accelerated spent in technology. The expense ratio for 2020 also reflected a $32 million bad debt expense recorded in Q2-2020.

- **Combined ratio was strong at 84% in Q4-2020 and 88% in 2020**, reflecting strong underlying performance across all lines.
- **Underwriting income was up $208 million in Q4-2020 and $791 million for the full year,** reflecting NEP growth and strong improvement in underwriting performance.

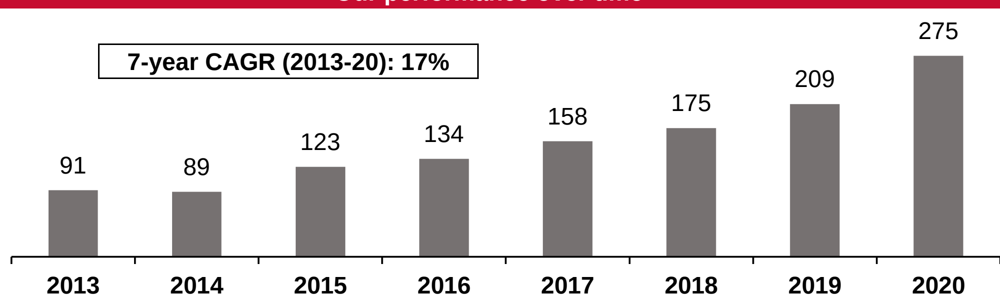
6.2 Distribution and other activities

Our strategy: increase scale in distribution

We aim to continue to:

- support our brokers as they expand and grow their businesses, while actively participating in broker consolidation through BrokerLink and partners;
- expand our distribution footprint in specialty lines through the acquisition of MGAs, such as Frank Cowan; and
- strengthen our supply chains, including strengthening our repair and restoration services with the acquisition of On Side.

Our performance over time



Our 2020 performance

Distribution EBITA and Other grew 32% to $275 million, reflecting strong organic growth, accretive acquisitions, expense management, as well as the acquisitions of Frank Cowan and On Side.

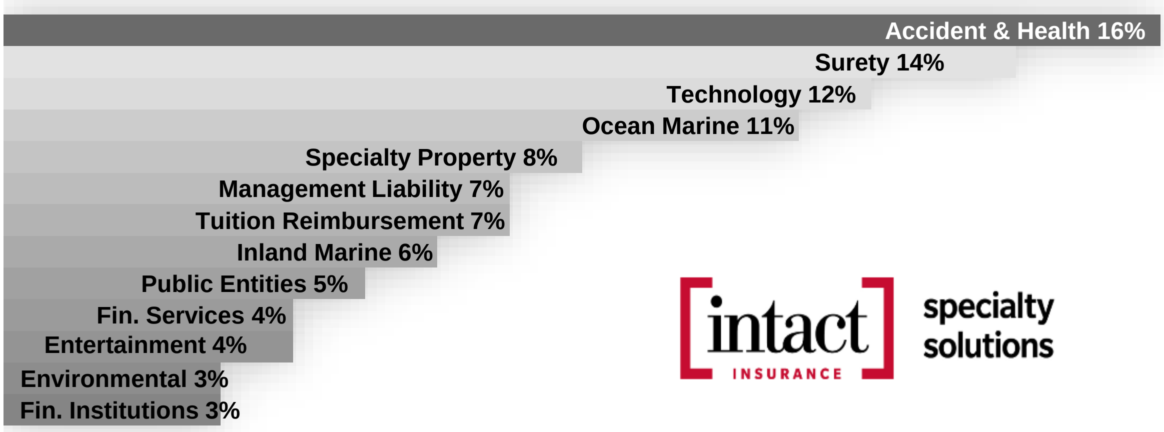
Section 7 - U.S.

U.S. segment
Underwriting activities in the U.S.

INSURANCE: P&C U.S.

- Focused on small-to-medium sized businesses, with over US$1.3 billion ($1.8 billion) in annual DPW.
- Distributes insurance products and services in the U.S. under the Intact Insurance Specialty Solutions 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 business unit is managed by an experienced team of specialty insurance professionals focused on a specific customer group or industry segment.
- We hold 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.

2020 DPW by business unit



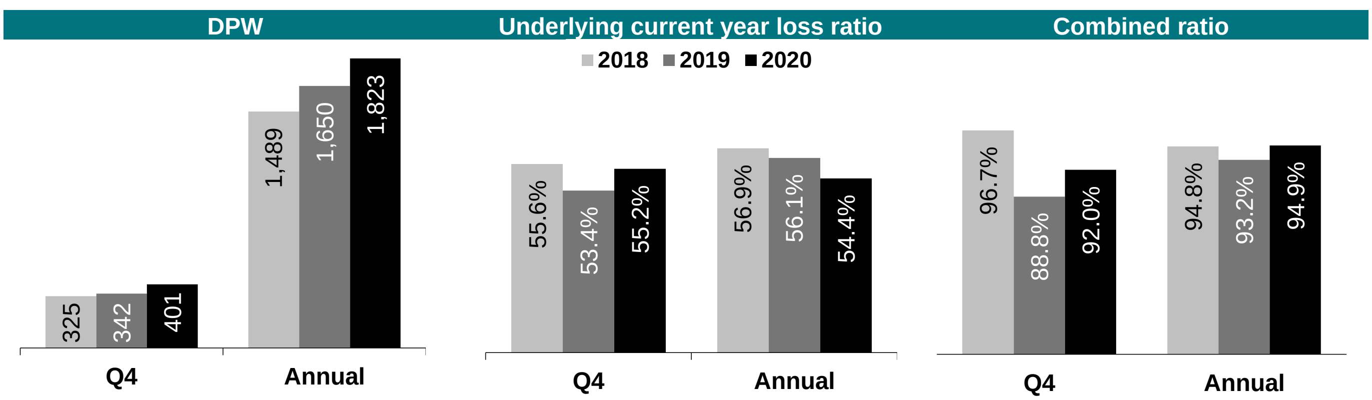
(in millions of Canadian dollars, except as otherwise noted)

7.1 P&C U.S.

Table 5 – Underwriting results for P&C U.S.[1]

	Q4-2020	Q4-2019	Change	2020	2019	Change
DPW	**401**	342	17%	**1,823**	1,650	11%
Growth in constant currency			19%			9%
NEP	**432**	389	11%	**1,582**	1,431	11%
Current year claims	**239**	208	31	**861**	803	58
Current year CAT claims	**(4)**	4	(8)	**47**	4	43
(Favourable) unfavourable PYD	**5**	(7)	12	**(15)**	(11)	(4)
Net claims incurred	**240**	205	35	**893**	796	97
Underwriting expenses	**157**	140	17	**608**	538	70
Underwriting income	**35**	44	(9)	**81**	97	(16)
Underwriting ratios						
Underlying current year loss ratio	**55.2%**	53.4%	1.8 pts	**54.4%**	56.1%	(1.7) pts
CAT loss ratio	**(0.9)%**	1.0%	(1.9) pts	**3.0%**	0.3%	2.7 pts
(Favourable) unfavourable PYD ratio	**1.3%**	(1.6)%	2.9 pts	**(0.9)%**	(0.8)%	(0.1) pts
Claims ratio	**55.6%**	52.8%	2.8 pts	**56.5%**	55.6%	0.9 pts
Commissions	**16.2%**	15.0%	1.2 pts	**16.5%**	15.7%	0.8 pts
General expenses	**18.5%**	19.2%	(0.7) pts	**19.7%**	20.0%	(0.3) pts
Premium taxes	**1.7%**	1.8%	(0.1) pts	**2.2%**	1.9%	0.3 pts
Expense ratio	**36.4%**	36.0%	0.4 pts	**38.4%**	37.6%	0.8 pts
Combined ratio	**92.0%**	88.8%	3.2 pts	**94.9%**	93.2%	1.7 pts

[1] *See Section 36 – Non-IFRS financial measures.*



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

Q4-2020 vs Q4-2019	2020 vs 2019
• **On a constant currency basis, very strong DPW growth of 19%,** including 6 points from the acquisition of The Guarantee, driven by hard market conditions, strong new business growth and solid retention.	• **On a constant currency basis, solid DPW growth of 9%,** including 6 points from the acquisition of The Guarantee, driven by hard market conditions, increased new business and strong renewals.
• **Underlying current year loss ratio increased 1.8 points** from a solid 53.4% in Q4-2019, mainly due to higher non-CAT weather-related losses.	• **Underlying current year loss ratio improved to a strong 54.4%,** driven by the impact of our profitability actions, including rate increases, claims actions and the exit of the Healthcare business.
• **CAT loss ratio was negative 0.9% in Q4-2020,** reflecting additional COVID-19 related losses of $9 million in Q4-2020, more than offset by the cession of $13 million of losses under an internal reinsurance treaty ***(see Section 8 – Corporate and Other).***	• **CAT loss ratio of 3.0% in 2020** was driven by 1.8 points ($29 million) of COVID-19 related losses in 2020 and severe weather events in Q1-2020.
• **PYD ratio was unfavourable at 1.3%,** mainly driven by adverse development on prior year claims, net of ADC cover.	• **Favourable PYD ratio of 0.9%** was tempered by adverse development on prior year claims, net of ADC cover.
• **Expense ratio was slightly up in Q4-2020 and 2020**, reflecting the addition of The Guarantee's surety business.	
• **Combined ratio increased by 3.2 points to 92.0%**, mainly due to unfavourable PYD and higher non-CAT weather-related losses. Most lines of business are performing very well.	• **Combined ratio of 94.9% was higher than expected**, reflecting 1.8 points of COVID-19 CAT losses and elevated CAT and non-CAT weather-related losses. Given all the actions we have taken so far, we remain confident in the fundamentals of our U.S. business and our ability to deliver a low 90's combined ratio on a sustainable basis.

7.2 Performance vs objectives

At the time of the acquisition, we set two critical objectives for success, both targeting the end of 2020 for completion.

1. **Reach $3 billion DPW across our North American Specialty platform.** Our DPW reached $3 billion in 2020, in line with our objective ***(see Section 16 – Progress on our strategic roadmap)***; and
2. **Achieve a sustainable low-90s combined ratio in the U.S.** We have taken several tangible actions to achieve our combined ratio target, including:
   - implementing profit improvement plans on certain underperforming lines and targeted exits from business units such as healthcare;
   - the realization of synergies, including $30 million of expense synergies on an annual basis; and
   - investments in our strong core of industry leading business units, both organic and via acquisitions such as The Guarantee and International Bond & Marine Brokerage Ltd. (IB&M).

We believe our U.S. business will deliver sustainable low 90s performance going forward, given the actions we have taken so far and continued discipline on underwriting performance.

7.3 Other performance matters

Exited lines reported a loss of $57 million in 2020 ($66 million in 2019), net of reinsurance, mainly driven by adverse PYD in the Healthcare business, which we exited effective July 1, 2019. These results support our decision to exit the business.

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

Section 8 - Corporate and Other

CORPORATE AND OTHER

Consists of income and expenses related to activities managed at the Corporate level, including:

- Investment management activities
- Treasury and capital management
- Risk management, including internal CAT reinsurance
- Other corporate activities

Internal CAT reinsurance treaty

As part of our global risk management optimization strategy, an internal CAT reinsurance treaty has been in place since 2018 to cover for P&C U.S. CAT losses in excess of US$20 million. The impact of the internal reinsurance treaty is reflected as follows, in line with how we measure our performance:

- P&C U.S. performance is presented net of reinsurance.
- Corporate and Other performance reflects P&C U.S. ceded premiums and ceded losses, which are included in the consolidated underwriting performance.

See Section 23.2 – Reinsurance for details on reinsurance net retention and coverage limits.

8.1 Corporate and Other (operating performance)

Table 6 – Corporate and other (operating performance)

	Section	Q4-2020	Q4-2019	Change	2020	2019	Change
Underwriting income (loss)		**(12)**	1	(13)	**(8)**	5	(13)
Net investment income	*10.2*	**143**	142	1	**577**	576	1
Finance costs[1]		**(29)**	(26)	(3)	**(115)**	(110)	(5)
Other income (expense)[2]		**2**	(2)	4	**(37)**	(23)	(14)
Corporate and other		**104**	115	(11)	**417**	448	(31)
Underwriting income (loss)							
NEP (ceded premiums from P&C U.S.)		**1**	1	-	**5**	5	-
CAT losses		**13**	-	13	**13**	-	13
Underwriting income (loss)		**(12)**	1	(13)	**(8)**	5	(13)

[1] Finance costs (other than those related to our Canadian broker associates).

[2] Other income (expense) can fluctuate from quarter to quarter and includes general corporate expenses and income, consolidation adjustments, regulatory fees related to our public company status, special projects and other operating items. Included underwriting results of The Guarantee from December 2, 2019 (closing date) of $7 million in 2019.

Underwriting performance highlights

- **Underwriting loss of $12 million in Q4-2020 and $8 million in 2020**, reflected $13 million (US$10 million) of P&C U.S. COVID-19 CAT losses ceded to the internal CAT reinsurance treaty, net of reinsurance premiums of $5 million in 2020.
- CAT losses ceded of US$10 million represented losses in excess of P&C U.S. segment retention of US$20 million. It is the first time that P&C U.S. CAT losses exceed that retention since inception in 2018. ***See Section 7.1 – P&C U.S.***
- **On a consolidated basis, COVID-19 CAT losses totaled $23 million in Q4-2020 and $106 million in 2020,** all of which are reflected in the consolidated combined ratio.

***See Section 5 – Segment* performance.**

Section 9 - Line of business performance

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

Intact Financial Corporation	Section
• **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.	9.1
• **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.	9.2
• **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.	9.3
• **Commercial lines U.S. (P&C 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.	7.1

9.1 Personal auto

Underwriting results exclude the impact of the BC exit effective in Q4-2020, with no restatement of comparatives.

Table 7 – Underwriting results for personal auto[1]

	Q4-2020	Q4-2019	Change	2020	2019	Change
DPW	**984**	941	5%	**4,322**	4,067	6%
Written insured risks (in thousands)	**908**	886	2%	**4,246**	4,150	2%
NEP	**1,087**	1,007	8%	**4,187**	3,818	10%
Underwriting income (loss)	**189**	35	nm	**560**	86	nm
Underlying current year loss ratio	**58.8%**	73.0%	(14.2) pts	**61.0%**	71.7%	(10.7) pts
CAT loss ratio	**0.6%**	0.8%	(0.2) pts	**1.1%**	0.7%	0.4 pts
(Favourable) unfavourable PYD ratio	**(1.0)%**	-%	(1.0) pts	**(0.1)%**	2.9%	(3.0) pts
Claims ratio	**58.4%**	73.8%	(15.4) pts	**62.0%**	75.3%	(13.3) pts
Expense ratio	**24.2%**	22.7%	1.5 pts	**24.6%**	22.4%	2.2 pts
Combined ratio	**82.6%**	96.5%	(13.9) pts	**86.6%**	97.7%	(11.1) pts

[1] *See Section 36 – Non-IFRS financial measures.*

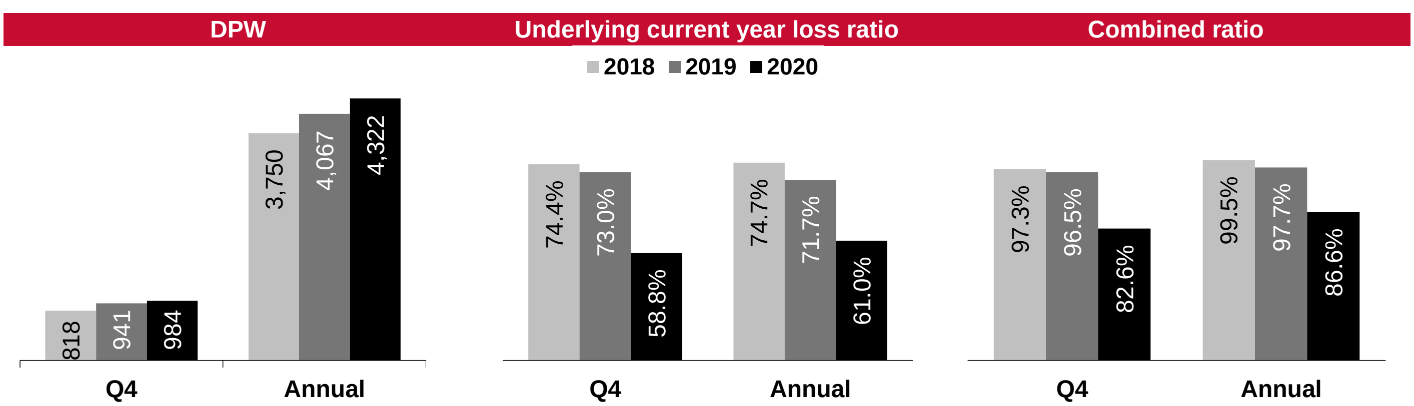
Q4-2020 vs Q4-2019

- **Solid DPW growth of 5%,** after reflecting an estimated 6 points of customer premium relief measures and 2 points due to the BC exit, driven by unit growth.
- **Underlying current year loss ratio improved to a strong 58.8%,** reflecting lower claims frequency due to reduced driving, the benefit of our profitability actions and lower non-CAT weather-related losses, partly offset by increased claims severity and customer relief measures.
- **CAT loss ratio of 0.6% in Q4-2020,** essentially in line with last year.

2020 vs 2019

- **Solid DPW growth of 6%,** after reflecting an estimated 6 points of customer premiums relief measures. DPW growth was driven by favourable market conditions entering into 2020, the acquisition of The Guarantee (2 points), as well as unit growth.
- **Underlying current year loss ratio improved to a strong 61.0% in 2020,** reflecting lower claims frequency due to the benefit of our profitability actions, reduced driving and lower non-CAT weather-related losses, partly offset by increased claims severity and customer relief measures.
- **CAT loss ratio of 1.1% in 2020,** in line with expectations.

- **Favourable PYD was minimal in Q4-2020 in 2020,** in line with expectations.
- **Combined ratio was strong at 82.6% in Q4-2020 and 86.6% in 2020**, driven by improvement in underlying performance.



9.2 Personal property

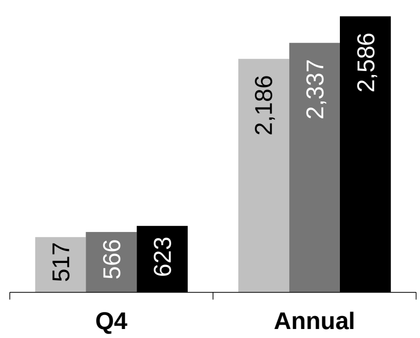
Table 8 – Underwriting results for Personal property[1]

	Q4-2020	Q4-2019	Change	2020	2019	Change
DPW	**623**	566	10%	**2,586**	2,337	11%
Written insured risks (in thousands)	**579**	562	3%	**2,480**	2,404	3%
NEP	**630**	566	11%	**2,444**	2,184	12%
Underwriting income (loss)	**169**	102	66%	**446**	165	nm
Underlying current year loss ratio	**40.3%**	43.5%	(3.2) pts	**46.5%**	53.7%	(7.2) pts
CAT loss ratio	**2.4%**	8.5%	(6.1) pts	**3.8%**	9.0%	(5.2) pts
(Favourable) unfavourable PYD ratio	**(2.4)%**	(1.8)%	(0.6) pts	**(1.9)%**	(1.7)%	(0.2) pts
Claims ratio	**40.3%**	50.2%	(9.9) pts	**48.4%**	61.0%	(12.6) pts
Expense ratio	**32.9%**	31.8%	1.1 pts	**33.3%**	31.5%	1.8 pts
Combined ratio	**73.2%**	82.0%	(8.8) pts	**81.7%**	92.5%	(10.8) pts

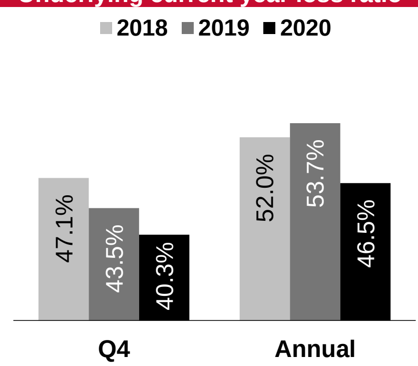
[1] *See Section 36 – Non-IFRS financial measures.*

Q4-2020 vs Q4-2019	2020 vs 2019
• **Strong premium growth of 10%**, after reflecting an estimated 3 points of customer premium relief measures, driven by solid unit growth and firm market conditions.	• **Strong premium growth of 11%,** after reflecting an estimated 2 points of customer premium relief measures, driven by solid unit growth and firm market conditions.
• **Underlying current year loss ratio improved to a strong 40.3% in Q4-2020 and 46.5% in 2020,** driven by strong fundamentals, market conditions and lower non-CAT weather-related losses.	
• **CAT loss ratio of 2.4%,** in line with expectations, while lower than last year's elevated level, which was impacted by a severe storm in Central Canada in 2019.	• **CAT loss ratio of 3.8%** was driven by Q2-2020 severe weather events in Alberta, but remained below expectations and last year's elevated level.
• **Favourable PYD ratio of 2.4% in Q4-2020 and 1.9% in 2020,** in line with expectations.	
• **Personal property continued to deliver solid results, with a combined ratio of 73.2% in Q4-2020 and 81.7% in 2020** and limited COVID-19 impacts.	

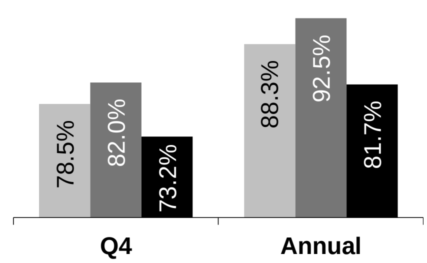
DPW



Underlying current year loss ratio



Combined ratio



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

9.3 Commercial lines

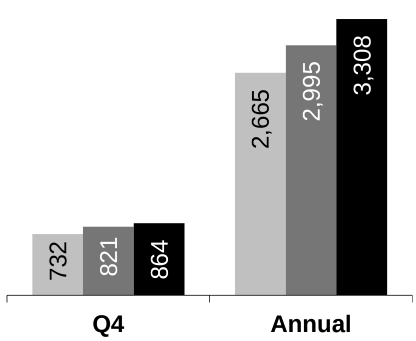
Table 9 – Underwriting results for Commercial lines Canada, including Commercial P&C and Commercial auto[1]

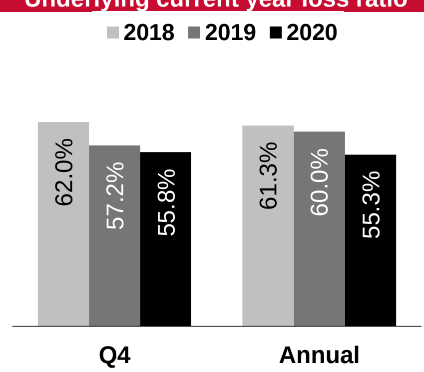
	Q4-2020	Q4-2019	Change	2020	2019	Change
DPW	**864**	821	5%	**3,308**	2,995	10%
Commercial P&C	**646**	574	13%	**2,382**	2,046	16%
Commercial auto	**218**	247	(12)%	**926**	949	(2)%
NEP	**729**	729	-	**3,002**	2,773	8%
Underwriting income (loss)	**34**	47	(28)%	**148**	112	32%
Underlying current year loss ratio	**55.8%**	57.2%	(1.4) pts	**55.3%**	60.0%	(4.7) pts
CAT loss ratio	**6.0%**	7.5%	(1.5) pts	**5.5%**	5.1%	0.4 pts
(Favourable) unfavourable PYD ratio	**(1.0)%**	(2.9)%	1.9 pts	**(1.1)%**	(2.3)%	1.2 pts
Claims ratio	**60.8%**	61.8%	(1.0) pts	**59.7%**	62.8%	(3.1) pts
Expense ratio	**34.5%**	31.7%	2.8 pts	**35.4%**	33.2%	2.2 pts
Combined ratio	**95.3%**	93.5%	1.8 pts	**95.1%**	96.0%	(0.9) pts

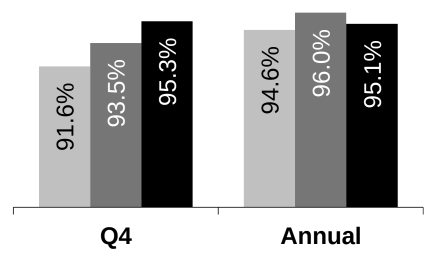
[1] See Section 36 – Non-IFRS financial measures.

Q4-2020 vs Q4-2019	2020 vs 2019
• **Solid DPW growth of 5%**, driven by the acquisition of The Guarantee, but also reflecting an estimated 6 points for the $50-million targeted relief program for small business customers.	• **Solid DPW growth of 10%**, driven by the acquisition of The Guarantee, but also reflecting an estimated 4 points of customer premium relief measures.
• Excluding these items, premiums reflected hard market conditions, tempered by relief measures and the economic slowdown in Commercial P&C, as well as lower volumes from the sharing economy products in Commercial auto.	
• **Underlying current year loss ratio improved to a strong 55.8%,** driven by lower claims frequency, in part due to our profitability actions, partly offset by customer relief measures.	• **Underlying current year loss ratio improved to a strong 55.3%,** driven by lower claims frequency, in part due to better weather conditions and our profitability actions, partly offset by customer relief measures.
• **CAT loss ratio of 6.0%** was elevated and driven by non-weather related losses, including $14 million (2 points) of COVID-19 related losses.	• **CAT loss ratio was elevated at 5.5%** and reflected non-weather related losses, including $64 million (2 points) of COVID-19 related losses, and the impact of severe weather in Alberta in Q2-2020.
• **Favourable PYD ratio of 1.0% in Q4-2020 and 1.1% in 2020** was lower than last year, reflecting lower favourable PYD in Commercial P&C and improvement in Commercial auto.	
• **Combined ratio was solid at 95.3%,** as strong underlying performance was offset by the impact of our $50-million targeted customer relief program (6 points), COVID-19 CAT losses and higher expenses.	• **Combined ratio was solid at 95.1%,** as strong underlying performance was offset by the impact of customer relief measures, COVID-19 CAT losses and higher expenses.

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







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

Section 10 - Investment performance

10.1 $21 billion of strategically managed high-quality investments

Our approach to investment management continues to reflect our objective of:

- maximizing after-tax returns, while preserving capital and limiting volatility, 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.

10.2 Net investment income

Table 10 – Net investment income

	Q4-2020	Q4-2019	Change	2020	2019	Change
Interest income	**88**	93	(5)	**358**	374	(16)
Dividend income	**62**	55	7	**242**	225	17
Investment income, before expenses	**150**	148	2	**600**	599	1
Expenses	**(7)**	(6)	(1)	**(23)**	(23)	-
Net investment income	**143**	142	1	**577**	576	1
Average net investments[1]	**19,167**	17,616	9%	**18,637**	17,207	8%
Market-based yield[2]	**3.15%**	3.39%	(24) bps	**3.24%**	3.50%	(26) 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.

Q4-2020 vs Q4-2019	2020 vs 2019

- **Net investment income of $143 million for Q4-2020 and $577 million for full year 2020 were essentially in line with last year,** as the benefit of higher invested assets was offset by lower reinvestment yields.
- **Average net investments increased by 9% in the quarter and 8% for the full year,** reflecting the acquisition of The Guarantee, as well as cash inflows from operations ***(see Section 22 – Investments and capital markets).***
- **Market based yield decreased to 3.15% in the quarter and 3.24% for the full year,** mainly due to the impact of higher average net investments and lower reinvestment yields.

10.3 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 35 – Non-operating results)***.

Q4-2020 vs Q4-2019	2020 vs 2019
• **Net losses of $7 million in Q4-2020** driven by a slight increase of interest rates in both Canada and the U.S. ***(see Section 22.1 – Capital markets update)***.	• **Net gains of $237 million in 2020**, mainly driven by the significant decline in interest rates in both Canada and the U.S. ***(see Section 22.1 – Capital markets update)***.
• ***REMINDER*: Net losses of $47 million in Q4-2019** were driven by increasing interest rates in both Canada and the U.S.	• ***REMINDER*: Net gains of $115 million in 2019** were driven by declining interest rates in 2019 in both Canada (mainly in H1-2019) and the U.S.

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

10.4 Net gains (losses) excluding FVTPL bonds

Net investment gains (losses) are reported in Non-operating results and included the following items. ***See Section 22.1 – Capital market update for more details on market performance.***

Table 11 – Net gains (losses) excluding FVTPL bonds[1]

	Q4-2020	Q4-2019	Change	2020	2019	Change
Realized and unrealized gains (losses)[2] on:						
AFS bonds, net of derivatives	**-**	4	(4)	**33**	14	19
Equity securities, net of derivatives	**62**	23	39	**8**	26	(18)
Embedded derivatives related to our perpetual preferred shares	**(12)**	(8)	(4)	**(14)**	(5)	(9)
Net foreign currency gains (losses) on investments	**(1)**	-	(1)	**10**	-	10
Impairment losses on AFS common shares	**(22)**	(14)	(8)	**(121)**	(76)	(45)
Other gains (losses) ***(see below)***	**26**	11	15	**29**	91	(62)
Gains (losses) excluding FVTPL bonds	**53**	16	37	**(55)**	50	(105)
Other gains (losses) can be broken down as follows:						
Currency derivative economic hedges related to the RSA Acquisition						
Purchase price	**41**	-	41	**41**	-	41
Book value	**(22)**	-	(22)	**(22)**	-	(22)
Broker gains related to a change of control	**14**	-	14	**35**	72	(37)
Impairment loss on Intact U.S. Surplus notes	**-**	-	-	**(30)**	-	(30)
Other	**(7)**	11	(18)	**5**	19	(14)

[1] ***See Note 23 – Net gains (losses) to the Consolidated financial statements for further details.***
[2] Excluding foreign currency impact, which is reported in Net foreign currency gains (losses) on investments.

Q4-2020 vs Q4-2019

Net gains of $53 million in Q4-2020 reflected:

- realized gains from favourable equity markets; and
- other net gains of $26 million.

Partly offset by:

- losses on embedded derivatives; and
- impairment losses of $22 million.

Net gains of $16 million in Q4-2019 included realized gains from favourable equity markets, partly offset by impairment losses, mostly stock specific.

2020 vs 2019

Net losses of $55 million in 2020, mainly reflected:

- impairment losses on AFS common shares of $121 million; and
- losses on embedded derivatives.

Partly offset by:

- realized gains on bonds and equity securities; and
- other net gains of $29 million.

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.

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

ENVIRONMENT & OUTLOOK

Section 11 - P&C insurance industry outlook

- Given that the Canadian industry combined ratio was approximately 100% for the first three quarters of 2020 and the industry ROE was slightly above 7% for the last twelve months to September 30, 2020, we believe continued industry corrective measures are required and are likely to resume as the impact of the COVID-19 crisis eases.
- In commercial lines on both sides of the border, hard market conditions are expected to continue. In personal lines, firm market conditions are expected in personal property, while personal auto market conditions are temporarily softening.
- During the COVID-19 crisis, we have tempered rate increases and provided relief to customers by allowing for payment deferrals and waiving late payment fees. In addition, specific relief measures by line of business are outlined below. In 2020, we have provided $530 million of relief to more than 1.2 million customers.
- Our on-going relief measures include customer-driven rate strategies, accelerated deployment of UBI, product enhancements in personal property and continued support to the most vulnerable small businesses.

	P&C insurance industry 12-month outlook	Our response
Personal auto	• The COVID-19 crisis is temporarily softening market conditions in personal auto as claims frequency remains below historical levels. As well, companies have provided various relief measures to customers. • In the first three quarters of 2020, industry growth was approximately 6%, as the rate trend tempered and may continue while claims frequency remains below historical levels. We expect corrective measures to resume once the impact of the crisis eases. • Despite improved underwriting results in Q3-2020, industry profitability continued to be challenged, with a combined ratio estimated at approximately 100% in the first nine months of 2020.	• In addition to the customer relief measures outlined above, we have adjusted auto premiums and provided flexibility for changed customer risk profiles. Our relief measures are evolving into rate strategies and accelerated UBI deployment. • Our UBI offering is well positioned in an environment where drivers want insurance to reflect their own behaviours and where value for money is becoming more important. • We are leveraging our robust data and analytic tools, including UBI, to dynamically monitor driving activity and customer behaviour. Our relief measures are risk- and needs-based, enabling us to adapt while maintaining margins. • We are investing in telematics, big data, and artificial intelligence to maintain our advantage in data and segmentation. • Our brand investments and focus on customer driven digital leadership will continue to help grow our business. • We are maintaining the emphasis on our portfolio quality and are focused on maintaining overall profitability levels.
Personal Property	• The COVID-19 crisis has not materially impacted personal property as consumers continue to need protection against theft, fire, water and other climate-related damages. • Industry growth was above 8% in the first three quarters of 2020. • We expect firm market conditions since this line of business is subject to challenging weather over time. • We expect growth at a mid single-digit level over the next 12 months.	• We have provided relief to customers impacted by the COVID-19 crisis by offering flexibility for those who have used their homes during the crisis for different purposes. • Our relief is evolving through product enhancements, and profitability actions over time have positioned this business very well. • We continue to ensure our results remain sustainable even with severe weather. • On Side deepens our supply chain to improve customer experience, while capturing margins and expanding capacity.

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

	P&C insurance industry 12-month outlook	Our response
Commercial lines Canada	• In commercial P&C, hard market conditions are continuing, with industry rate increases back to pre-crisis levels, driven by low industry profitability and tight capacity. • In commercial auto, the industry, on average, continues to pursue rate increases, albeit at a slightly tempered pace due to the COVID-19 crisis. • Overall, we expect to see hard market conditions as the impact of the crisis eases. • Premiums will continue to be impacted by the economic downturn, with lower units and adjustments to risk profiles. • In the first three quarters of 2020, the industry reported growth of 12%, and weak profitability with an estimated industry combined ratio over 100%.	• We have provided risk- and needs-based relief to customers impacted by the COVID-19 crisis through premium adjustments to reflect changed commercial automobile usage; and provided mid-term premium adjustments and rate relief for small- and medium-sized businesses that have been impacted from a declining revenues, sales receipts and payroll perspective. • Our relief is on-going and evolving. In Q4-2020 we provided $50 million relief program to support the most vulnerable small businesses. The impact was fully reflected in Q4-2020, which reduced DPW growth by 6 points and increased the combined ratio by 6 points. • The majority of our businesses had low exposure to COVID-19 related claims. There were some exposures for specifically covered business interruption and specialized programs. We increased our provision for COVID-19 losses by $14 million in Q4-2020. • We are maintaining an emphasis on portfolio quality while our focus on loss prevention and service excellence remains. • We continue to develop innovative products to address customer needs, and pursue acquisitions to strengthen our capabilities and product suite.
U.S. Commercial lines	• A mix of hard and hardening market conditions across lines, including sustained price increases and tightening terms and conditions, are expected to continue. Rising reinsurance costs, lower-for-longer interest rates, and an active CAT season will further support recent trends. • The economic impact of the COVID-19 crisis has affected some insurance lines more than others. Exposures in the short term will be reduced in certain lines such as commercial auto and some segments of workers compensation. Other lines such as D&O, E&O, and excess property, which are economically sensitive, have been more impacted and continue to see upward pricing trends. • The U.S. Commercial P&C industry top line decelerated to approximately 4% in the first nine months of 2020 as strong rate increases were partially offset by reduced exposures and the impact of a slower economy. The combined ratio is estimated in the upper 90's to low 100's.	• Despite the COVID-19 crisis, our underwriting appetite for new and renewal business remains largely unchanged. • The majority of our businesses have low exposure to COVID-19 related claims. Losses are expected and have been provided for in certain segments – primarily event cancellation and production shutdowns in the Entertainment business, and to a much lesser extent, specifically endorsed business interruption in select specialized programs. We increased our gross provision by $9 million in Q4-2020. • Our objective remains to expand the U.S. specialty business. Growth opportunities, including the acquisitions of The Guarantee and IB&M, are being successfully pursued in the segments of the portfolio that are performing at or above expectations. • While the impact of the COVID-19 crisis may add some near-term volatility, we believe the fundamentals of our U.S. commercial business are well positioned to maintain a low 90's combined ratio in line with our objective.

	P&C insurance industry 12-month outlook	Our response
Investments	• Increased uncertainty regarding global economic activity resulted in volatile capital markets in Q1. The significant response from governments to support businesses and economies, as well as the earlier than expected release of multiple COVID-19 vaccines, led to a significant market rebound in the subsequent quarters. Nevertheless, the capital markets will remain volatile until the COVID-19 crisis has passed and economies fully reopen. • Investment yields are low by historical standards. • In the current interest rate environment, we expect the industry's pre-tax investment yield to decline over time as portfolios roll over. • Continued volatility in capital markets may put additional pressure on investment market values and capital levels.	• Our investment portfolio is managed like the rest of our business, for the long-term. Our investment management team seeks to maximize after-tax returns while preserving capital and limiting volatility. • 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 our investment portfolio yields. • We continuously seek to optimize the composition of our investment portfolio, considering factors including risk, return, capital, regulation and tax legislation changes.
Overall	• While the COVID-19 crisis has resulted in dislocation in the Canadian P&C market, a mid-to-high single-digit industry ROE over the past year supports a continuation of the hard market environment once the crisis has passed. • We expect the industry ROE to modestly improve in 2021 but remain below its long-term average of close to 10%.	• The RSA Acquisition will expand our leadership position in Canada, create a leading specialty lines platform with international expertise, and provide entry into the UK and Ireland market at scale. • With our action plans and strategies, we expect to exceed our 500 basis point industry ROE outperformance target. • We are focused on maintaining a mid-teens OROE level.

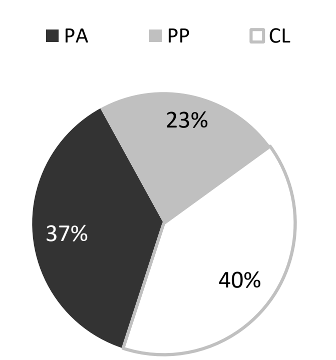
(in millions of Canadian dollars, except as otherwise noted)

Section 12 - Insurance industry at a glance

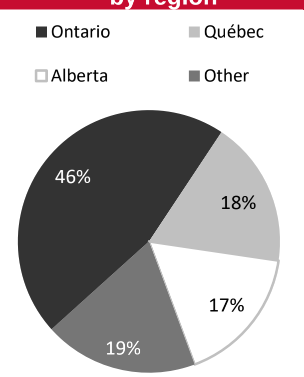
12.1 P&C insurance in Canada

Large and highly fragmented	• In 2019, the P&C market grew by 11%, driven by rate increases, to $60 billion in annual premiums, representing approximately 3% of gross domestic product (GDP). • The top five insurers represent 47% of the market, and the top 20 have a combined market share of 84%. • Intact remains the largest player with an estimated market share of 17%. 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 close to 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 effective. • Capital for federal insurance companies is regulated by OSFI and by provincial authorities in the case of provincially incorporated insurance companies ***(see Section 25 – Capital management)***.

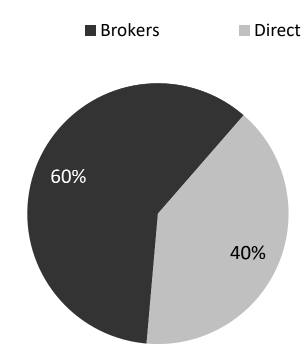
2019 Industry DPW by line of business



2019 Industry DPW by region



2019 Industry DPW by distribution channel



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

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

12.2 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.

Table 12 – Canadian P&C Industry – IFC outperformance (underperformance)

	YTD Q3-2020	H1-2020	Full year 2019	Full year 2018	Full year 2017
ROE (for the last 12 months)[1]					
IFC	**13.4%**	12.0%	11.4%	11.8%	13.0%
Outperformance (underperformance) vs P&C Industry	**6.0 pts**	6.9 pts	5.8 pts	8.9 pts	6.9 pts
DPW growth					
IFC: P&C Canada[2]	**10.1%**	10.1%	9.7%	2.3%	2.1%
Outperformance (underperformance) vs Industry benchmark	**2.8 pts**	3.1 pts	- pts	(4.4) pts	(2.4) pts
Combined ratio					
IFC: P&C Canada[2]	**93.6%**	96.7%	97.5%	95.0%	94.1%
Outperformance (underperformance) vs Industry benchmark	**6.4 pts**	6.6 pts	3.6 pts	8.3 pts	6.2 pts

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

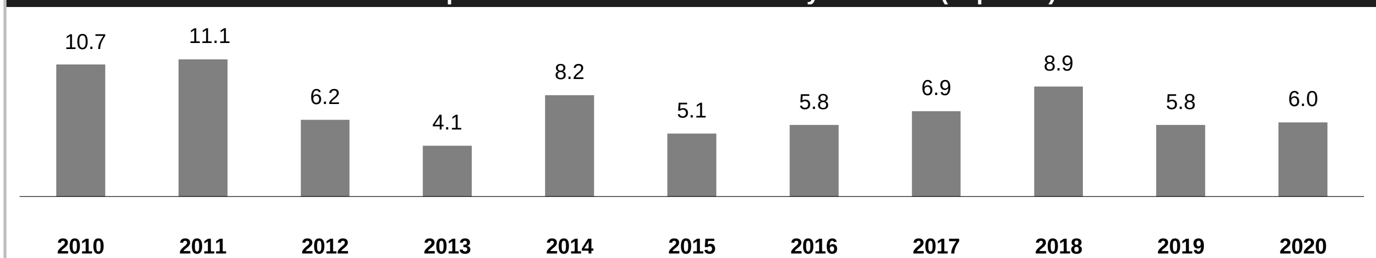
[2] For comparison purposes, IFC DPW growth and combined ratio are based on financial statements presentation. ***See Section 35 – Non-operating results.***

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.

YTD Q3-2020 performance

- **Compared to the P&C insurance industry, our ROE outperformance of 6 points** was above our objective of 5 points, largely driven by our combined ratio outperformance, as well as strong distribution results.
- **Compared to the industry benchmark, our growth outperformance of 2.8 points** represented a meaningful improvement compared to full year 2019, mainly driven by the acquisition of The Guarantee.
- **Compared to the industry benchmark**, **our combined ratio outperformance was 6.4 points,** mainly reflecting a significant underlying outperformance in all lines, except commercial auto.

ROE outperformance versus the industry over time (in points)



2020 latest industry data: YTD Q3-2020

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

12.3 U.S. specialty market

Highly fragmented with no clear leader	• The U.S. commercial P&C insurance market grew roughly 5% in 2019 to over US$320 billion in annual premiums, with specialty insurance accounting for approximately 45%, or US$140 billion. • U.S. commercial specialty insurance industry is fragmented, with the largest player capturing around 7% market share in 2019. • 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.

12.4 Performance against U.S. P&C industry

The industry benchmark consists of the 11 most relevant competitors in the P&C industry, for which reliable and comparable information is publicly available. The data below is compiled from company and segment data from SEC filings.

Table 13 – U.S. P&C Industry – IFC outperformance (underperformance) vs industry benchmark

	YTD Q3-2020	H1-2020	Full year 2019	Full year 2018
DPW growth (in local currency)				
IFC: U.S. Commercial	**6.8%**	9.6%	8.0%	2.2%
Outperformance (underperformance)	**(0.3) pts**	1.6 pts	(1.2) pts	(6.7) pts
Combined ratio[1]				
IFC: U.S. Commercial	**94.9%**	95.7%	92.8%	93.6%
Outperformance (underperformance)	**4.9 pts**	4.1 pts	2.3 pts	1.3 pts

[1] Excluding the risk margin and discount impact for comparability purposes.

YTD Q3-2020 performance	• **Compared to the industry benchmark, our DPW growth has largely been in line** as, much like our peers, we have experienced a combination of hard market conditions, partially offset by lower volumes in lines impacted by the COVID-19 crisis. • **Compared to the industry benchmark, our combined ratio outperformance of 4.9 points** reflected both robust underlying outperformance, including strong results in most lines, as well as a comparatively smaller adverse impact from the COVID-19 crisis and weather-related losses, which while elevated, were lower than peers.

Section 13 - COVID-19 crisis update

13.1 We remain well positioned to deal with this crisis

We continue to focus on the safety and well-being of all our employees, while being there for individual customers, small and medium-sized enterprises and brokers when they need us most.

- The COVID-19 pandemic has had a significant impact on society, and it is important for business to support their communities through this difficult time. We have provided significant relief to our customers, evolved our product offerings and ramped up our digital efforts to deliver excellent customer service.
- We entered the crisis in a position of strength, which has enabled us to protect our employees, deliver high levels of service, and provide relief to our customers. Our operations and financial position are strong, and we are well positioned to manage through this crisis.
- We have provided $530 million of relief in 2020, including premium reductions, as well as payment flexibility, to more than 1.2 million customers to recognize hardship, changing driving behaviours and lower business activity resulting from the COVID-19 crisis. Included in the $530 million of relief is a $50 million targeted relief program, which provided an additional support to approximately 100,000 vulnerable small business customers.
- Our on-going relief measures include customer-driven rate strategies, accelerated deployment of UBI, product enhancements in personal property and continued support to the most vulnerable small businesses.
- We have donated more than $4 million in 2020 to charities targeting the immediate needs of individuals and families who are most vulnerable to the effects of the pandemic.
- Our robust technology infrastructure is performing very well. Services levels to our brokers and customers remain high, while digital engagement continues to ramp-up. The number of monthly users on our branded app more than doubled and the number of monthly UBI logged-in users has increased by 118% since the beginning of the year.
- We have not requested or received any financial aid from governments during the COVID-19 crisis.
- We are well positioned to continue to support our customers, invest in our people and create value for all stakeholders as the crisis continues.
- Our balance sheet is strong with $2.7 billion of total capital margin and our business is well positioned to sustain mid-teens operating ROE performance.

13.2 Impact on our financial results

Out of the $530 million of relief, $439 million of premium reductions have been provided to customers on policies issued to date, with the following estimated impact on DPW and NEP in Q4-2020 and 2020. The unearned portion of premium reductions amounting to $203 million will lower NEP in 2021.

Table 14 – Estimated impact of customer relief measures

Customer relief measures (in millions of Canadian dollars)	**Relief provided on policies issued**[1]	**Premium reductions** Written (DPW) Q4-2020	Written (DPW) 2020	Earned (NEP) Q4-2020	Earned (NEP) 2020	**Unearned**
Personal auto	**260**	**61**	**240**	**38**	**123**	**137**
Personal property	**51**	**14**	**51**	**11**	**17**	**34**
Commercial lines[2]	**128**	**60**	**128**	**69**	**96**	**32**
Premium reductions[3]	**439**	**135**	**419**	**118**	**236**	**203**
Payment flexibility[4]	**91**					
Total	**530**					

[1] There is generally a two-month lag between the policy issue date and effective date (written) upon renewal.
[2] Includes the $50-million targeted relief program.
[3] Consists of premium reductions to reflect changes in driving habits (such as change in kilometres driven in a year, change of use or safety storage of personal and commercial vehicles), premium adjustments tempering rate increase at renewal, premium adjustments for commercial customers that are now closed or have been severely impacted from a sales receipts and payroll perspective, as well as rate reductions on renewals and new business.
[4] Includes flexible payment options such as payment deferrals.

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

Estimated impact of premium reductions written

Table 15 – Estimated impact of premium reductions written on DPW and DPW growth in constant currency

DPW	Q4-2020 DPW reported	Q4-2020 Premium reductions	Full year 2020 DPW reported	Full year 2020 Premium reductions
Total DPW	**2,872**	**(135)**	**12,039**	**(419)**
DPW growth				
PA	**5%**	(6) pts	**6%**	(6) pts
PP	**10%**	(3) pts	**11%**	(2) pts
CL - Canada	**5%**	(7) pts	**10%**	(4) pts
P&C Canada	**6%**	(6) pts	**9%**	(4) pts
P&C U.S.	**19%**	-	**9%**	-
Consolidated	**8%**	**(5) pts**	**9%**	**(4) pts**

2020 premium reductions

- Premium reductions lowered DPW by $419 million (4 points) in 2020, including the $50-million targeted relief program in Commercial lines in Q4-2020.
- In personal auto, where the majority of the premium relief applies, the estimated impact on DPW growth was 6 points in Q4-2020 and 2020.

Estimated impact of COVID-19 CAT losses and bad debt expense

Table 16 – Estimated impact of COVID-19 CAT losses

	Q4-2020 (in $M)	Q4-2020 pts of combined ratio	Full year 2020 (in $M)	Full year 2020 pts of combined ratio
COVID-19 CAT losses				
P&C Canada	**14**	0.5 pts	**64**	0.6 pts
P&C U.S.	**(4)**	(0.9) pts	**29**	1.8 pts
Corporate	**13**	nm	**13**	nm
Consolidated	**23**	0.8 pts	**106**	0.9 pts
CL - Canada	**14**	1.9 pts	**64**	2.1 pts

See Section 8 – Corporate and Other for details on the internal reinsurance CAT treaty.

2020 COVID-19 CAT losses

- In Q4-2020, we increased our COVID-19 CAT provision by $23 million. COVID-19 CAT losses in excess of the internal reinsurance retention threshold of US$20 million were ceded to the Corporate treaty, lowering the P&C U.S. CAT losses by the same amount in Q4-2020.
- In 2020, we recorded $106 million for COVID-19 related losses for commercial line and specialty line exposure in Canada and the U.S.

In Q2-2020, we recorded $34 million of bad debt expense, including $13 million in personal auto, $9 million in personal property, $10 million in commercial lines – Canada and $2 million in commercial lines – U.S.

As the COVID-19 crisis continues to evolve, we continue to manage the impact on our business. Our operations and financial position remain strong and we are well positioned to protect our employees, support our customers and advance our strategic objectives.

See Note 3.2 – COVID-19 pandemic to the Consolidated financial statements for more details.

Section 14 - Weather conditions

14.1 Weather conditions in Canada

Weather conditions in 2020

- **In Q4-2020, despite an unusually cold October, temperatures were above average for most regions.** Eastern Canada experienced early freeze, which was followed by record breaking high temperatures for that time of year. Precipitation in most regions were below average.
- **In Q3-2020, weather conditions were generally benign.** Western Canada saw dry conditions, leading to a relatively quiet thunderstorm season in Alberta except for a hailstorm that hit the Calgary area in July 2020. Precipitations in Central Canada were above average.
- **In Q2-2020, weather conditions were generally cold and dry for most regions.** Alberta was impacted by severe weather, including flooding in Fort McMurray in April and severe thunderstorms causing widespread damage in Calgary in June 2020. These events drove CAT losses of $116 million in Q2-2020.
- **In Q1-2020, the winter in Canada was particularly mild,** with temperatures well above seasonal averages in eastern Canada. Western Canada had a bit more variability, with colder temperatures in January and March, and warmer temperatures in February 2020. As a result, weather-related CAT losses were minimal in Q1-2020.

Weather conditions in 2019

- **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.
- **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 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 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.

14.2 Weather conditions in the U.S.

Weather conditions in 2020

- **In 2020, weather-related losses were elevated**, driven by a broad array of weather events, including:
  - the most active Atlantic hurricane season on record with 30 named storms, 12 of which were hurricanes that made landfall in the U.S. Intact Specialty was particularly impacted by a few of those hurricanes, primarily in the Ocean Marine business.
  - There were inland weather events, including a Tornado in Tennessee and a derecho windstorm that crossed multiple states, including Iowa and Illinois, and which caused more industry damage than all but one of the hurricanes.
  - There were also several millions of acres in wildfires in the Western U.S., including in Q4-2020.
- Weather-related losses in the U.S. have historically been volatile on a quarterly basis, with the third quarter typically seeing higher losses than other quarters.

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

14.3 Net current year CAT losses

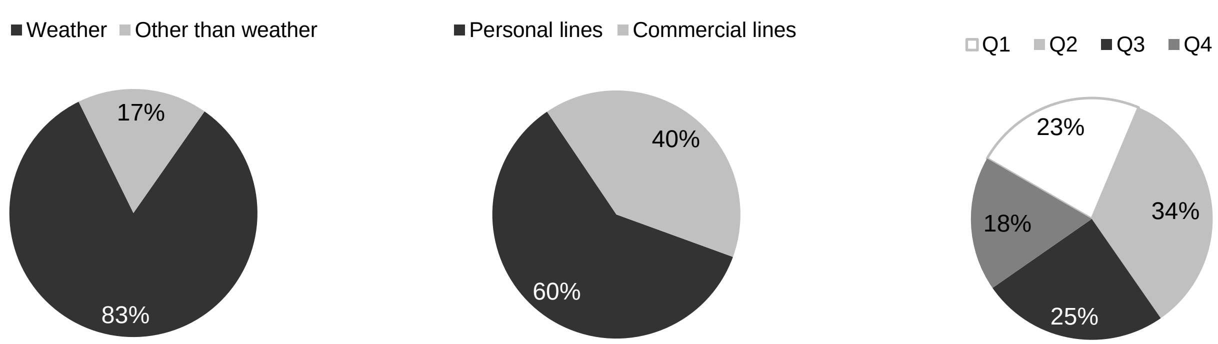
CAT losses can be caused by a variety of events, including weather (such as wildfires, hailstorms and floods) and non-weather events (such as large commercial fires, surety and liability losses, as well as direct losses related to the COVID-19 crisis). In 2020, CAT losses included provisions totalling $106 million for COVID-19 commercial line and specialty line exposure in Canada and the U.S.

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 at the company level, through individual risk selection and the purchase of reinsurance contracts.

Table 17 – Net current year CAT losses

	2020	2019	2018	2017	2016	3Y avg.	5Y avg.	10Y avg.
Net CAT losses	**359**	366	330	313	385	352	351	305
By loss type								
Weather	**205**	326	275	297	350	269	291	262
Non-weather								
Other	**154**	40	55	16	35	83	60	43
By line of business								
Personal auto	**43**	26	26	27	73	32	39	37
Personal property	**92**	196	159	210	210	149	173	163
Commercial lines - Canada	**164**	140	123	76	102	142	121	97
Commercial lines - U.S.	**47**	4	22	-	n/a	24	n/a	n/a
Corporate and Other	**13**	-	-	-	-	n/a	n/a	n/a
By quarter								
Q1	**137**	128	36	88	21	100	82	55
Q2	**124**	70	142	105	164	112	121	97
Q3	**24**	53	97	89	166	58	86	111
Q4	**74**	115	55	31	34	81	62	43

5-year average net current year CAT losses



14.4 CAT guidance

Our current expectation for CAT losses (net of reinsurance) remains unchanged at $300 million on a calendar year basis, including both our Canadian and U.S. operations. Our annual estimate reflects our view of longer-term trends, our growing premium base, 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.

STRATEGY

Section 15 - What we are aiming to achieve

Section 16 - Progress on our strategic roadmap

Strengthening our leadership position in Canada

In 2020, we continued to heavily invest on our strategic priorities to provide a second-to-none customer experience, particularly in digital engagement as customer expectations continue to evolve.

3 out of 4 customers are our advocates, and engage with us digitally

- Digital engagement continued to ramp in 2020, with the addition of several self-service features to our mobile offering. Customers can now make payments, submit policy changes, access their proof of car insurance (pink slip), as well as report and track claims through our app. New app features are being added every quarter.
- The IFC mobile app offers a leading mobile experience to our customers in Canada. We run the top 3 favourite insurance apps, namely belairdirect, Intact Insurance and National Bank Insurance. Our mobile app's monthly users more than doubled this year.
- To better serve the needs of customers now working from home, we enhanced our homeowners offering with increased liability and property coverage; provided optional identity theft coverage and cyber protection at a discount; and gave free access to mental health and well-being programs.

Scale in distribution

- On August 31, 2020, BrokerLink reached a significant milestone, surpassing $2 billion in DPW. The growth story remains robust, and we have set a new premiums target of $3 billion for BrokerLink by 2025. We continue to be active on the acquisition front with 18 transactions closed this year.
- belairdirect continues to progress well on its *Insurance.Simplified* initiatives. By simplifying our products and enhancing our digital experience, we make it easier than ever to buy online and engage digitally with us.

Integration of The Guarantee and Frank Cowan

- December 2, 2020 marked the one-year anniversary of our acquisition of The Guarantee and Frank Cowan.
- Integration is progressing well and we remain on track to meet our financial objectives of low-single digit NOIPS accretion by the end of 2021.
- Intact Prestige, our high-net-worth (HNW) offering, was successfully launched in British Columbia, Alberta, Ontario, and Québec. Our objective is to become a key player in the HNW segment and quadruple our penetration by 2025.

Build a North American Specialty Leader

Our differentiated offering and specialized customer value proposition provide the ideal platform to deliver solutions for businesses across North America. We have made significant progress across our strategic objectives in 2020 and we are well on our way to solidify our position as a leading specialty solutions provider.

Providing a specialized customer value proposition, under a unified brand

- This year, we brought together our Canadian and U.S. specialty capabilities under a single brand, Intact Insurance Specialty Solutions. We offer over 20 specialty focus areas, 9 of which serve both sides of the border.

Optimizing distribution

- Intact Insurance Specialty Solutions acquired IB&M, a privately held brokerage specializing in international trade markets. IB&M broadened our portfolio of owned-brokerage assets, and expanded and reshaped our customs bonds market offerings though an end-to-end risk management platform.
- In November, Intact Insurance Specialty Solutions announced its new cyber insurance solutions, delivered in partnership with Resilience Insurance, to address the pervasiveness of cybercrime. By combining Resilience's cyber analytics technology with Intact's risk transfer capabilities, the companies are enhancing the breadth of risk mitigation available to the cyber insurance market.

Low 90's combined ratio and DPW objective

- At the time of the acquisition of OneBeacon, we set two critical objectives, both targeting the end of 2020 for completion.
- The first objective was to achieve a low 90's combined ratio. ***See Section 7.2 – U.S. performance vs objectives.***
- The second objective was to reach $3 billion DPW across our North American Specialty platform. We achieved our objective with $3 billion of premiums in 2020, including the benefit of The Guarantee acquisition. We continue to successfully pursue growth strategies by capitalizing on organic opportunities in the favourable hard market. Moving forward, our new objective is to grow our specialty lines premiums to $6 billion by 2025.

Transform our competitive advantages

Our outperformance mindset is what sets us apart from our competitors. It drives us to deliver our promise to customers, transform our competitive advantages, and build a leading insurer. In 2020, we've continued to invest in our competitive advantages.

RSA Acquisition

- On November 18, 2020, together with our partner, Tryg, we announced our intention to acquire RSA. ***See Section 2 – Acquisition of RSA's Canadian, UK and International operations.***

Becoming the best insurance AI shop in the world

- Our team of AI experts has grown by over 40% this year, allowing us to more than double our models in production. Key deliveries this year included our next-generation rating algorithms to improve segmentation and risk selection, as well as our first Sales and Claims chatbots to improve customer experience and operational efficiencies.
- We have grown our Hong Kong Data Lab from 9 to 20 employees since its launch in February 2020, with further expansion to come. The Hong Kong Data Lab delivered its first project to Intact Investment Management to support investment decisions in the small capitalization market.

Deepening our claims expertise and supply chain network

- Our customers' claims experience is more convenient and digitalized than ever before. Through our mobile app, customers can now file first notice of loss and have their claims appraised digitally using photos they have taken.
    - Close to 40% of eligible auto claims are being digitally appraised through photos submitted on our app.
- October 1, 2020 marked the one-year anniversary of the acquisition of On Side. This acquisition has contributed to our objective of building a strong supply chain network and providing a leading claims experience to our customers. Based on its success, we continue to grow our restoration supply chain with the recent acquisition of Quebec-based Groupe Dijon inc.

Invest in our people

Our people's health and safety remained a top priority this year. We ramped up training and awareness around mental health issues, enhanced our Diversity and Inclusion ("D&I") strategy, and invested more in learning and development.

Being a best employer

- Our employee engagement score reached a new all-time high in 2020.
- For the sixth consecutive year, IFC has been named a Kincentric Best Employer in Canada, the U.S. and for North America.
- The COVID-19 crisis accelerated our approach to a hybrid workplace, including the rollout of digital collaboration tools across the organization, the launch of a new e-learning platform accessible to all employees and the digitalization of many training programs. These tools will empower our employees to adapt, collaborate, and succeed in the workplace of the future.
- Beyond keeping our people physically safe, we focused on our employees' health and well-being. We introduced a partnership with Lifespeak, an online platform, offering employees real time access to expert mental health support, alongside our internal resource hub dedicated to help employees adjust to life and work at home.

Accelerating our Diversity and Inclusion Strategy

- This year, we accelerated our existing D&I plans and committed to support underrepresented communities, as well as identify and address gaps within our organization.
- We took a data-driven approach to better support the advancement of a diverse workforce. This included a number of actions:
    - Establishing a task force of Black and other Visible Minority employees to provide recommendations to our D&I Council.
    - Introducing mandatory inclusivity training for our people leaders.
    - Hosting 42 Inclusion Circles to hear from Black, Indigenous and People of Colour employees and incorporating their insights into our D&I priorities; and Becoming a founding signatory of The BlackNorth Initiative, a pledge from private and public companies in Canada committing to end systemic anti-Black racism, as part of our promise to support D&I.

Section 17 - Progress on our two financial objectives

10% NOIPS GROWTH ANNUALLY OVER TIME

- During the past decade, we grew our NOIPS at a CAGR of 11%, in line with our target.
- Over the past 3 years, our NOIPS grew at a CAGR of 21%, benefiting from strong underwriting and distribution results. We maintain our objective to grow NOIPS by 10% annually, over time.
- The RSA Acquisition is highly strategic and financially compelling for all stakeholders. We expect the acquisition to generate high-single digit NOIPS accretion in the first year, increasing to upper-teens within 36 months following closing.

500bps ANNUAL ROE OUTPERFORMANCE

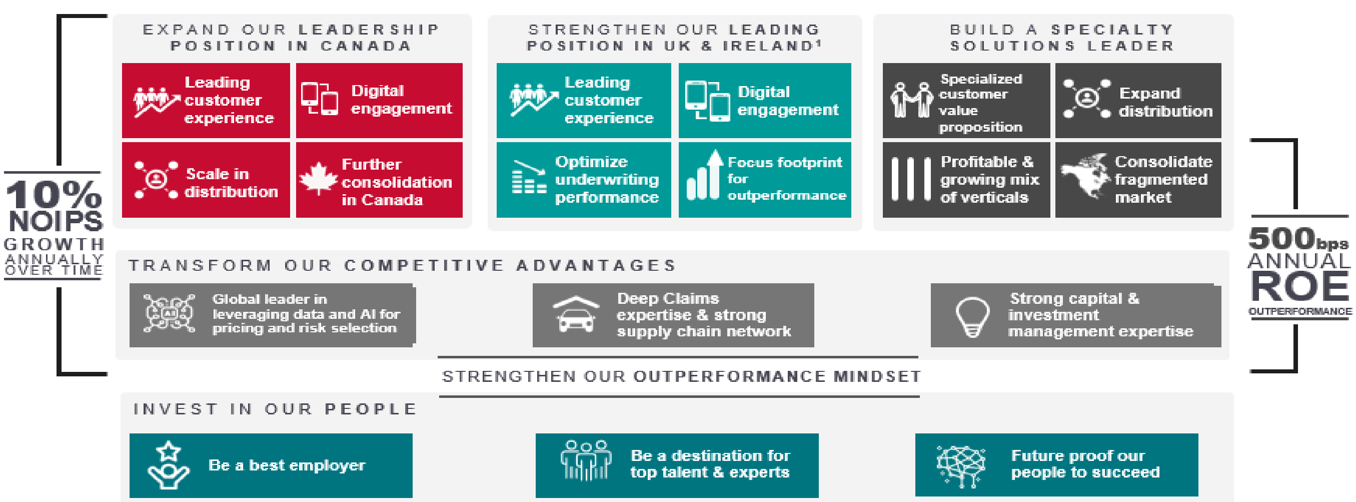
- We have an outperformance mindset. Over the past ten years, we exceeded the industry ROE by a yearly average of 680 basis points.
- In the past three years, we outperformed the P&C insurance industry's ROE by 690 basis points on average, as our profitability actions in all lines of business were taken 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.

Section 18 - Our evolved strategic roadmap for the next decade

Following the RSA Acquisition, we have evolved our ten-year strategic roadmap to reflect five big ideas:

1. Expand our leadership position in Canada through leading customer experience, digital engagement and scale in distribution.
2. Build a specialty solutions leader with a growing and profitable mix of verticals, a specialised customer valuation proposition and expanded distribution.
3. Strengthen our acquired leading position in the UK and Ireland through focusing the footprint for outperformance, optimising underwriting performance and delivering leading customer experience.
4. Transform our competitive advantages in data, pricing, risk selection, claims and supply chain management, and strong capital and investment management expertise.
5. Invest in our people, by continuing to be a best employer, a destination for top talent and experts, and to future-proof our people to succeed in a changing world.

This Transaction accelerates our strategy, which is expected to fuel future profitability growth and outperformance.



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

Section 19 - Climate change

Alongside our customers, we have been on the front lines of climate change for more than a decade. For us, climate change is not solely an ESG issue – it's strategy. We have a unique understanding of the impacts of climate change and as a consequence, we've embedded our response directly into our strategy.

There is a clear trend of increasing frequency and severity of extreme weather events. Insurance industry losses from natural catastrophes and man-made disasters amounted to US$83 billion globally in 2020, making it the fifth-costliest year for the industry since 1970[1]. In Canada, insured damage for severe weather events reached $2.4 billion, ranking 2020 as the fourth highest in insured losses since 1983 in Canada[2].

We have a proven track record of protecting North Americans while building sustainable performance and as such, we are well placed to address this growing risk pool. However, this is not solely a business issue, but a societal issue. We see significant opportunities to create a climate resilient economy and society.

19.1 Governance and strategy

The Enterprise Risk Management Committee identified climate change as one of the top ten risks for our company. Climate risk is incorporated into Enterprise Risk Management Strategy, which is integrated into all business activities and strategic planning, including subsidiaries and operations. ***See Section 31.6 – Top and emerging risks that may affect future results***.

Within our Board of Directors, climate change is an integral accountability of the Board's Risk Management Committee. This Committee oversees the assessment and monitoring of the risks related to climate change, including the potential impact of insured losses resulting from damage to property and assets arising from climate related natural catastrophe events, and the development of strategies to manage these risks. The Risk Management Committee also oversees additional initiatives to promote awareness of the potential impact of climate change and provide practical solutions for our communities.

Our Senior Management team, including our CEO, Charles Brindamour, provides direct leadership on our climate change initiatives and advocates publicly for climate adaptation with business associations, government officials, regulators and globally in his role as the Board Chair of The Geneva Association.

19.2 Managing physical risks

Physical risks have an impact on a majority of our P&C business We continue to adapt our business to the impacts of climate change. Over the years, we have implemented several actions to manage the potential impact of changing weather patterns including improved risk selection, pricing, product changes, supply chain enhancements and a greater emphasis and investment on prevention.

Risk selection & pricing	• Enhance segmentation to understand evolving risks. We input weather, climate and topographic data into machine learning models to develop risk maps to assess risk to weather perils such as flood and wildfire. • Corporate teams review current personal and commercial line products, underwriting and pricing practices related to severe weather. • Continuously redefine how we select, choose and price risk with data and predictive analysis, leveraging the expertise of 200 AI experts. We set risk tolerances based on catastrophe model output and use it to determine pricing. • Implement rate changes in our property business to reflect recent trends in catastrophes and severe weather. • Reinsure certain risks to limit our losses in the event of a catastrophe or other significant weather-related losses. Below our catastrophe cover, we purchase specific treaties for business that are more exposed to major events and use facultative and per risk reinsurance to limit exposure on any one risk. ***More information can be found in Section 31.6 - Top and emerging risks that may affect future results.***

[1] Insurance Journal. Global Natural and Manmade Disasters Cost Insurers US$83B in 2020: Swiss Re

[2] Insurance Bureau of Canada. Severe Weather Caused $2.4 Billion in Insured Damage in 2020

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

Product	• Advance our products to account for new climate realities and increase the flexibility of protection for our customers. In 2020, we addressed hail events in the West by introducing a mandatory age-adjusted roof endorsement. • Transform our business to adapt to new climate realities. For example, we redesigned our personal property business to account for an increased risk of flood and unbundled our enhanced water damage product to make protection more accessible.
Claims operations and supply chain enhancements	• Invest in addressing supply chain shortages during extreme weather events and enhancing our excellent customer service through the acquiring of On Side Restoration, one of the largest players in restoration in Canada. On Side has the capacity to mobilize employees quickly between regions and to add capacity in impacted areas. • Employ over 4,000 claims professionals dedicated helping customers get back on track – we manage 99% of customers' claims in house. • Have designated catastrophe response teams 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. • Use actuarial tools and have actuaries in claims support operations to quickly assessing CATs (including the number of claims, nature of claims, geo-coded maps & supply-chain requirements).
Prevention	• Our Loss Prevention team is the largest in Canada with 70 members nationally with vast backgrounds including engineers, fire protection experts, sprinkler designers, brokers, claims adjusters and underwriters. • Include weather alerts in our apps to proactively inform clients on preventive tips they can take to protect their homes and avoid potential automobile accidents caused by bad weather conditions. • Continue to increase our customer and distribution partner education and awareness efforts, including providing climate-related tips featured in our BrokerLobby. • Facilitate a pilot project to communicate specific tips on climate resilience to customers in high risk geographies. • Use data to help prevent losses 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. • 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.

In 2020, we renewed our investment in the Intact Centre on Climate Adaptation at the University of Waterloo, an applied research centre establishing 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 is used to help society adapt effectively, including informing flood resilient building standards as well as developing a climate resilience curriculum for home inspector training. ***More information will be available in our 2020 Social Impact Report, released on March 30, 2021.***

Intact Investment Management

Intact Investment Management (IIM), believes that appropriately managing Environmental, Social and Governance (ESG) risks, including climate change, can enhance the sustainability of a company's business. Climate change is integrated into IIM's investment policies and procedures and is part of its investment management process for all its investment portfolios.

In 2020, IIM developed and released a Coal Policy and engaged portfolio companies on climate change. As our economy continues to transition, there will be investment opportunities that offer climate change solutions and greener assets that contribute to climate change mitigation and extreme weather adaptation. ***More information on IIM's integration and progress on ESG issues, including climate change will be available in our 2020 Social Impact Report, released on March 30, 2021.***

It is critical that society adapts to climate change. While we have adopted an all-of-company approach to managing climate risks, addressing climate change requires an all-of-society approach to protect our communities and our economy.

More information related to our initiatives on climate change, including information related to the Task Force on Climate-related Financial Disclosure (TCFD) will be available in our 2020 Social Impact Report, released on March 30, 2021.

Section 20 - Social impact

LIVING OUR VALUES

As a purpose driven business, we are focused on helping people, businesses and society prosper in good times and be resilient in bad times. Our purpose is supported by our Values, including Our Value of generosity, which guides our efforts to help others and to use our strengths to help make a more resilient society.

The COVID-19 crisis has exacerbated many existing societal challenges, from poverty to racism, to the care of our most vulnerable people. Businesses and their employees have an important role to play in solving these problems. This year, we focused our attention towards helping those most vulnerable and impacted by the COVID-19 crisis in addition to our continued mandate in climate change. We challenged ourselves to raise the bar on Generosity - to help build the resiliency of our communities to continued shocks of unexpected events.

Climate Adaptation

Our support of initiatives in climate adaptation continued to accelerate in 2020, with increased investments in applied research and community level projects to demonstrate the concrete benefits of resilience. We renewed our partnership with the Intact Centre on Climate Adaptation, an applied research centre at the University of Waterloo, for an additional 5 year mandate.

- In 2020, the Intact Centre continued to enhance Canada's ability to adapt to the impacts of climate change, releasing four reports. Two reports focused on the financial sector: *Factoring Climate Risk into Financial Valuation and Institutional Investors Find Alpha In Climate Risk Matrices: Global Survey Finds* provide guidance to asset managers on how to account for physical risks in decision making.
- Their report *Climate Change and the Preparedness of Canadian Provinces and Territories to Limit Flood Risk* examined the preparedness of provincial and territorial governments to minimize the negative consequences of current and future floods.
- *Under One Umbrella: Practical Approaches for Reducing Flood Risk in Canad*a provides practical approaches to limit flood risk in Canada, summarizing best practices from national guidelines and standards.

- In December 2020, we announced a commitment of $1.3 million to 5 Canadian charitable partners from coast-to-coast focused on protecting Canadians from the impacts of climate change. ***More information on these partnerships is available in our 2020 Social Impact Report.***
- Since 2017, we have invested more than $3.6 million in 21 charitable partners who are exploring concrete solutions to help Canadians adapt to climate change and strengthen our communities, our people and our economy.
- In May, the spring floods in Fort McMurray, Alberta caused nearly 13,000 people to evacuate their homes. We donated $100,000 to **Wood Buffalo Community Foundation** Rapid Response Fund, supporting the community during these challenges times.

Pandemic Response

Within days of the pandemic, we responded and continue to adapt to the needs of our communities focusing on the immediate needs of individuals and families most vulnerable to the social, health and economic effects of the COVID-19 pandemic. Since the end of March 2020, we have invested more than $4 million across Canada and the United States.

- During our 2020 Generosity In Action Campaign – Intact's annual employee giving campaign in partnership with the United Way, employees donated $1.7M to the United Way Campaign. To amplify our employee's outstanding generosity, doubled our corporate match – making a combined contribution of over $5.2 million nationally to help families living in poverty and other worthy organizations to help communities manage the impacts of the pandemic.
- Allocated $1.4 million from our 2019 Generosity In Action Campaign match to 25 United Way organizations nationally to COVID-19 relief and recovery efforts to help address basic needs, such as food and shelter and help for seniors.
- To help families struggling with food insecurity in every province and territory during the pandemic, we donated $1.2 million to Breakfast Club of Canada, including $500,000 to their COVID-19 Emergency Club Fund.

- Donated $500,000 to a national research project being led by CHU Sainte-Justine Hospital to help develop and test a treatment using the antibodies of people who have recovered from the virus.
- Intact Insurance Specialty Solutions donated US$200,000 to Feeding America, the nation's largest hunger-relief organization that supports food banks throughout the U.S.. An additional US$300,000 was contributed to local efforts within those communities where our employees live and work.
- Partnered with 10 Meals on Wheels organizations nationally to help elderly members of our communities. We donated $225,000 to support their important work and our employees contacted over 14,000 of our elderly customers to purchase meals for those who experienced a need.

Diversity & Inclusion

Intact's values drive our approach to Diversity and Inclustion (D&I). Our value of Integrity means standing up for what is right and our value of Respect is founded on seeing diversity as a strength, being inclusive and fostering collaboration

- In 2020, we accelerated our D&I plans including: mandatory inclusivity training for our people leaders, employee inclusion webinars, 42 Inclusion Circles with employees who identify as a Visible minority/Person of Color and establishing a task force of Black and other Visible Minority employees to provide recommendations to our D&I Council.
- As part of our promise to support D&I, we pledged our commitment to end systemic anti-Black racism by joining the BlackNorth Initiative.
- Donated $500,000 to Pathways to Education in Canada and the Northside Achievement Zone in the U.S. to support families and youth to close the achievement gap and end generational poverty – both of which disproportionately affect Black, Indigenous and People of Colour.
- Our first-annual Count Me In! campaign encouraged employees to voluntarily and confidentially share their diversity information. More than 7,500 of them shared your diversity information, representing 63.3% of our total workforce.

More details on our D&I initiatives in 2020 will be in our 2020 Social Impact Report and 2021 Management Proxy Circular, released on March 30, 2021.

Governance

To be one of the most respected companies we must live Our Values, including having strong governance practices and abiding by high ethical standards.Our governance practices enable us to not only enhance value for shareholders and ensure our long-term viability, but also to achieve our purpose. Intact has been consistently recognized for our governance and disclosure practices.

- Named the top-ranking company in this year's Globe & Mail Board Games rankings, scoring 98 points out of a possible 100. Board Games evaluates the quality of governance practices and disclosure for Canadian publicly traded companies.
- Continued 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 VP and higher positions being comprised of women. Our Board of Directors had 36% female representation in 2020.
- Received over 95% approval on the advisory resolution on executive compensation (say-on-pay) at the 2020 annual and special meeting of shareholders.

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

FINANCIAL CONDITION

Section 21 - Financial position

2020 Highlights

Investment portfolio	Claims liabilities	BVPS for the last 12 months	Debt-to-total capital ratio
$20.6 billion	$12.8 billion	+9%	24.1%

21.1 Balance sheets

Table 18 – Balance sheets

As at	Section	December 31, 2020	September 31, 2020	December 31, 2019
Assets				
Investments	*22*	**20,630**	19,607	18,608
Premium receivables		**3,822**	3,842	3,588
Reinsurance assets	*23*	**1,533**	1,522	1,511
Deferred acquisition costs		**1,089**	1,095	1,026
Other assets		**2,718**	2,685	2,410
Intangible assets and goodwill		**5,327**	5,359	5,149
Total assets		**35,119**	34,110	32,292
Liabilities				
Claims liabilities	*23*	**12,780**	12,750	11,846
Unearned premiums		**6,256**	6,398	5,960
Financial liabilities related to investments		**89**	157	295
Other liabilities		**3,370**	3,114	3,082
Debt outstanding	*25*	**3,041**	2,476	2,362
Total liabilities		**25,536**	24,895	23,545
Shareholders' equity				
Common shares		**3,265**	3,265	3,265
Preferred shares		**1,175**	1,175	1,028
Contributed surplus		**187**	177	170
Retained earnings		**4,547**	4,294	3,959
AOCI		**409**	304	325
Shareholders' equity		**9,583**	9,215	8,747
Book value per share (in dollars)	*25.4*	**58.79**	56.22	53.97

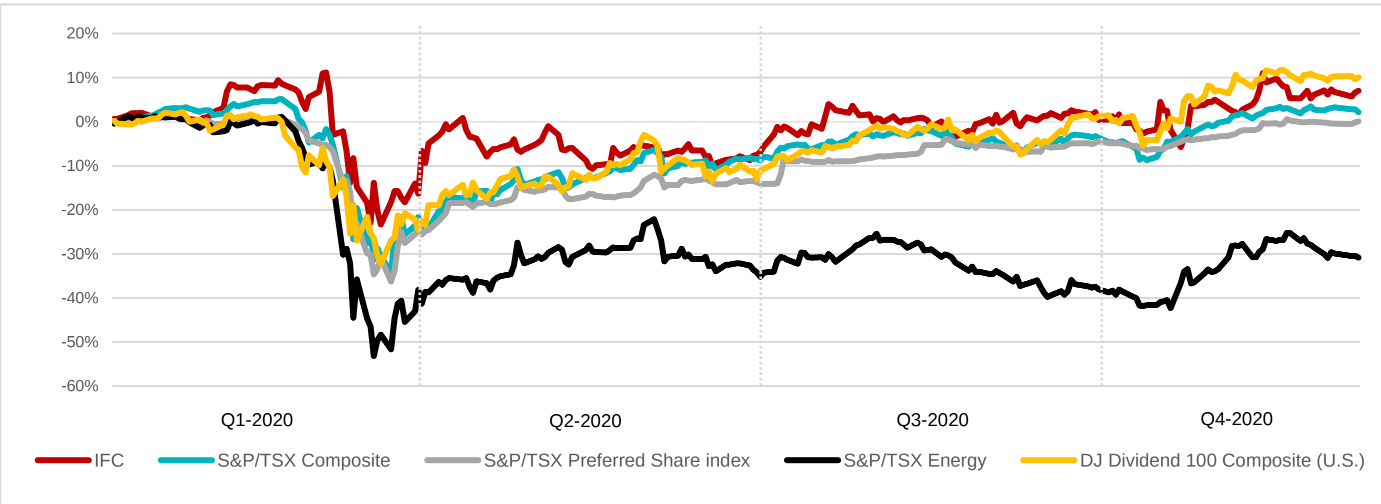
(in millions of Canadian dollars, except as otherwise noted)

Section 22 - Investments and capital markets

22.1 Capital market update

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. Increased uncertainty regarding global economic activity resulted in volatile capital markets in Q1-2020. The significant response from governments to support businesses and economies, as well as the early release of multiple COVID-19 vaccines towards the end of the year have led to important rebound in common shares since Q1-2020.

While restrictions have eased for parts of the economy, the second wave of COVID-19 has increased uncertainty and has led to renewed lockdowns measures. Until the crisis has passed and economies fully reopen, the Company expects financial markets to remain volatile.



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 10.3 – Net investment income and Section 10.2 – Net gains (losses) excluding FVTPL bonds.*

Table 19 – Selected market indicators

Selected market Indicators	Q4-2020	Q4-2019	2020	2019
Common shares				
S&P/TSX Composite	**8%**	2%	**2%**	19%
S&P/TSX Financials	**15%**	-%	**(3)%**	17%
S&P/TSX Energy	**13%**	6%	**(31)%**	16%
DJ Dividend 100 Composite (U.S.)	**16%**	6%	**11%**	23%
Preferred shares				
S&P/TSX Preferred Share Index	**6%**	2%	**-**	(2)%
Fixed-income securities				
5Y Canada Sovereign Index (estimated variance in bps)	**3 bps**	22 bps	**(136) bps**	(20) bps
5Y U.S. Sovereign Index (estimated variance in bps)	**8 bps**	15 bps	**(133) bps**	(82) bps
5Y AA Corporate spread (estimated variance in bps)	**(14) bps**	(17) bps	**(12) bps**	(43) bps
Strengthening (weakening) of USD vs CAD	**(4)%**	(2)%	**(2)%**	(5)%

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

22.2 Investment portfolio

Our investment portfolio is mainly comprised of Canadian and U.S. securities. 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.

Table 20 – Investment portfolio

As at	December 31, 2020	September 30, 2020	December 31, 2019
Cash, cash equivalents, and short-term notes	**1,601**	901	997
Fixed-income	**13,414**	13,568	11,765
Preferred shares	**1,552**	1,472	1,465
Common equities	**3,779**	3,380	4,063
Loans	**284**	286	318
	20,630	19,607	18,608

Quarter	Full year
Our investments increased by $1.0 billion, driven by: • the proceeds from the issuance of $600 million of medium-term notes in connection with the RSA Acquisition; and • mark-to-market gains on equity securities, driven by favourable equity markets in Q4-2020.	**Our investments increased by $2.0 billion**, driven by: • the proceeds from the issuance of $600 million of medium-term notes in connection with the RSA Acquisition; • cash inflows from operations and investments; and • mark-to-market gains on fixed-income securities, due to the decline in interest rates since 2019 year-end.

22.3 High quality portfolio

Our fixed-income portfolio includes high quality Government and corporate bonds. Approximately 89% of our fixed-income portfolio was rated 'A-' or better as at December 31, 2020 (90% as at December 31, 2019). On a consolidated basis, the weighted-average rating of our fixed-income portfolio was 'AA' as at December 31, 2020 and 2019. The average duration of our fixed-income portfolio was 3.74 years as at December 31, 2020 (3.75 years as at December 31, 2019).

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, 2020 and 2019.

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

Table 21 – Net pre-tax unrealized gain (loss) on AFS securities

As at	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	March 31, 2020	Dec. 31, 2019
Fixed-income securities	**297**	310	300	165	107
Preferred shares	**(8)**	(97)	(218)	(376)	(64)
Common shares	**224**	44	(31)	(294)	314
Net pre-tax unrealized gain (loss) position	**513**	257	51	(505)	357

Quarter	Full year
Unrealized gain position improved by $256 million, mainly driven by mark-to-market gains on equity securities due to favourable equity markets in Q4-2020.	**Unrealized gain position increased by $156 million,** mainly driven by mark-to-market gains on fixed-income securities, due to the decline in interest rates, partly offset by mark-to-market losses on common shares.

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

22.5 Aging of unrealized losses on AFS common shares

Table 22 – Aging of unrealized losses on AFS common shares

As at	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	Mar. 31, 2020	Dec. 31, 2019
Less than 25% below book value	**66**	97	106	102	36
More than 25% below book value for less than 6 consecutive months	**-**	1	99	270	-
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	**-**	96	3	15	11
Unrealized losses on AFS common shares	**66**	194	208	387	47

Highlights

- In Q4-2020, we recorded $22 million of impairment on AFS common shares, which was lower than the $96 million expected as at the end of Q3-2020, due to favourable equity markets in Q4-2020. This compares to $14 million in Q4-2019. In 2020, we recorded impairment losses on AFS common shares of $121 million, of which $96 million in Q1-2020, mostly related to the energy sector ***(see Table 11 – Net gains (losses) on FVTPL bonds).***
- Since common shares are measured at fair value on our balance sheet, impairment losses have no impact on our BVPS and capital position.

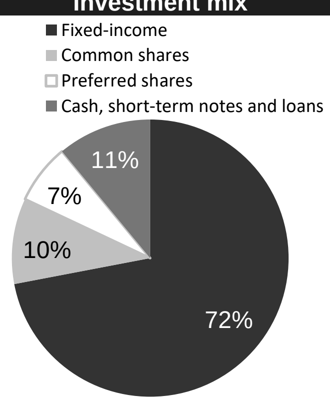
See Note 2 – Summary of significant accounting policies to the Consolidated financial statements for additional details on our accounting policy regarding the impairment of financial assets.

22.6 Net exposure

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.

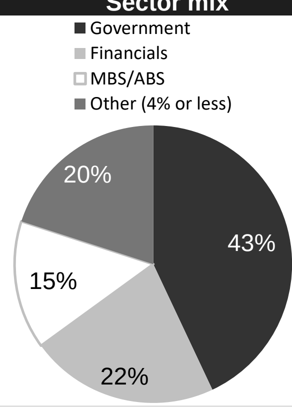
Our net exposure as at December 31, 2020 (after reflecting the impact of hedging strategies related to investments and foreign subsidiaries) is outlined below.

Total portfolio Investment mix



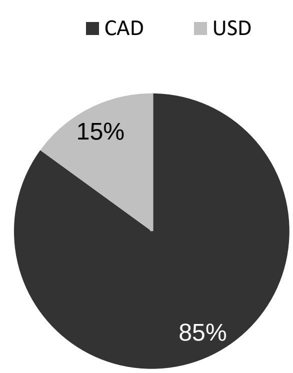
We had highly liquid assets at the Corporate level and in our insurance subsidiaries to provide additional financial flexibility and to support our customers through the COVID-19 crisis.

Fixed-income strategies Sector mix



Our fixed-income portfolio remains concentrated in highly liquid instruments, such as securities in the government and financial sectors.

Total portfolio Currency



We have no exposure to other currencies.

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

Net exposure by asset class

Table 23 – Investment mix by asset class (net exposure)

As at	December 31, 2020	September 30, 2020	December 31, 2019
Cash, cash equivalents, and short-term notes	**10%**	7%	6%
Fixed-income	**72%**	75%	70%
Preferred shares	**7%**	8%	8%
Common equities	**10%**	9%	14%
Loans	**1%**	1%	2%
	100%	100%	100%

As at December 31, 2020, equity securities had a lower weight in our investment portfolio given our strategic reduction in common equities exposure. The fixed-income portfolio weight increased accordingly since December 31, 2019.

Net sectoral exposure

Table 24 – Sector mix by asset class, excluding cash, short-term notes and loans (net exposure)

As at	Fixed-income securities	Preferred shares	Common shares	Total Dec. 31, 2020	Total Sept. 30, 2020	Total Dec. 31, 2019
Government	**43%**	**-**	**-**	**32%**	**33%**	31%
Financials	**22%**	**77%**	**23%**	**32%**	**31%**	31%
ABS and MBS[1]	**15%**	**-**	**-**	**11%**	**11%**	11%
Energy	**1%**	**12%**	**12%**	**3%**	**3%**	4%
Industrials	**2%**	**-**	**10%**	**3%**	**3%**	3%
Consumer staples	**2%**	**-**	**10%**	**3%**	**3%**	3%
Communication Services	**2%**	**1%**	**8%**	**3%**	**2%**	3%
Utilities	**3%**	**10%**	**14%**	**5%**	**5%**	5%
Consumer discretionary	**1%**	**-**	**5%**	**1%**	**1%**	2%
Materials	**1%**	**-**	**7%**	**1%**	**1%**	1%
Information technology	**4%**	**-**	**4%**	**3%**	**3%**	3%
Health care	**4%**	**-**	**7%**	**3%**	**4%**	3%
	100%	**100%**	**100%**	**100%**	**100%**	100%

[1] Our structured debt securities comprised $450 million of ABS and $1,533 million of MBS as at December 31, 2020. Residential MBS and Commercial MBS make up respectively 49% and 51% of our MBS portfolio. Approximately 98% of these structured debt securities are rated 'A' or better. We continue to have no exposure to leveraged securities.

Net currency exposure

Table 25 – Net currency exposure

As at	December 31, 2020	September 30, 2020	December 31, 2019
CAD	**85%**	84%	81%
USD	**15%**	16%	17%
Other currencies	**-**	-	2%
	100%	100%	100%

In Q1-2020, we strategically reduced our exposure to common equities, including our international portfolio, to enhance our capital position *(see Section 25 – Capital management)*.

Section 23 - Claims liabilities and reinsurance

23.1 Claims liabilities

Assumptions

Claims liabilities stood at $12.8 billion as at December 31, 2020.

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.

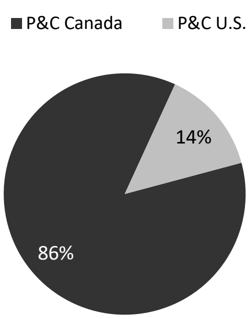
IBNR reserves supplement the case reserves by taking into account:

- 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.

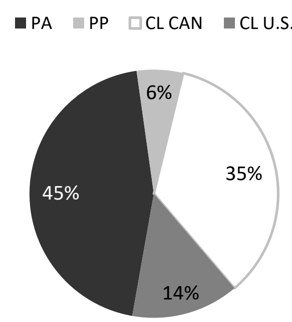
Case reserves and IBNR should be sufficient to cover all expected claims liabilities for events that have already occurred, whether reported or not, taking into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. 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 35 – Non-operating results for more details on the impact of MYA on underwriting***.

Net claims liabilities by business segment	December 31, 2020	Net claims liabilities by line of business



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



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

(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

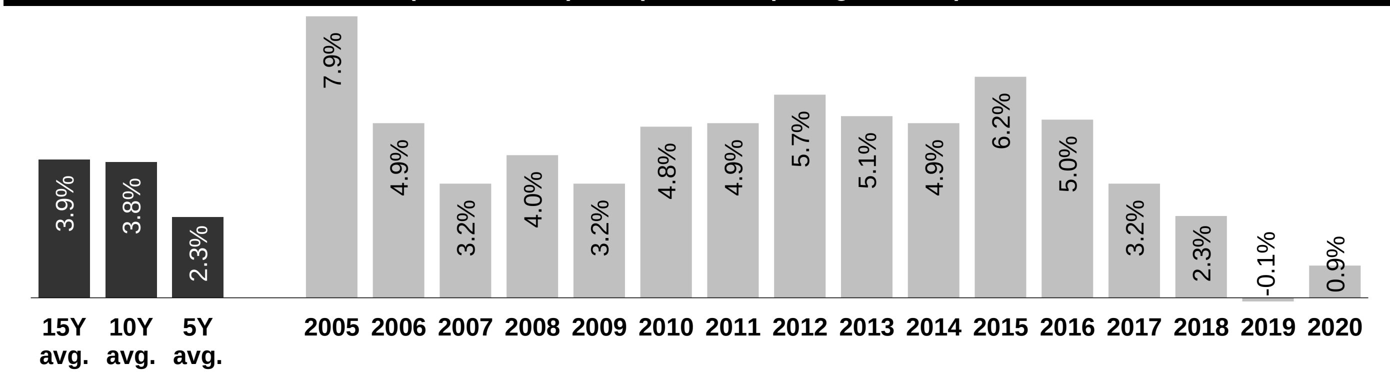


Table 26 – PYD by line of business

	Q4-2020	Q4-2019	Change	2020	2019	Change
By line of business						
Personal auto	**(11)**	(1)	(10)	**(6)**	111	(117)
Personal property	**(15)**	(10)	(5)	**(46)**	(36)	(10)
Commercial lines – Canada	**(7)**	(21)	14	**(33)**	(64)	31
Commercial lines – U.S.	**5**	(7)	12	**(15)**	(11)	(4)
Total (favourable) unfavourable development	**(28)**	(39)	11	**(100)**	-	(100)
(Favourable) unfavourable annualized rate of PYD[1]						
P&C Canada	**(1.5)%**	(1.6)%	0.1 pts	**(0.9)%**	0.1%	(1.0) pts
P&C U.S.	**1.4%**	(1.6)%	3.0 pts	**(1.0)%**	(0.6)%	(0.4) pts
Consolidated	**(1.1)%**	(1.6)%	0.5 pts	**(0.9)%**	-	(0.9) pts

[1] As a % of opening reserves.

23.2 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. The coverage limits are well in excess of the regulatory requirements with respect to the earthquake risk. As at December 31, 2020, we retain participations averaging 10.2% on reinsurance layers between the retention and coverage limit. Effective January 1, 2021, we maintained our coverage limit of $5.3 billion for multi-risk events and catastrophes but increased the retention from $100 million to $150 million. For 2021, we retain participations averaging 9.2% on reinsurance layers between the retention and coverage limit.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers ($580 million as at December 31, 2020, $548 million as at December 31, 2019) 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 to the Consolidated Financial statements for further details on our reinsurance net retention and coverage limits by nature of risk.

At the time of acquisition of Intact U.S. (OneBeacon) in September 2017, we purchased from a major reinsurer an adverse development cover (ADC) subject to an aggregate limit of US$200 million to cover for any losses with respect to Intact U.S.'s claims liabilities for accident years 2016 and prior. As at December 31, 2020, the maximum amount recoverable of US$200 million has been recorded, with approximately two thirds related to exited lines.

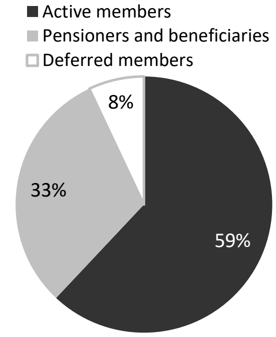
Subsequent to the exit of the U.S. Healthcare business on July 1, 2019, Intact U.S. (OneBeacon) entered into a loss portfolio transfer and a prospective quota share reinsurance contract with a reinsurer as at December 31, 2019 (collectively known as the "loss portfolio transfer"). Subject to an aggregate limit, the reinsurer assumed the liabilities and future reserve development for accident years 2017 and subsequent, net of reinsurance, with the exception of a few files. 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.

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

Section 24 - 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., we offer employees a 401(k) plan.

DB pension 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 2020, 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; and
- improving our pension asset-liability matching to better align our credit and interest rate exposures.

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.

Table 27 – Selected pension indicators

As at December 31,	2020	2019
Defined benefit pension obligation	**3,151**	2,756
Funding ratio (funded pension plans)	**97%**	94%
Interest rate hedge ratio	**72%**	70%
Pension asset mix		
Debt securities	**71%**	70%
Common shares	**36%**	36%
Derivatives	**2%**	1%
Repos	**(9%)**	(7%)

Highlights

- Our funding ratio increased to 97% as at December 31, 2020, mainly due to the positive return on pension plan assets.
- Interest rate hedge ratio increased to 72% as at December 31, 2020, in line with the increase in the funding ratio. Our objective is to remain in a modest range around our pension fund investment policy target of 75%, assuming the funding ratio is 100%. An interest rate hedge ratio below 100% indicates that funded status of the pension plans would increase if government bond yields rise, all else equal.

See Note 27 – Employee future benefits to the 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.

Section 25 - Capital management

25.1 Our 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.

Despite the COVID-19 crisis, our capital priorities have not changed. We are focused on maintaining a resilient balance sheet, providing flexibility in good times and in bad times. We want to make sure that we have capital ready to be deployed for growth opportunities, both organic and through acquisitions, and that we return capital to shareholders over time.

Capital deployment strategy

Any deployment of capital is executed 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)

25.2 Managing 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.

25.3 Maintaining a strong capital position

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 28 – Estimated aggregated capital position

As at	December 31, 2020	September. 30, 2020	December 31, 2019
Canadian regulated entities			
Regulatory capital ratio (MCT)	**224%**	205%	198%
Capital above CALs (capital margin)	**1,101**	735	554
Other regulated entities			
Capital above CALs (capital margin)[1]	**640**	633	630
Unregulated entities	**988**	503	38
Total capital margin[2]	**2,729**	1,871	1,222
Debt-to-total capital	**24.1%**	21.2%	21.3%

[1] Includes Atlantic Specialty Insurance (U.S.) ("ASIC"), Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados). The Guarantee Company of North America USA was included in Other regulated entities as at December 31, 2020 and in Canadian regulated entities as at December 31, 2019.

[2] Consists of the aggregate of capital in excess of CALs in regulated entities plus available cash and investments in unregulated entities, including the $600 million from the medium-term notes issued on December 16, 2020.

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

The following table summarizes the movement in our key capital indicators for the quarter and full year.

Table 29 – Key capital indicators

	Quarter				Full year			
As at	MCT	RBC	Debt-to-total capital ratio	Capital margin	MCT	RBC	Debt-to-total capital ratio	Capital margin
Sept. 30, 2020 / Dec. 31, 2019	**205%**	**451%**	**21.2%**	**1,871**	**198%**	**457%**	**21.3%**	**1,222**
Insurance operations and investments[1]	28%	18%	(0.9)%	498	75%	12%	(1.9)%	1,356
Capital injection in P&C subsidiaries	-	-	-	-	8%	-	-	-
Dividends paid	(9)%	-	0.2%	(132)	(45)%	-	0.7%	(641)
Financing raised (RSA Acquisition)[2]	-	-	3.8%	596	-	-	3.8%	596
Issue of $150 million of Series 9 Preferred Shares[2]	-	-	-	-	-	-	(0.3)%	146
Use of $150 million of credit facility and issue of $300 million MTN Series 8[2]	-	-	-	-	-	-	3.1%	449
Deleveraging	-	-	(0.2)%	-	(12)%	-	(2.6)%	(338)
Other	-	-	-	(104)	-	-	-	(61)
December 31, 2020	**224%**	**469%**	**24.1%**	**2,729**	**224%**	**469%**	**24.1%**	**2,729**

[1] Net of tax. U.S. figures are based on statutory accounting, which differs from IFRS.
[2] Refer to ***Section 25.5 – Managing leverage***.

Highlights

- As at December 31, 2020, our Canadian insurance companies have a MCT of 224% and our U.S. subsidiary has a RBC of 469%, both solid levels.
- Our total capital margin stood at a strong $2.7 billion as at December 31, 2020, including the net proceeds from the medium-term note issuances in December 2020 to partly finance the RSA Acquisition. By maintaining a strong balance sheet and capital position, we can withstand the shocks driven by volatility in financial markets and capture growth opportunities.
- Our debt-to-total capital ratio of 24.1% as at December 31, 2020 has increased by 2.9 points, mainly due to the medium-term note issuances to partly finance the RSA transaction.

Refer to Section 31.8 – Own Risk and Solvency Assessment for details on our Own Risk and Solvency Assessment.

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

25.4 Book value per share

Book value per share increase over time

- Our operating performance and financial strength have translated into close to $2.2 billion in capital returned to common shareholders through dividends and share repurchases over the past five years.
- Our BVPS was up 9% to $58.79 in 2020, mainly driven by our earnings, net of common share dividends.
- We remained committed to our financial objectives in terms of ROE outperformance and NOIPS growth to enhance value to shareholders.

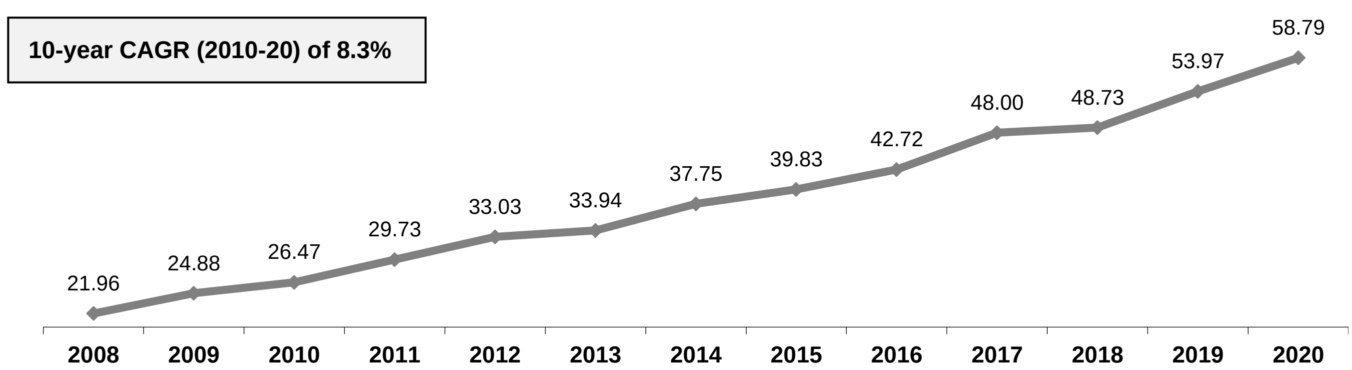


Table 30 – Evolution of BVPS (in dollars)

As at December 31,	Q4-2020	2020	2019	2018
BVPS, beginning of period	**56.22**	**53.97**	48.73	48.00
EPS	**2.55**	**7.20**	5.08	4.79
Dividends on common shares	**(0.83)**	**(3.32)**	(3.04)	(2.80)
Net impact from issuance of common shares	**0.06**	**0.04**	1.71	-
Impact of market movements on AFS securities[1]	**1.44**	**0.96**	2.85	(2.49)
Net actuarial gains (losses) on employee future benefits[1]	**0.06**	**0.31**	(0.38)	(0.13)
Foreign exchange impact[1]	**(0.71)**	**(0.34)**	(0.86)	1.26
Impact of the adoption of IFRS 16 (Leases)	**-**	**-**	(0.28)	-
Other[2]	**-**	**(0.03)**	0.16	0.10
BVPS, end of period	**58.79**	**58.79**	53.97	48.73
Period-over-period increase	**5%**	**9%**	11%	2%

[1] Reported in AOCI.

[2] Includes share-based payments.

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

25.5 Managing leverage

2020 Financing structure

Debt-to-total capital ratio	Weighted-average debt maturity	Weighted-average debt coupon	Weighted-average preferred share coupon
24.1%	11 years	2.94% (after tax)	4.39% (after tax)

We believe that our optimal financing structure is one where:

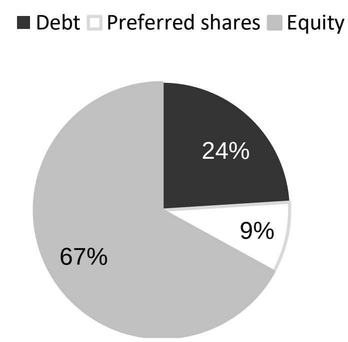
- the debt-to-total capital ratio is generally at 20%; and
- approximately 10% of our total capital is comprised of preferred shares.

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:

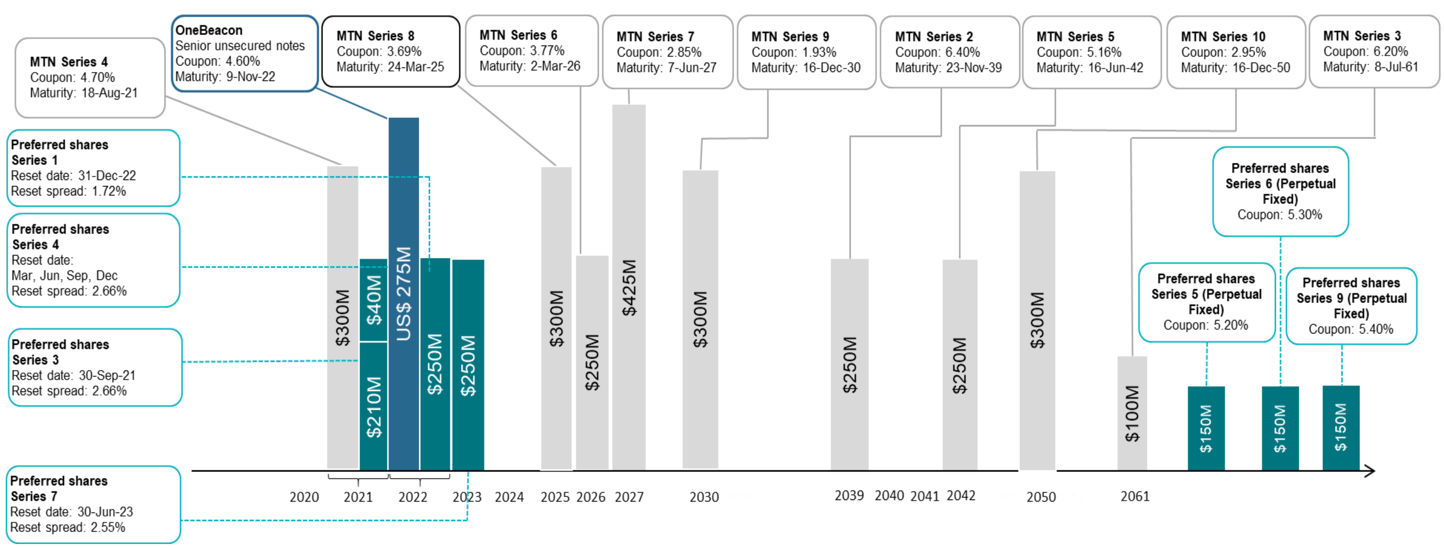
- We currently have nine series of medium-term notes outstanding with maturities ranging between 1 and 41 years.
- The notes carry a weighted average coupon of 3.98% (2.94% after tax).
- All debt tranches are prudent in size with no large peaks, reducing refinancing risk.
- Preferred shares provide flexibility in our capital structure at a reasonable cost.
- Debt and preferred shares represent about 30% of our total capital structure.

Capital structure December 31, 2020



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

Finance structure – Notes and preferred shares

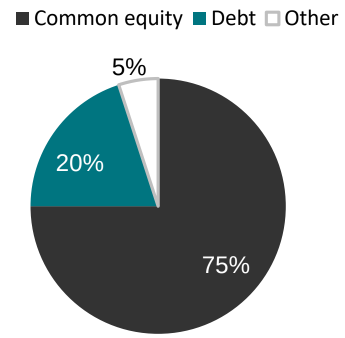


See next page for more details on the new financing.

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

New financing in connection with the RSA Acquisition

Acquisition of RSA
Total financing: $5.9 billion



On November 18, 2020, we announced that, together with the Scandinavian P&C leader Tryg A/S, we have reached an agreement to acquire RSA for a total consideration of approximately £7.2 billion ($12.5 billion). We will pay £3.0 billion ($5.2 billion) of the total consideration payable and Tryg will pay £4.2 billion ($7.3 billion). ***See Section 2 – Acquisition of RSA's Canadian, UK and International operations.***

Financing for the purchase price of approximately $5.2 billion (£3.0 billion) and expected related transaction costs of approximately $0.7 billion has been raised with $4.45 billion of private placement subscription receipts, €392 million ($600 million) bank term loan facility to be drawn on closing and $600 million of medium-term notes ***(see details below)***. The remaining balance of approximately $200 million will be raised in 2021 with the issuance of preferred shares or other financing.

As part of the acquisition, we also intend to assume the full amount of RSA's outstanding issued debt and hybrid securities, which totals approximately £0.8 billion ($1.4 billion) and £0.4 billion ($0.7 billion), respectively as at December 31, 2020. We will also retain and guarantee the obligations of the closed RSA's UK pension schemes. ***See Note 5 – Business Combinations to the Consolidated financial statements for further details.***

Our purchase price is set in GBP, with the CAD equivalent fluctuating with foreign exchange rates. We have hedged the purchase price against the exposure associated with GBP/CAD exchange rate fluctuations. ***See Section 27.1 - Currency hedging in relation with the RSA Acquisition.***

Private placement subscription receipts	• On November 25, 2020, we completed the private placement of subscription receipts to three Canadian institutional investors of an aggregate of **23.8 million Subscription Receipts for gross proceeds of approximately $3.2 billion**. • On December 3, 2020, we completed the private placement of subscription receipts with a group of underwriters of an aggregate of **9,272,000 subscription receipts for gross proceeds of approximately $1.25 billion.** • Each Subscription Receipt will entitle the holder to receive one common share of Intact as well as a dividend equivalent payment upon closing of the Acquisition.
Bank term loan facility	• On November 18, 2020, we entered into a **$0.6 billion 24 months bank term loan facility agreement** which we plan to draw in EUR a rate of Libor plus 100 bps and which will be drawn upon closing.
Medium-term notes	On December 16, 2020, we completed the private placements of: • **$300 million principal amount of Series 9 unsecured medium-term notes**, which bear interest at a fixed annual rate of 1.928% until maturity on December 16, 2030, payable in semi-annual instalments commencing on June 16, 2021. • **$300 million principal amount of Series 10 unsecured medium-term notes**, which bear interest at a fixed annual rate of 2.954% until maturity on December 16, 2050, payable in semi-annual instalments commencing on June 16, 2021. The net proceeds from the private placements will be used to fund a portion of the purchase price for the RSA Acquisition.

Q1-2020 financing

- On February 18, 2020, we completed a **Class A Series 9 offering of preferred shares** (the "Series 9 Preferred Shares") by issuing and selling 6,000,000 Series 9 Preferred Shares, at a price of $25.00 per share, for aggregate gross proceeds of $150 million. The net proceeds have been used for general corporate purposes. The Series 9 Preferred Shares will yield 5.40% per annum and are not subject to a rate reset.
- On March 24, 2020, we completed an offering of **$300 million principal amount of Series 8 unsecured medium-term notes** ("the Notes''). The Notes bear interest at a fixed annual rate of 3.691% until maturity on March 24, 2025, payable in semi-annual instalments commencing on September 24, 2020. The net proceeds have been used for general corporate purposes.

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

Credit facility

Our $750 million credit facility 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

Amendment in connection with the RSA Acquisition
On December 18, 2020, the credit facility was amended to comply with all covenants upon closing. Furthermore, the credit facility will be increased to $1.5 billion in order to provide incremental liquidity, contingent upon the closing of the acquisition.

As at December 31, 2020, no balance was drawn under our credit facility ($138 million or US$106 million as at December 31, 2019). All covenants were fully met as at December 31, 2020 and 2019.

Strong 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 31 – Ratings

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

We do not anticipate the Transaction and its planned financing structure to lead to a change in our current credit ratings. ***See Section 2 – Acquisition of RSA's Canadian, UK and International operations.***

25.6 Increase common shareholder dividends

With a strong financial position and confidence in earnings growth, we will continue to protect our people, support our customers and advance our strategic objectives. We intend to increase our dividend this year as we have in the past 15 years. However, given the current regulatory environment, we are postponing our dividend increase to a later quarter in 2021.

25.7 Invest in growth

See Section 2 – Acquisition of RSA's Canadian, UK and International operations.

25.8 Share buybacks

There was no share buyback during 2020 and 2019. 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 26 - Treasury management

26.1 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 32 – Cash flows

	Q4-2020	Q4-2019	Change	2020	2019	Change
Net cash flows provided by operating activities	**680**	187	493	**2,352**	1,290	1,062
Cash flows generated from (deployed on):						
Proceeds from issuance of debt, net of issuance costs[1]	**596**	266	330	**894**	266	628
Repayment of debt	**-**	-	-	**(47)**	(250)	203
Borrowing (repayment) on the credit facility, net	**(2)**	145	(147)	**(165)**	145	(310)
Proceeds from issuance of common shares	**-**	444	(444)	**-**	444	(444)
Proceeds from issuance of Class A Preferred Shares	**-**	-	-	**146**	-	146
Dividends on common shares and preferred shares	**(132)**	(120)	(12)	**(527)**	(474)	(53)
Business combinations, net of cash acquired	**-**	(731)	731	**-**	(731)	731
Equity investments in brokerages and other, net	**(59)**	(18)	(41)	**(187)**	(104)	(83)
Purchases of intangibles and P&E, net	**(55)**	(27)	(28)	**(163)**	(117)	(46)
Payments of lease liabilities	**(15)**	(14)	(1)	**(59)**	(51)	(8)
Payment of contingent consideration related to a business combination[2]	**(94)**	-	(94)	**(94)**	-	(94)
Proceeds from (repayment of) securities sold under repos	**-**	(55)	55	**(20)**	20	40
Repurchase of common shares for share-based payments	**(4)**	(4)	-	**(49)**	(43)	(6)
Net cash inflows (outflows) before the following:	**915**	73	842	**2,081**	395	1,686
Excess capital deployed on the acquisition of The Guarantee	**-**	172	(172)	**-**	172	(172)
Proceeds from investment sales (purchases), net	**(818)**	355	(1,173)	**(2,092)**	(62)	(2,030)
Net increase (decrease) in cash and cash equivalents	**97**	600	(503)	**(11)**	505	(516)
Cash and cash equivalents at beginning of the period	**837**	343	494	**936**	442	494
Exchange rate difference on cash and cash equivalents	**(17)**	(7)	(10)	**(8)**	(11)	3
Cash and cash equivalents at end of the period	**917**	936	(19)	**917**	936	(19)

[1] *See Section 25 – Capital management.*

[2] *See Note 5.1 – Business combinations to the Consolidated financial Statements for details.*

We have ample liquidity at the holding company level and within our investment portfolio to protect against market volatility, support our customers through the crisis, and quickly respond to market opportunities that may arise.

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.

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

26.2 Contractual obligations

Table 33 – Contractual obligations

As at December 31, 2020	Payments due by period			
	Total	**Less than 1 year**	**1 - 5 years**	**Thereafter**
Principal repayment on notes outstanding	**3,041**	510	656	1,875
Interest payments on notes outstanding	**1,366**	107	335	924
Claims liabilities[1]	**12,370**	4,363	6,242	1,765
Leases and other commitments[2]	**1,177**	200	549	428
Pension obligations[3]	**42**	4	17	21
Total contractual obligations	**18,406**	5,333	8,257	4,816

[1] Undiscounted value, including incurred but not reported reserves.
[2] ***Refer to Note 10.5b) – Financial liabilities by contractual maturity and Note 31 – Commitments and Contingencies to the Consolidated financial Statements for details.***
[3] Represent the expected benefit payments for unfunded plans. There is no significant annual mandatory funding required by regulators, based on the latest actuarial valuations.

Section 27 - Foreign currency management

27.1 Currency hedging in relation with the RSA Acquisition

Purchase price hedges

In November 2020, we entered into foreign currency forward contracts in order to hedge the £3.0 billion ($5.2 billion) purchase price to exposures from fluctuations in the CAD/GBP and EUR/GBP currency pairs. These derivatives have a notional of £2.7 billion ($4.7 billion) GBP/CAD and £0.3 billion ($0.5 billion) GBP/EUR, of which £2.4 billion ($4.2 billion) are contingent on the closing of the acquisition.

As at December 31, 2020, these derivatives did not qualify as cash flow hedges and are marked-to-market through net income. We recognized an unrealized gain of $41 million in 2020. ***See Table 11 – Gains (losses) excluding FVTPL bonds.***

Book value hedges

In November 2020, we entered into foreign currency forward contracts for a notional of £700 million ($1.2 billion), whereby we sell GBP for CAD in order to reduce our book value exposure to the GBP. These derivatives represent economic hedges and the changes in the fair value are recognized through net income until closing of the transaction. We recognized an unrealized loss of $22 million in 2020. ***See Table 11 – Gains (losses) excluding FVTPL bonds.***

We also intend to hedge our book value exposure to the DKK after closing with our €392 million ($600 million) bank term loan facility.

We also entered into other foreign currency forward contracts for a net notional of £100 million ($174 million) CAD/GBP for risk management purposes related to the RSA Acquisition.

See Note 7 – Derivative financial instruments to the Consolidated financial Statements for more details.

RISK MANAGEMENT

Section 28 - 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 29 - 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.

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 30 - 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:

30.1 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 31 - Enterprise Risk Management

31.1 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.

31.2 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.

31.3 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 and ensure accountability. On-going collaboration and clear communication across the lines of defence is paramount to foster alignment and optimal risk management.

31.4 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.

31.5 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.

31.6 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 — 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.

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 23.2 – Reinsurance for more details on our reinsurance program.***

Since the beginning of 2020, we've implemented a robust action plan resulting in a material reduction in our exposure to Western Canada earthquake exposure. Both our personal and commercial lines are applying a series of pricing and product measures.

We increased our reinsurance coverage in 2020 to beyond an estimated 1-in-700 year return period of an earthquake in Western Canada, including the U.S. Pacific Northwest.

Climate change risk — Insurance risk

Risk we are facing

Climate change is a challenge that has been faced by the Canadian P&C insurance industry for over 10 years and the risk is evolving and becoming heavily faced across industries as we shift to a low-carbon economy.

Physical risk has been affecting our property insurance business 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. There are a wide variety of natural disasters that may be affected by climate change to some degree including but not limited to hurricanes, windstorms, hailstorms, rainstorms, ice storms, floods, severe winter weather and forest fires.

Transition risk is the risk of transitioning to low-carbon and more climate resilient economy. Awareness of the potential risk has been increasing this year with several large institutional investors shifting away from carbon-intensive sectors. Some sectors or companies may be perceived as too carbon-intensive or may have unsatisfactory transition plan towards greener sources of revenue. This could impact asset prices and economic-sensitive lines of business. Furthermore, the exposure to carbon-intensive sectors or companies could result in the perception of disregard towards greener economy and increase reputational risk for insurers who underwrite these risks.

Potential impact	*How we manage this risk*
Physical risk 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 and Hurricanes in the East. The impact of climate change may result in increased earnings volatility. Transition risk Over 2020, we have meaningfully reduced our investments in carbon-intensity companies that have no or unsatisfactory plan of reducing their footprint. We are participating to the Pilot of Bank of Canada and OSFI’s Climate Scenario Analysis. The initiative should further enhance the understanding of our exposure to transition risks during 2021.	Physical 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, segmentation refinement, and the introduction of depreciation schedules in personal property insurance across Canada. These initiatives 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 19 – 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 23.2 – Reinsurance for details on our reinsurance program.*** *Investing in Climate Adaptation and Awareness* We continue to promote climate adaptation and awareness through a number of initiatives, including but not limited to: • Renewed our commitment to the Intact Center on Climate Adaptation, an applied research centre providing practical solutions to help society adapt to the impacts of climate change; • Participated in the United Nations Environment Programme’s Financial Initiative (UNEP FI)’s Global Insurers Pilot on the Task Force on Climate-related Financial Disclosures (TCFD); • Member of the Geneva Association, an international think tank for the insurance industry providing research and expertise on key industry topics, such as climate change; and • Committed 1.3-million in five new Intact Climate Adaptation Grantees. These projects are focused on building communities’ climate resiliency. *Transition risk* In 2020, Intact Investment Management developed a Coal Policy and engaged portfolio companies on climate change. Existing holdings that exceed thresholds stated in our Coal Policy are evaluated based on their energy transition plan. We will divest from companies that do not have a satisfactory plan. We will continue to evaluate and adapt our thresholds over time. We are also participating in the Bank of Canada and Office of the Superintendent of Financial Institutions (OSFI) pilot project to use climate-change scenarios to better understand the risks to our financial condition related to a transition to a low-carbon economy.

Catastrophe risk (excluding earthquake risk) — Insurance risk

Risk we are facing

Catastrophe events include natural disasters and unnatural events.
- There are a wide variety of natural disasters that are mainly weather-related including but not limited to hurricanes, windstorms, 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.

Unnatural catastrophe risk
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

Natural catastrophe risk
Some the risk mitigations referred to in the section above on Climate Change risk also mitigate the catastrophe risk. For example, deductibles and sub-limits help reduce the impact of natural catastrophe risk.

Unnatural catastrophe risk
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

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. Disruptors with lower costs and/or better technology could enter our markets and quickly accumulate market share. 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 sophisticated player in the market or a disruptor could shift methods to purchase insurance and 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. Potential disruptors 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

There is a number of initiatives that we have presented to our customers to mitigate the risk of competition and disruption including, but not limited to:

- Our multi-channel distribution strategy including the broker channel, direct distribution 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 are promoting our brands with a focus on using web and mobile technology to reach consumers. U.S. activities now operate under the North American Intact Insurance Specialty Solution;
- We are constantly streamlining and simplifying the experience in our direct distribution channel. As a result, we have seen a drop in our expense ratio ensuring that we can compete on affordability;
- We are insourcing part of our claim supply chain process to differentiate ourselves from a cost perspective and customer experience. With the acquisition of On Side, we have now vertically integrated an important supply chain vendor. We established innovative service centres in major Canadian cities to provide an unmatched customer experience in Auto repair. We have also deployed digital tools to accelerate claims settlement and enhancing communication with our customers;
- We are investing in our Data Lab and in our large team of experts. We use artificial intelligence and machine learning in a variety of business applications to acquire and retain more profitable clients (e.g. Usage-based insurance).

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

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 2020, we experience increased turbulence in financial markets due to COVID-19 crisis, while interest rates in North American have declined to historical low levels. ***See Section 22.1 – Capital markets update.***

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, social unrest 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, credit or liquidity market.

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, such as the COVID-19 crisis. 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. During the first half of 2020, a series of actions were taken to solidify our capital and liquidity positions. Our investment portfolio remains defensive as we maintain an underweight position in equity exposure versus our target investment policy allocation.

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. These stress tests help assessing whether our financial risk exposure requires any adjustments. When turbulence was at his peak this year for example, we stress tested further severe downside scenarios and the results demonstrated that our liquidity position in the operating subsidiaries remained strong and able to withstand extreme liquidity shocks.

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 *Notes 10.1 and 10.2*	**Credit risk** *Note 10.4*
Basis risk *Note 10.3*	**Liquidity risk** *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.

The COVID-19 crisis brings an additional level of uncertainty to these factors when estimating reserve level.

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 23.1 – Claims liabilities for more details on the claims reserve and prior year claims development.***

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.

Estimated direct losses associated to COVID-19 remains low at an estimated $106 million. There are several class-action lawsuits over our business interruption coverage. Most commercial policies, except in very limited instances, do not provide for business interruption coverage in the context of a closure due to COVID-19 crisis since direct physical damage is required to trigger this coverage. We remain confident with our policy language that limits the coverage to losses arising from physical damages.

In 2020, we maintained our focus on pricing adequacy and reserve sufficiency. The loss of a large sharing economy account in Canada is an example of our commitment to maintain strong pricing discipline.

Inadequate pricing may lead to material declines in underwriting income and/or deficient reserves. The effects of the COVID-19 crisis related to emerging coverage issues and claims, including certain class actions relating to business interruption coverage and related defence costs, as well as other indirect claims could negatively impact our claims reserves. The COVID-19 crisis also brings uncertainty related to potential exposure to the ultimate level of direct losses in lines such as business interruption and indirect losses in specialty lines. Surety losses may increase as a result of the potential weakening economy that may result in client bankruptcies.	

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.

Governments and regulators around the world have been on crisis response mode due COVID-19. Auto premium relief and refunds were strongly encouraged or mandated in some jurisdictions.

Governmental and/or regulatory intervention (cont'd)	Strategic risk
Potential impact	***How we manage this 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 have been an active partner to governments throughout the COVID-19 crisis, offering our expertise around risk management, data and tracing.

We have also been supporting Finance Canada by providing data to help in their decision making when it comes to people and businesses who are facing financial hardship during the pandemic.

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.

We provided significant premium relief measures to our customers during the pandemic (see Customer satisfaction risk for more details). Several sectors are facing challenges with commercial hard market, including long-term care, hospitality, condominium and entertainment. We are coordinating our effort with IBC and the Minister of Finance in Ontario to ensure affordable coverage is available to small and mid size companies.

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 31.8 – 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 data analytic, pricing, underwriting, claims management and multi-channel management. Specialty lines is another key avenue of growth where we can leverage our expertise and leading edge customer experience.

On November 18, we announced that Intact together with Tryg has reached an agreement to acquire RSA. Following the transaction, Intact will retain RSA's Canadian, UK and International operations, Tryg will retain RSA's Swedish and Norwegian businesses, and Intact and Tryg will co-own RSA's Danish business. ***See Section 2 – Acquisition of RSA's Canadian, UK and International operations.***

The acquisition opens up a series of opportunities such as expanding our leadership position in Canada and bolsters our North American specialty lines with international expertise. On the other hand, the large scale of this acquisition and the entry into new international markets brings a set of risks. Failure on our part to manage the acquisitions could have a significant 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 RSA Acquisition, we are faced with a number of risks including, but not limited to:

- inability to achieve expected synergies;
- changes in laws or regulations, including those adopted in response to the COVID-19 crisis that would, for example, require insurers to cover business interruption claims irrespective of terms after policies have been issued, and could result in an unexpected increase in the number of claims and have a material adverse impact on our results;
- COVID-19 related coverage issues and claims, including certain class actions and related defense costs could negatively impact our claims reserves;
- unfavourable capital market developments or other factors, including the impact of the COVID-19 pandemic and related economic conditions, which may affect the Company's investments, floating rate securities and funding obligations under its pension plans; and
- the additional challenge of integrating new colleagues and systems during a pandemic.

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, including the cross-border acquisition of Intact U.S. (One Beacon) in 2017. 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. In addition, we have a proven process of operational integration that will be deployed for the RSA Acquisition.

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 have significantly accelerated in the context of the COVID-19 crisis. Cyber criminals often exploit fear and uncertainty from the pandemic and with people working almost entirely remotely this brings a new vector of potential attacks.

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. Ransomware attacks have particularly accelerated 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.

Working-from-home environment from the pandemic also increases the level of some risks. 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. In the context of work-from-home, there was also an acceleration of investment and initiatives related to data loss protection.

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 periodically benchmark our information security practices to assess areas of our cyber security program that may require additional effort and to ensure we learn from industry leading practices. In 2020, we conducted a benchmarking exercise that confirmed progress on our cyber security plan and continued improvement in the maturity of our cyber defense.

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. During 2020, cyber security awareness was continually provided to our employees, with reminders around information security and privacy best practices in a work-from-home context.

In 2020, we renewed our cyber insurance to continue to mitigate a portion of the financial impact in the event of a major cyber security incident affecting our operations.

Failure of a major technology initiative — Operational risk

Risk we are facing

To maintain our performance levels in a world of digitalization, we are required to regularly modernize and enhance 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 real-time internal audits are regularly conducted to identify potential areas for remediation or the necessity for additional controls. A dedicated committee ensuring proper focus is devoted to major technology projects.

Inability to contain fraud and abuse — Operational risk

Risk we are facing

As a P&C 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. An economic downturn, like the one brought on by the pandemic, could increase pressure on individuals and result in increased fraud and abuse. The work-from-home context brings new challenges to mitigating this risk.

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. Assessments were performed during 2020 to ensure that our control environment remains effective in a work-from-home context.

We are enhancing our fraud detection analytics which are used by our claims teams to detect potential 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.

In the current context, there is an increased risk of negative publicity related to the perception of not providing sufficient relief in Personal automobile or not providing affordable insurance.

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.

Despite the challenging environment in 2020, there was a low level of unfavourable publicity for Intact.

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.

Early in the pandemic, a series of strong relief measures have been implemented and clearly communicated to provide maximum relief to our customers. We have helped more than 1.2 million customers through our flexible payment options and premium adjustment measures, resulting in $530 million in relief, including $50 million of targeted relief to approximately 100,000 small business customers.

Social unrest risk — Insurance risk

Risk we are facing

Social unrest was on the rise this year sparking movements to address police brutality and systemic racism both in North America and around the world. The list of potential catalysts for social unrest has also been increasing: COVID-19 pandemic, movements for social justice, U.S. elections, the economic downturn and income inequality, and climate change inaction could all spark further unrest and violence.

Potential impact

Social unrest events in high-density areas could result in material losses on our automobile and property business.

Social unrest could also disrupt our operations and affect the security of our employees.

How we manage this risk

We stress tested the company against a severe social unrest scenario. We concluded that Intact has sufficient capital to absorb losses despite a material decline in underwriting income and lower regulatory capital levels prior to management actions. A series of actions were identified to help mitigate the impact of this risk including, but not limited to:

- preparing to ensure operations remain resilient; and
- developing a framework to monitor the evolution of this risk.

Third party risk — Operational risk

Risk we are facing

The acceleration of digitalization has increased the reliance on third parties and increases the risk of disruption to our operations. Work-from-home context has increased our reliance on critical utilities/communications infrastructures. Moreover, the economic downturn increases supplier failure risk, adds pressure on supply chain quality of service and capacity.

Potential impact

Our third parties may face internal and external incidents that could compromise the confidentiality of our information and/or limit the service level.

Widespread power grid, internet or phone failure could limit our operations, impact our customer support and lead to substantial reputational damages. Depending on the length of the failure, important opportunity costs could also be incurred.

How we manage this risk

We manage third party risk along the life cycle of our arrangements, i.e. from planning, due diligence, contractual commitment, ongoing management and termination. We have deployed tools to help assessing how third parties manage our information and what controls they have in place. Levels of monitoring and mitigation are directly proportional to the level of criticality of each third party.

In the context of the pandemic, we have increased the level of monitoring of our most critical third parties and our supply chain providers. We are currently reviewing our operational resilience against potential outages of critical infrastructure.

Our cyber insurance could also mitigate a portion of the financial impact in the event of a third-party incident affecting our operations.

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. We devote an important 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. Intact ventures continue to invest in a self-driving start-ups such as Voyage Auto and Gatik AI, 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.

31.7 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. 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. Communicable disease exclusions is an example of protection that has recently been added by most of our reinsurers. 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.

As the COVID-19 crisis continues to evolve, the extent to which it may impact our employees will depend on future developments including the effectiveness of measures to contain the spread of the virus, such as the retightening of lockdown measures, and the effective roll out of vaccinations.

Employee development, onboarding or knowledge transfer can prove challenging in the work-from-home environment. A stretch in resources and increased pace of some projects could lead to further employee fatigue, mental health issues, as well as loss of staff through disability, extended leaves, early retirement and turnover. High levels of employee engagement and robust human resource programs to support our employees helps mitigate this risk.

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. COVID-19) 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 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 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.

Our operational resilience has increased during the COVID-19 pandemic and a series of lessons learned were integrated. Further efforts in this regard will be taken in 2021.

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 25.2 – Managing leverage for more details on ratings.***

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.

As a result of the COVID-19 pandemic and financial market turbulence, many regulators (including Canada) have increased scrutiny on upstream dividend payments. In early 2020, we stress tested our ability to maintain dividend payments at the holding company level even if upstream dividends were severely restricted. The outcome of these stress tests was satisfactory.

Deferred tax assets

We have a deferred tax asset related to net operating loss carry forwards and tax credit carry forwards, that are subject to carry forward 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.

31.8 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 Financial Condition Testing (formerly Dynamic Capital Adequacy Testing) performed annually by the Appointed Actuary ***(see Section 25 – Capital management for details)***.

Our 2020 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.

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 32 - Off-balance sheet arrangements

32.1 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 $1,054 million as at December 31, 2020 ($1,286 million as at December 31, 2019).

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 $1,108 million as at December 31, 2020 ($1,353 million as at December 31, 2019).

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

Section 33 - 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 34 – Sensitivity analysis (after tax)

For the years ended December 31,			2020					2019
				Estimated split				
	Net income	OCI	BVPS	Canada	U.S.	Net income	OCI	BVPS
Equity price risk								
Common share prices (10% decrease)[1]	**11**	**(221)**	**(1.47)**	**73%**	**27%**	3	(241)	(1.66)
Preferred share prices (5% decrease)[2]	**12**	**(68)**	**(0.39)**	**100%**	**-**	11	(64)	(0.37)
Interest rate risk (100 basis point increase)								
Debt securities[3,4]	**(198)**	**(197)**	**(2.76)**	**66%**	**34%**	(182)	(170)	(2.46)
Net claims liabilities	**200**	**-**	**1.40**	**87%**	**13%**	184	-	1.29
Defined benefit pension plan obligation, net of related debt securities	**-**	**130**	**0.91**	**100%**	**-**	-	111	0.78
Currency risk[5]								
Strengthening of CAD by 10% vs all currencies								
International securities	**-**	**-**	**-**	**-**	**-**	-	(20)	(0.14)
Book value of foreign operations	**6**	**(196)**	**(1.33)**	**-**	**100%**	32	(236)	(1.43)
Currency derivatives related to RSA Acquisition[6]	**-**	**(283)**	**(1.98)**	**100%**	**-**	-	-	-
Strengthening of GBP by 10% vs EUR								
Currency derivatives related to RSA Acquisition	**(52)**	**-**	**(0.36)**	**100%**	**-**	-	-	-

[1] Including the impact of common shares related to the defined benefit pension plan. Net of any equity hedges, including the impact of any impairment.
[2] Including the impact on related embedded derivatives.
[3] Excludes the impact of debt securities related to the defined benefit pension plan.
[4] Interest rate sensitivity is based on the fixed-income portfolio, which comprises approximately 50% of both government-related and corporate-related securities.
[5] After giving effect to forward-exchange contracts.
[6] Effective January 18, 2021 the change in fair value of £2.1 billion ($3.6 billion) derivatives will be recognized in OCI, therefore the above table excludes losses of $22 million incurred in 2021 before that date. ***Refer to Note 8.3 – Currency hedging in relation with the RSA Acquisition of our Consolidated financial statements for more details.***

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 34 - Financial KPIs and definitions

34.1 Our financial KPIs

Our most relevant key performance indicators are outlined in the table below. ***See Section 36 – Non-IFRS financial measures for the reconciliation to the most comparable IFRS measures.***

		2020	2019	2018	2017	2016
Growth	DPW growth	**9.1%**	9.5%	15.6%	5.5%	4.8%
	DPW growth in constant currency	**8.7%**	9.1%	15.4%	5.5%	4.8%
Underwriting performance	Underlying current year loss ratio	**55.5%**	62.4%	63.8%	64.5%	64.8%
	Claims ratio	**57.8%**	66.0%	65.3%	65.4%	64.9%
	Expense ratio	**31.3%**	29.4%	29.8%	28.9%	30.4%
	Combined ratio	**89.1%**	95.4%	95.1%	94.3%	95.3%
Consolidated performance	Underwriting income	**1,227**	465	474	486	375
	Net investment income	**577**	576	541	448	429
	Distribution EBITA and Other	**275**	209	175	158	134
	NOI	**1,471**	905	839	771	660
	NOIPS (in dollars)	**9.92**	6.16	5.74	5.60	4.88
	OROE	**18.4%**	12.5%	12.1%	12.9%	12.0%
	ROE	**12.8%**	10.0%	9.9%	12.8%	9.6%
	AROE	**15.0%**	11.4%	11.8%	13.0%	11.0%
	EPS (in dollars)	**7.20**	5.08	4.79	5.75	3.97
	AEPS (in dollars)	**8.48**	5.75	5.70	5.82	4.53
Financial strength	BVPS (in dollars)	**58.79**	53.97	48.73	48.00	42.72
	MCT (Canada)	**224%**	198%	201%	205%	218%
	RBC (U.S.)	**469%**	457%	377%	459%	n/a
	Total capital margin	**2,729**	1,222	1,333	1,135	970
	Debt-to-total capital ratio	**24.1%**	21.3%	22.0%	23.1%	18.6%

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

Section 35 - 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 35 – Non-operating results

	Q4-2020	Q4-2019	Change	2020	2019	Change
Net gains (losses)						
Gains (losses) excluding FVTPL bonds *(Table 11)*	**53**	16	37	**(55)**	50	(105)
Realized and unrealized gains (losses) on FVTPL bonds	**(7)**	(47)	40	**237**	115	122
Positive (negative) impact of MYA on underwriting	**(23)**	35	(58)	**(315)**	(125)	(190)
Amortization of intangible assets recognized in business combinations	**(40)**	(34)	(6)	**(154)**	(107)	(47)
Acquisition, integration and restructuring costs	**(53)**	(31)	(22)	**(115)**	(57)	(58)
Non-operating pension expense	**(13)**	(12)	(1)	**(53)**	(48)	(5)
Underwriting results of exited lines[1]	**(39)**	(34)	(5)	**(62)**	(66)	4
Other	**(3)**	(2)	(1)	**(18)**	(19)	1
Non-operating gains (losses)	**(125)**	(109)	(16)	**(535)**	(257)	(278)
Income tax recovery (expense) on the above items	**34**	24	10	**144**	84	60
Deferred income tax benefit recognized[2]	**2**	22	(20)	**2**	22	(20)
After-tax non-operating gains (losses)	**(89)**	(63)	(26)	**(389)**	(151)	(238)

[1] Included an underwriting loss of $5 million in Q4-2020 and 2020 relating to the BC exit, effective in Q4-2020.

[2] ***See Note 24 – Income taxes 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.
- **Acquisition, integration and restructuring costs** include items such as acquisition-related expenses, severances, retention bonuses, system integration costs, changes in the fair value of the contingent considerations, as well as expenses related to the implementation of significant new accounting standards.
- The **non-operating pension expense** represents the difference between the asset return (interest income on plan assets) calculated using the expected return on plan assets versus the IFRS discount rate. The expected return better reflects our operating performance given our internal investment management expertise and the composition of our pension asset portfolio.
- **Underwriting results of exited lines** included the results of the U.S. Commercial's business Programs, Architects and Engineers, Healthcare (effective July 1, 2019), as well as BC auto exit (effective in Q4-2020).

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

Section 36 - 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 36.1)*: 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 36.2)*: 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.

36.1 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.

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

	Q4-2020	Q4-2019	2020	2019
DPW, as reported under IFRS	**2,930**	2,696	**12,143**	11,019
Remove: impact of industry pools and fronting	**(41)**	(39)	**(119)**	(141)
Remove: DPW of exited lines	**(17)**	(10)	**(21)**	(29)
DPW (full term)	**2,872**	2,647	**12,003**	10,849
Add impact of the normalization for multi-year policies	**-**	23	**36**	200
DPW, as reported in the MD&A	**2,872**	2,670	**12,039**	11,049
DPW growth	**8%**	12%	**9%**	9%
DPW growth (in constant currency)	**8%**	12%	**9%**	9%

Underwriting income (loss)

Table 37 – Reconciliation of underwriting expenses to underwriting expenses, as reported under IFRS

	Q4-2020	Q4-2019	2020	2019
Underwriting income, as reported under IFRS[1] *(Table 41)*	**340**	225	**797**	233
Remove: underwriting results of The Guarantee reported in Other income	**-**	(7)	**-**	(7)
Sub total *(Table 41)*	**340**	218	**797**	226
Remove: impact of MYA on underwriting results	**23**	(35)	**315**	125
Remove: non-operating pension expense	**13**	12	**53**	48
Remove: underwriting loss of exited lines	**39**	34	**62**	66
Underwriting income (loss), as reported in the MD&A	**415**	229	**1,227**	465
NEP, as reported in the MD&A *(Table 38)*	**2,879**	2,692	**11,220**	10,211
Combined ratio	**85.6%**	91.5%	**89.1%**	95.4%

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

	Q4-2020	Q4-2019	2020	2019
NEP, as reported under IFRS	**2,899**	2,730	**11,241**	10,275
Remove: NEP of The Guarantee included in Other income	**-**	(32)	**-**	(32)
Remove: NEP of exited lines[1]	**(20)**	(6)	**(21)**	(32)
NEP, as reported in the MD&A	**2,879**	2,692	**11,220**	10,211
Remove: reinstatement premiums ceded (recovered)	**-**	-	**1**	-
NEP, before reinstatement premiums	**2,879**	2,692	**11,221**	10,211
Net claims incurred, as reported under IFRS	**1,664**	1,700	**6,883**	6,989
Remove: impact of MYA on underwriting results	**(23)**	35	**(315)**	(125)
Remove: adjustment for non-operating pension expense	**(5)**	(5)	**(20)**	(20)
Remove: net claims of exited lines	**(51)**	(37)	**(71)**	(88)
Remove: net claims of The Guarantee	**-**	(10)	**-**	(10)
Total net claims, as reported in the MD&A	**1,585**	1,683	**6,477**	6,746
Remove: current year CAT claims	**(74)**	(115)	**(359)**	(366)
Remove: PYD	**28**	39	**100**	-
Current year claims (excluding CATs and PYD)	**1,539**	1,607	**6,218**	6,380
NEP, before reinstatement premiums	**2,879**	2,692	**11,221**	10,211
Underlying current year loss ratio	**53.5%**	59.7%	**55.5%**	62.4%
CAT loss ratio (including reinstatement premiums)	**2.6%**	4.3%	**3.2%**	3.6%
(Favourable) unfavourable PYD ratio ***(see Table 39 below)*** [2]	**(1.0)%**	(1.4)%	**(0.9)%**	-%
Claims ratio	**55.1%**	62.6%	**57.8%**	66.0%

[1] Included the impact of the loss portfolio transfer and prospective quota share reinsurance contract in Q4-2019 ***(see Section 23.2 – Reinsurance for details)***.

[2] Calculated using NEP, as reported in the MD&A.

Prior year claims development (PYD)

Table 39 – Reconciliation of PYD to prior year claims development, as reported under IFRS

	Q4-2020	Q4-2019	2020	2019
(Favourable) unfavourable PYD, as reported under IFRS	**11**	(29)	**(41)**	36
Remove: unfavourable PYD of exited lines	**(39)**	(10)	**(59)**	(36)
(Favourable) unfavourable PYD, as reported in the MD&A	**(28)**	(39)	**(100)**	-
NEP, as reported in the MD&A	**2,879**	2,692	**11,220**	10,211
(Favourable) unfavourable PYD ratio	**(1.0)%**	(1.4)%	**(0.9)%**	-

Underwriting expenses

Table 40 – Reconciliation of underwriting expenses to underwriting expenses, as reported under IFRS

	Q4-2020	Q4-2019	2020	2019
Underwriting expenses, as reported under IFRS	**932**	837	**3,696**	3,172
Net with: other underwriting revenues	**(36)**	(32)	**(135)**	(119)
Remove: adjustment for non-operating pension expense	**(8)**	(7)	**(33)**	(28)
Remove: underwriting expenses of exited lines	**(9)**	(3)	**(12)**	(10)
Remove: underwriting expenses of The Guarantee	**-**	(15)	**-**	(15)
Underwriting expenses, MD&A basis	**879**	780	**3,516**	3,000
NEP, as reported in the MD&A	**2,879**	2,692	**11,220**	10,211
Expense ratio	**30.5%**	28.9%	**31.3%**	29.4%

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

36.2 Consolidated performance

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

- Distribution EBITA and Other 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, Frank Cowan (a specialty MGA in Canada) and On Side (a Canadian restoration firm).
- 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 41 – 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 income (expense)[1]**	**Total income taxes**	**Non-operating losses[2]**	**Operating income**	**Total F/S caption**
For the quarter ended December 31, 2020							
Other revenues	**82**	**-**	**9**	**-**	**-**	**-**	**91**
Share of profits from invest. in ass. & JV	**32**	**(3)**	**-**	**(5)**	**(7)**	**-**	**17**
Other expenses	**(42)**	**-**	**(7)**	**-**	**(36)**	**-**	**(85)**
Finance costs	**-**	**(29)**	**-**	**-**	**-**	**-**	**(29)**
Underwriting income	**-**	**-**	**-**	**-**	**-**	**340**	**340**
Income tax recovery (expense)	**-**	**-**	**-**	**(92)**	**-**	**-**	**(92)**
Total, as reported in MD&A	**72**	**(32)**	**2**	**(97)**			
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[1] *(Table 37)*	-	-	7	-	-	218	225
Income tax recovery (expense)	-	-	-	(34)	-	-	(34)
Total, as reported in MD&A	45	(28)	(2)	(37)			
For the years ended December 31, 2020							
Other revenues	**309**	**-**	**18**	**-**	**-**		**327**
Share of profits from invest. in ass. & JV	**121**	**(11)**	**-**	**(22)**	**(36)**		**52**
Other expenses	**(155)**	**-**	**(55)**	**-**	**(136)**		**(346)**
Finance costs	**-**	**(115)**	**-**	**-**	**-**		**(115)**
Underwriting income	**-**	**-**	**-**	**-**	**-**	**797**	**797**
Income tax recovery (expense)	**-**	**-**	**-**	**(277)**	**-**		**(277)**
Total, as reported in MD&A	**275**	**(126)**	**(37)**	**(299)**			
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[1] *(Table 37)*	-	-	7	-	-	226	233
Income tax recovery (expense)	-	-	-	(79)	-	-	(79)
Total, as reported in MD&A	209	(120)	(23)	(96)			

[1] Other income included underwriting results of the Guarantee from December 2, 2019 (closing date) in 2019.

[2] Comprised of $40 million relating to amortization of intangible assets recognized in business combinations and $3 million to other non-operating results for Q4-2020 ($34 million and $2 million respectively for Q4-2019) and $154 million and $18 million respectively for the full year 2020 ($107 million and $19 million respectively for the full year 2019).

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 and Other), which is on a pre-tax basis.

Table 42 – Reconciliation of income before income taxes under IFRS to income before income taxes (MD&A)

	Q4-2020	Q4-2019	2020	2019
Income before income taxes, as reported under IFRS	**470**	274	**1,359**	833
Add: share of income tax expense of broker associates	**5**	3	**22**	17
Income before income taxes, as reported in the MD&A	**475**	277	**1,381**	850
Income tax benefit (expense), as reported in the MD&A ***(table 34)***	**(97)**	(37)	**(299)**	(96)
Net income	**378**	240	**1,082**	754
Effective income tax rate, as reported in the MD&A	**20.4%**	13.4%	**21.7%**	11.3%

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 43 – Reconciliation of ROE to net income

	Q4-2020	Q4-2019	2020	2019
Net income	**378**	240	**1,082**	754
Remove: preferred share dividends	**(13)**	(11)	**(52)**	(45)
Net income attributable to common shareholders	**365**	229	**1,030**	709
Net income attributable to common shareholders for the last 12 months	**1,030**	709		
Average common shareholders' equity	**8,064**	7,057		
ROE for the last 12 months	**12.8%**	10.0%		

NOI, NOIPS and OROE

- Exclude non-operating results ***(see Section 35 – Non-operating results for details)***.

Table 44 – Reconciliation of NOI, NOIPS and OROE to net income

	Q4-2020	Q4-2019	2020	2019
Net income	**378**	240	**1,082**	754
Remove: income tax expense (benefit), as reported in the MD&A ***(table 35)***	**97**	37	**299**	96
Remove: non-operating losses (gains)	**125**	109	**535**	257
Pre-tax operating income	**600**	386	**1,916**	1,107
Operating income tax benefit (expense)	**(133)**	(83)	**(445)**	(202)
NOI	**467**	303	**1,471**	905
Remove: preferred share dividends	**(13)**	(11)	**(52)**	(45)
NOI to common shareholders	**454**	292	**1,419**	860
Divided by weighted-average number of common shares (in millions)	**143.0**	140.4	**143.0**	139.5
NOIPS, basic and diluted (in dollars)	**3.18**	2.08	**9.92**	6.16
NOI to common shareholders for the last 12 months	**1,419**	860		
Average common shareholders' equity, excluding AOCI	**7,697**	6,874		
OROE for the last 12 months	**18.4%**	12.5%		

AEPS and AROE

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

Table 45 – Reconciliation of AEPS and AROE to net income

	Q4-2020	Q4-2019	2020	2019
Net income	**378**	240	**1,082**	754
Adjustments, net of tax				
Remove: amortization of intangibles recognized in business combinations	**30**	26	**117**	81
Remove: acquisition and integration costs	**41**	22	**79**	40
Remove: impact of deferred income tax benefit recognized	**(2)**	(22)	**(2)**	(22)
Remove: net gain on currency derivative economic hedges related to the RSA Acquisition	**(16)**	-	**(16)**	-
Remove: foreign currency gain on an intercompany loan	**-**	(6)	**-**	(6)
Remove: impact of tax adjustments on prior-year acquisition-related items	**2**	-	**5**	-
Adjusted net income	**433**	260	**1,265**	847
Remove: preferred share dividends	**(13)**	(11)	**(52)**	(45)
Adjusted net income attributable to common shareholders	**420**	249	**1,213**	802
Divided by weighted-average number of common shares (in millions)	**143.0**	140.4	**143.0**	139.5
AEPS, basic and diluted (in dollars)	**2.94**	1.77	**8.48**	5.75
Adjusted net income attributable to common shareholders for the last 12 months	**1,213**	802		
Average common shareholders' equity	**8,064**	7,057		
AROE for the last 12 months	**15.0%**	11.4%		

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

Section 37 - 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*

37.1 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
COVID-19 pandemic	*Note 3.2*	Impairment of financial assets	*Note 23.2*
Business combinations	*Note 5.2*	Measurement of income taxes	*Note 24.3*
Valuation of claims liabilities	*Note 11.3*	Valuation of DB obligation	*Note 27.6*
Impairment of goodwill and intangible assets	*Note 15.2*		

37.2 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 pension 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 pension plans comprise the contributions paid to these plans.

See Note 30 – Related-party transactions to the Consolidated financial statements for additional information.

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

37.4 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***

37.5 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, 2020. 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.

37.6 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 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, 2020.

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 2020 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 38 - Shareholder information

38.1 Authorized share capital and outstanding share data

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

Table 46 – Outstanding share data (number of shares)

As at February 8, 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**
Series 9 preferred shares[1]	**6,000,000**

[1] Series 9 preferred shares were issued on February 18, 2020 ***(See Section 25 – Capital management)***.

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.

38.2 Quarterly dividends declared on common shares and preferred shares

Table 47 – Dividends declared per share

	Q1-2021	Q4-2020
Common shares	**0.83**	**0.83**
Class A		
Series 1 preferred shares	**0.21225**	**0.21225**
Series 3 preferred shares	**0.20825**	**0.20825**
Series 4 preferred shares (floating rate)	**0.1706925**	**0.1765225**
Series 5 preferred shares	**0.325**	**0.325**
Series 6 preferred shares	**0.33125**	**0.33125**
Series 7 preferred shares	**0.30625**	**0.30625**
Series 9 preferred shares	**0.3375**	**0.3375**

[1] On February 9, 2021, the Board of Directors approved the quarterly dividend for Q1-2021. ***See Section 25.6 - Increase common shareholder dividends for more information.***

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

Section 39 - Selected annual and quarterly information

39.1 Selected annual information

Table 48 – Selected annual information

	2020	2019	2018
DPW	**12,039**	11,049	10,090
Total revenue[1]	**12,147**	11,056	10,426
Underwriting income[2]	**1,227**	465	474
Net income	**1,082**	754	707
EPS, basic and diluted (in dollars)	**7.20**	5.08	4.79
Cash dividends declared per share (in dollars)			
Common shares	**3.32**	3.04	2.80
Class A			
Series 1 Preferred Shares	**0.85**	0.85	0.85
Series 3 Preferred Shares	**0.83**	0.83	0.83
Series 4 Preferred Shares (floating rate)	**0.89**	1.08	0.97
Series 5 Preferred Shares	**1.30**	1.30	1.30
Series 6 Preferred Shares	**1.33**	1.33	1.33
Series 7 preferred shares	**1.23**	1.23	0.72
Series 9 preferred shares	**1.17**	-	-

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

[2] *See Section 36 – Non-IFRS financial measures.*

Table 49 – Selected annual information

As at December 31,	2020	2019	2018
Investments	**20,630**	18,608	16,897
Total assets	**35,119**	32,292	28,461
Debt outstanding	**3,041**	2,362	2,209
Shareholders' equity	**9,583**	8,747	7,810

39.2 Selected quarterly information

Table 50 – Selected quarterly information[1]

				2020				2019
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
DPW	**2,872**	**3,264**	**3,382**	**2,521**	2,670	3,012	3,152	2,215
Total revenue[2]	**3,120**	**3,092**	**2,939**	**2,996**	2,957	2,775	2,699	2,625
NEP	**2,879**	**2,863**	**2,712**	**2,766**	2,692	2,581	2,500	2,438
Current year CAT losses	**74**	**24**	**124**	**137**	115	53	70	128
Favourable PYD	**(28)**	**(17)**	**(3)**	**(52)**	(39)	(11)	64	(14)
Underwriting income	**415**	**369**	**284**	**159**	229	198	75	(37)
Combined ratio	**85.6%**	**87.1%**	**89.5%**	**94.3%**	91.5%	92.3%	97.0%	101.5%
Net investment income	**143**	**143**	**141**	**150**	142	146	148	140
Distribution EBITA and Other	**72**	**81**	**78**	**44**	45	56	72	36
NOI	**467**	**411**	**350**	**243**	303	277	212	113
Net income	**378**	**334**	**263**	**107**	240	187	168	159
Per share measures, basic and diluted (in dollars)								
NOIPS	**3.18**	**2.78**	**2.35**	**1.61**	2.08	1.91	1.44	0.73
EPS	**2.55**	**2.25**	**1.74**	**0.66**	1.63	1.26	1.13	1.06

[1] *See Section 36 – Non-IFRS financial measures.*

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

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

39.3 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. In 2020, our underwriting performance was impacted by the COVID-19 crisis, resulting overall in lower claims frequency despite $106 million of COVID-19 CAT losses in Canada and the U.S., of which $83 million was recorded in Q1-2020 and $23 million in Q4-2020.

The tables below present the unfavourable (favourable) seasonality indicators, in points of combined ratio, of the P&C Canadian insurance business. For instance, Q1-2020 saw a higher combined ratio (including and excluding CAT losses) than the other quarters, meaning that underwriting results were relatively less profitable in Q1-2020.

Table 51 – Seasonal indicator, including CAT losses

	2020	2019	2018	2017	2016	3-year average	5-year average	10-year average
Q1	**5.9 pts**	7.1 pts	4.7 pts	4.1 pts	(2.9) pts	5.9 pts	3.8 pts	2.1 pts
Q2	**1.0 pts**	1.4 pts	1.3 pts	0.8 pts	4.1 pts	1.2 pts	1.7 pts	1.0 pts
Q3	**(2.3) pts**	(4.4) pts	(1.3) pts	(2.5) pts	1.7 pts	(2.7) pts	(1.8) pts	0.1 pts
Q4	**(4.6) pts**	(4.1) pts	(4.7) pts	(2.4) pts	(2.9) pts	(4.4) pts	(3.7) pts	(3.2) pts

Table 52 – Seasonal indicator, excluding CAT losses

	2020	2019	2018	2017	2016	3-year average	5-year average	10-year average
Q1	**5.2 pts**	5.2 pts	7.0 pts	3.7 pts	1.2 pts	5.8 pts	4.5 pts	3.8 pts
Q2	**(1.0) pts**	2.5 pts	(2.0) pts	(0.5) pts	(0.4) pts	(0.2) pts	(0.3) pts	(0.7 pts)
Q3	**0.1 pts**	(2.6) pts	(2.4) pts	(3.2) pts	(1.4) pts	(1.6) pts	(1.9) pts	(2.2) pts
Q4	**(4.3) pts**	(5.1) pts	(2.6) pts	- pts	0.6 pts	(4.0) pts	(2.3) pts	(0.9) pts

39.4 Expected release dates of our financial results

Q1-2021	Q2-2021	Q3-2021	Q4-2021
May 11, 2021	July 27, 2021	November 9, 2021	February 8, 2022

Section 40 - Glossary and definitions

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

40.1 Glossary of abbreviations

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

40.2 Definitions of our financial KPIs

Our most relevant key performance indicators are defined below. ***See Section 36 – 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, as well as acquisition and integration costs.
- **NOI, NOIPS** and **OROE** are **operating measures**, as they exclude non-operating items detailed in ***Section 35 – Non-operating results.***
- **EPS** and **ROE** are **IFRS measures**, as their definition is determined in accordance with IFRS.

Growth	**DPW growth** for a specific period	$\dfrac{\text{DPW for a specified period} - \text{DPW for the previous year}}{\text{DPW for the previous year}}$	**Written insured risks growth** for a specific period	$\dfrac{\text{\# of vehicles and premises in personal insurance} - \text{Total \# for the previous year}}{\text{Total \# for the previous year}}$

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

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

Consolidated performance	**Net investment income** for a specific period	As detailed in *Table 10 – 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[3] / Average common shareholders' equity[4]
	NOI for a specific period	As detailed in *Table 44 – 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[5]	**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[6] / 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 (165% MCT, 200% RBC) plus available cash and investments 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

[3] Net income is determined in accordance with IFRS.
[4] Average shareholders' equity is the mean of shareholders' equity at the beginning and the end of the period, adjusted on a prorata basis (number of days) for significant capital transactions, if appropriate. Shareholder's equity is determined in accordance with IFRS.
[5] Weighted-average number of common shares outstanding on a daily basis during the same period.
[4] Shareholder's equity is determined in accordance with IFRS.

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

- 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 35 – Non-operating results for details on exited lines and Table 36 for the reconciliation*** to DPW, as reported under IFRS.
- Unless otherwise noted, all underwriting results and related ratios exclude the MYA, as well as the results of exited lines, including those of our BC Auto effective in Q4-2020, with no restatement of comparatives. The expense and general expense ratios are presented herein net of other underwriting revenues.
- 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 claims frequency with specific weather events, and also by considering the underlying cause of claims.
- 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 (CALs) in regulated entities plus available cash and investments in unregulated entities. The CAL is 165% MCT for most Canadian insurance subsidiaries effective April 1, 2020 and going forward (previously 170% MCT) and 200% RBC and other CALs in other jurisdictions.

Intact Financial Corporation

Consolidated financial statements

For the year ended December 31, 2020

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 Chief Actuarial Officer, 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 9, 2021

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, 2020 and 2019, 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, 2020 and 2019, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of claims liabilities

The Group describes its significant accounting judgments, estimates and assumptions in relation to the valuation of claims liabilities in Note 3 and Note 11 to the consolidated financial statements. As at December 31, 2020, the Group has recognized $12,780 million in claims liabilities on its consolidated balance sheet, which represent 50% of its total liabilities.

The principal consideration for our determination that claims liabilities are a key audit matter is that the estimate of the provision involves the application of models, methodologies, and assumptions that require significant judgment. As a result, the audit of claims liabilities requires significant judgment and the involvement of specialists. Claims liabilities are determined in accordance with generally accepted actuarial practices. The main assumption underlying these estimates is that the Group's past claims development experience can be used to project future claims development. As such, actuarial claims projection techniques extrapolate the development of paid and incurred losses, frequency and severity of claims based on the observed development of earlier years and expected loss ratios. 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.

In 2020, the consequences of COVID-19 and the lack of historical data for similar circumstances impacted management's determination of claims liabilities for certain lines of business and required the application of heightened judgment. As a result, claims liabilities have a higher than usual degree of estimation uncertainty and inputs used are inherently subject to change, which may materially change the estimate of claims liabilities in future periods.

Our audit procedures related to the determination of claims liabilities were conducted with the support of our actuarial specialists and included the following, among other procedures:

- Evaluating the objectivity, independence and expertise of the actuarial valuator appointed by management;
- Testing the design and operating effectiveness of selected key controls related to the Group's claims process, including controls over the integrity of data flow through the Group's administration systems;
- Performing an independent valuation of claims liabilities for a sample of lines of business that reflects our expectations based on the Group's historical experience, current trends, and benchmarking to our industry knowledge including information relating to forthcoming legislation and the consequences of COVID-19 that may affect claims settlement speed or amount. The high degree of uncertainty due to COVID-19 led to a high degree of auditor judgment;
- Obtaining an understanding of the Group's actuarial methodologies and assessing whether they are determined in accordance with generally accepted actuarial practices;
- Performing data integrity testing of incurred claims, paid claims, and earned premiums used in the valuation of claims liabilities; and
- Assessing the adequacy of the disclosures pertaining to the claims liabilities provided in notes to the consolidated financial statements.

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.

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 9, 2021

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

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INTACT FINANCIAL CORPORATION

Consolidated financial statements
For the year ended December 31, 2020

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Notes to the Consolidated financial statements

INTACT FINANCIAL CORPORATION

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

As at December 31,	Note	2020	2019
Assets			
Investments	6		
Cash and cash equivalents		**$ 917**	$ 936
Debt securities		**14,098**	11,826
Preferred shares		**1,552**	1,465
Common shares		**3,779**	4,063
Loans		**284**	318
Investments		**20,630**	18,608
Premiums receivable		**3,822**	3,588
Reinsurance assets	14	**1,533**	1,511
Income taxes receivable		**7**	14
Deferred tax assets	24	**179**	175
Deferred acquisition costs		**1,089**	1,026
Other assets	18	**1,201**	968
Investments in associates and joint ventures	16	**811**	715
Property and equipment	17	**520**	538
Intangible assets	15	**2,514**	2,523
Goodwill	15	**2,813**	2,626
Total assets		**$ 35,119**	$ 32,292
Liabilities			
Claims liabilities	11	**$ 12,780**	$ 11,846
Unearned premiums	12	**6,256**	5,960
Financial liabilities related to investments	7	**89**	295
Income taxes payable		**149**	150
Deferred tax liabilities	24	**279**	286
Other liabilities	18	**2,942**	2,646
Debt outstanding	19	**3,041**	2,362
Total liabilities		**25,536**	23,545
Shareholders' equity			
Common shares	20	**3,265**	3,265
Preferred shares	20	**1,175**	1,028
Contributed surplus		**187**	170
Retained earnings		**4,547**	3,959
Accumulated other comprehensive income			
Available-for-sale securities		**412**	275
Translation of foreign operations, net of hedges		**(2)**	46
Other		**(1)**	4
		9,583	8,747
Total liabilities and shareholders' equity		**$ 35,119**	$ 32,292

See accompanying notes to the Consolidated financial statements.

On behalf of the Board:

Charles Brindamour
Director

Jane E. Kinney
Director

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

For the years ended December 31,	Note	2020	2019
Direct premiums written		**$ 12,143**	$ 11,019
Premiums ceded		**(527)**	(443)
Net premiums written		**11,616**	10,576
Changes in unearned premiums		**(375)**	(301)
Net earned premiums		**11,241**	10,275
Other underwriting revenues		**135**	119
Investment income	22		
Interest income		**358**	374
Dividend income		**242**	225
Other revenues		**327**	214
Total revenues		**12,303**	11,207
Net claims incurred	11	**(6,883)**	(6,989)
Underwriting expenses		**(3,696)**	(3,172)
Investment expenses		**(23)**	(23)
Net gains (losses)	23	**182**	165
Share of profit from investments in associates and joint ventures	16	**52**	31
Finance costs		**(115)**	(110)
Acquisition, integration and restructuring costs		**(115)**	(57)
Other expenses		**(346)**	(219)
Income before income taxes		**1,359**	833
Income tax expense	24	**(277)**	(79)
Net income attributable to shareholders		**$ 1,082**	$ 754
Weighted-average number of common shares outstanding (in millions)	25	**143.0**	139.5
Earnings per common share, basic and diluted (in dollars)	25	**$ 7.20**	$ 5.08
Dividends paid per common share (in dollars)	20	**$ 3.32**	$ 3.04

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	2020	2019
Net income attributable to shareholders		**$ 1,082**	$ 754
Other comprehensive income (loss)			
Available-for-sale securities:			
net changes in unrealized gains (losses)		**204**	550
income tax benefit (expense)		**(41)**	(127)
reclassification of net losses (gains)		**(27)**	(34)
income tax (benefit) expense		**1**	8
		137	397
Foreign exchange gains (losses) on:			
translation of foreign operations		**(105)**	(217)
net investment hedges		**55**	97
income tax benefit (expense)		**2**	-
		(48)	(120)
Other, net of tax		**(5)**	7
Items that may be reclassified subsequently to net income		**84**	284
Net actuarial gains (losses) on employee future benefits	*27*	**59**	(71)
income tax benefit (expense)		**(15)**	18
Items that will not be reclassified subsequently to net income		**44**	(53)
Other comprehensive income (loss)		**128**	231
Total comprehensive income attributable to shareholders		**$ 1,210**	$ 985

See accompanying notes to the Consolidated financial statements.

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, 2020		**$ 3,265**	**$ 1,028**	**$ 170**	**$ 3,959**	**$ 325**	**$ 8,747**
Net income attributable to shareholders		**-**	**-**	**-**	**1,082**	**-**	**1,082**
Other comprehensive income (loss)		**-**	**-**	**-**	**44**	**84**	**128**
Total comprehensive income (loss)		**-**	**-**	**-**	**1,126**	**84**	**1,210**
Preferred shares issued	*20*	**-**	**147**	**-**	**-**	**-**	**147**
Dividends declared on:							
common shares	*20*	**-**	**-**	**-**	**(475)**	**-**	**(475)**
preferred shares	*20*	**-**	**-**	**-**	**(52)**	**-**	**(52)**
Share-based payments	*26*	**-**	**-**	**17**	**(11)**	**-**	**6**
Balance as at December 31, 2020		**$ 3,265**	**$ 1,175**	**$ 187**	**$ 4,547**	**$ 409**	**$ 9,583**
Balance as at January 1, 2019		$ 2,816	$ 1,028	$ 149	$ 3,776	$ 41	$ 7,810
Impact of the adoption of IFRS 16		-	-	-	(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

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Consolidated statements of cash flows

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

For the years ended December 31,	Note	2020	2019
Operating activities			
Income before income taxes		**$ 1,359**	$ 833
Income taxes received (paid), net		**(348)**	(3)
Contributions to the defined benefit pension plans	*27*	**(51)**	(47)
Share-based payments		**(7)**	(7)
Net losses (gains)	*23*	**(182)**	(165)
Adjustments for non-cash items	*29*	**437**	363
Changes in other operating assets and liabilities	*29*	**257**	125
Changes in net claims liabilities	*11*	**887**	191
Net cash flows provided by (used in) operating activities		**2,352**	1,290
Investing activities			
Business combinations, net of cash acquired	*5*	**-**	(731)
Proceeds from sale of investments		**11,170**	10,432
Purchases of investments		**(13,262)**	(10,322)
Purchases of brokerages and other equity investments, net		**(187)**	(104)
Purchases of intangibles and property and equipment, net		**(163)**	(117)
Net cash flows provided by (used in) investing activities		**(2,442)**	(842)
Financing activities			
Payment of lease liabilities		**(59)**	(51)
Payment of contingent consideration related to a business combination	*5*	**(94)**	-
Proceeds from (repurchase of) securities sold under repurchase agreements	*7*	**(20)**	20
Proceeds from issuance of debt, net of issuance costs	*19*	**894**	266
Repayment of debt	*19*	**(47)**	(250)
Borrowing (repayment) on the credit facility, net	*19*	**(165)**	145
Proceeds from issuance of common shares, net of issuance costs	*20*	**-**	444
Proceeds from issuance of preferred shares, net of issuance costs	*20*	**146**	-
Repurchase of common shares for share-based payments	*26*	**(49)**	(43)
Payment of dividends on common shares	*20*	**(475)**	(429)
Payment of dividends on preferred shares	*20*	**(52)**	(45)
Net cash flows provided by (used in) financing activities		**79**	57
Net increase (decrease) in cash and cash equivalents		**(11)**	505
Cash and cash equivalents, beginning of year		**936**	442
Exchange rate differences on cash and cash equivalents		**(8)**	(11)
Cash and cash equivalents, end of year		**$ 917**	$ 936
Composition of cash and cash equivalents			
Cash		**844**	269
Cash equivalents		**73**	667
Cash and cash equivalents, end of year		**917**	936
Other relevant cash flow disclosures – operating activities			
Interest paid		**115**	117
Interest received		**353**	384
Dividends received		**268**	246

See accompanying notes to the Consolidated financial statements.

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. Effective February 18, 2020, OneBeacon Insurance Group Holdings, Ltd. was renamed Intact Insurance Group USA Holdings Inc. (referred to as "Intact U.S. (OneBeacon)"). On November 18, 2020, the Company announced the proposed acquisition of RSA Insurance Group plc ("RSA"), referred to as the "RSA acquisition". ***See Note 5.1 – Business combinations for more details.***

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

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
DKK (kr.)	Danish krone, Denmark's official currency	**NEP**	Net earned premiums
DPW	Direct premiums written	**NOI**	Net operating income
DSU	Deferred share unit	**OCI**	Other comprehensive income
EBITA	Earnings before interest, taxes and amortization	**OSFI**	Office of the Superintendent of Financial Institutions
EPS	Earnings per share to common shareholders	**P&C**	Property and casualty
ESPP	Employee share purchase plan	**PSU**	Performance stock units
EUR (€)	Currency of the European Union	**PTOI**	Pre-tax operating income
FA	Facility Association	**RBC**	Risk-based capital (U.S.)
FVTOCI	Fair value through other comprehensive income	**ROE**	Return on equity
FVTPL	Fair value through profit and loss	**RSP**	Risk sharing pools
GBP (£)	British pound sterling, UK's official currency	**RSU**	Restricted stock units
IASB	International Accounting Standards Board	**UK**	United Kingdom
IBNR	Insurance claims incurred but not reported by policyholders	**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 9, 2021.

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 amendments to existing standards and revised Conceptual Framework adopted on January 1, 2020 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.

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.

Premium modifications are reported against premiums written with a corresponding change in Premiums receivable and are recognized on the contract modification date. Premium modifications are deferred as part of Unearned premiums and are recognized against NEP on a pro rata basis over the remaining term of the underlying policy or immediately if they clearly relate to past services to match the change in insurance risk.

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.

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

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. ***Refer to Note 2.4 b) (Level 3) hereafter for more details on the fair value measurement.***
	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.	
Designated as FVTPL on initial recognition	Debt securities backing 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 designated cash flow hedges and 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 Acquisition, 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 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, financial liabilities and the RSA acquisition ***(refer to Note 8.3 for more details).*** 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 when eligible for hedge accounting have been designated as cash flow hedges or net investment hedges in a foreign operation.

Net investment hedges – The Company uses foreign currency derivatives to manage its book value exposure to foreign operations with a functional currency other than CAD.

Cash flow hedges – The Company uses foreign currency derivatives to hedge the purchase price exposure to fluctuations in foreign exchange rates.

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.

Derivatives that qualify for hedge accounting

Where the Company has elected to apply hedge accounting, 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.

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 8 – Derivative financial instruments for details.

d) 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. ***Refer to Table 2.2 for the initial recognition of financial assets and financial liabilities.***

Securities lending – Financial assets lent by the Company in the course of securities lending operations remain on the Consolidated balance sheets 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 sheets 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 Other assets in the Consolidated balance sheets.

Securities sold in the course of repurchase agreements remain on the Consolidated balance sheets 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 sheets.

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 sheets. 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 sheets.

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 there is a change of control, any retained equity instrument is remeasured at fair value as at the acquisition or disposal date 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

Considering the COVID-19 crisis, the Company evaluated additional factors before concluding there was evidence of impairment ***(refer to Note 23.2 – Significant accounting judgments, estimates and assumptions).***

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, customer relationships, trade names 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 to 15 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	
	2020	**2019**	**2020**	**2019**
USD vs CAD	**1.27210**	1.29835	**1.34104**	1.32685
GBP vs CAD[1]	**1.73972**	n/a	**1.72588**	n/a
EUR vs CAD[1]	**1.55412**	n/a	**1.55619**	n/a

[1] Average rate period from November 18 to December 31, 2020 in relation to the RSA acquisition.

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

2.10 Leases

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.

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.

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 the North American P&C industry benchmark (for the three-year cycle ending in 2021 and 2022), 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.

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

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 Acquisition, integration and restructuring costs

Acquisition, integration and restructuring costs include items such as acquisition-related expenses, severances, retention bonuses, system integration, 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

3.1 Use of 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
COVID-19 pandemic	*Note 3.2*	Impairment of financial assets	*Note 23.2*
Business combinations	*Note 5.2*	Measurement of income taxes	*Note 24.3*
Valuation of claims liabilities	*Note 11.3*	Valuation of DB obligation	*Note 27.6*
Impairment of goodwill and intangible assets	*Note 15.2*		

3.2 COVID-19 pandemic

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. The magnitude of the impact of the COVID-19 crisis on the economy and financial markets continues to evolve while also contributing to increased market volatility and changes to the macroeconomic environment. The significant response from governments to support businesses and economies, as well as the earlier than expected release of multiple COVID-19 vaccines, led to a rebound in financial markets since the first quarter. While restrictions have eased for parts of the economy, the second wave of COVID-19 has increased uncertainty and has led to renewed lockdown measures. Until the crisis has passed and economies fully reopen, the Company expects financial markets to remain volatile.

The Company continues to manage the impact on its business and believes that its operations and financial position remain strong and that it is well positioned to deal with this crisis. Various scenarios and the potential impacts to the underwriting results were assessed. In addition, the effects of the COVID-19 crisis related to emerging coverage issues and claims, including certain class actions relating to business interruption coverage and related defence costs, as well as other indirect claims could negatively impact the Company's claims reserves. Regarding the class actions relating to business interruption coverage, most commercial policies, except in very limited instances, do not provide for business interruption coverage in the context of a closure due to COVID-19 since direct physical loss or damage is required to trigger this coverage. The Company plans to contest these class actions vigorously. In the event that these cases result in a significant judgment against the Company, the resulting liability could be material. Based on information currently known, the Company does not believe that the outcome of these cases will have a material impact on its consolidated financial condition, cash flows, or results of operations.

As the COVID-19 crisis continues to evolve, the extent to which it may impact the Company's operations will depend on future developments including the effectiveness of measures to contain the spread of the virus, such as the retightening of lockdown measures, the effective roll out of vaccinations and actions that will be taken by the governments and central banks to stabilize economic conditions. Consequently, the Company's financial results will be subject to volatility. The increased uncertainty required management to use judgements, estimates and assumptions related to the COVID-19 crisis. As a result, the Company has provided additional disclosures on the following areas impacted by COVID-19:

- The valuation of the Company's investments ***(refer to Note 23 – Net gains (losses));***
- The valuation of the DB obligation and the related plan assets ***(refer to Note 27 – Employee future benefits)***;
- The increase in provisions in Claims liabilities to reflect the potential risks for certain lines of business ***(refer to Note 11 – Claims liabilities)***;
- The actions taken to maintain solid capital levels despite the COVID-19 crisis ***(refer to Note 21 – Capital management)***;
- The customer relief measures announced ***(see below).***

Customer relief measures

Since April 2020, the Company has provided customer relief measures, including premium reductions and flexible payment options. Premium reductions include those to reflect changes in driving habits, adjustments for commercial clients severely impacted from a sales receipts and payroll perspective as well as cap and reduction in rates on renewals and new business. In October, the Company announced additional immediate relief measures of $50 million for small business customers through cash reimbursement of an amount equivalent to 20% of their annual premium in 2020.

For the year ended December 31, 2020, these premium reductions including the above small business customer relief measures, were estimated to have negatively impacted DPW by $419 million along with NEP by $236 million. The Company has provided $439 million of premium reductions on issued policies to date. ***Refer to Note 2.3 a) Revenue recognition and premiums receivable for the accounting policy on premium reductions.***

The COVID-19 crisis also impacted significantly the level of bad debt expense and allowance for doubtful accounts on Premiums receivable and other customer receivables. The Company applied judgment in its evaluation of the provision to consider flexible payment options provided, as well as experience during the crisis and in past economic downturns. As a result, for the year ended December 31, 2020, the Company recognized a bad debt expense of $35 million, mainly as a part of Underwriting expenses.

Note 4 – Adoption of new accounting standards

The following amendments to existing standards and revised Conceptual Framework are effective for annual periods beginning on or after January 1, 2020:

4.1 Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – *Business Combinations* ("IFRS 3"). 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 transfer.

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

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

4.3 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 was adopted prospectively with no impact on the Consolidated financial statements.

4.4 Interest rate benchmark reform

In September 2019, the IASB issued amendments to IFRS 9 – *Financial Instruments* ("IFRS 9"), IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") and IFRS 7 – *Financial Instruments: Disclosures ("IFRS 7")*. 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 apply 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.

Hedging relationships extending beyond December 31, 2021 are impacted by the reform and require additional disclosures. As at December 31, 2020, the Company's derivatives indexed to rates impacted by the reform and designated as hedging relations mature before December 31, 2021 and therefore no additional disclosure is required.

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

Note 5 – Business combinations

5.1 Business combinations

a) Business acquisition proposed in 2020

RSA Insurance Group plc

On November 18, 2020, the Company announced that together with the Scandinavian P&C leader Tryg A/S ("Tryg"), it had reached an agreement on the terms of a recommended all-cash acquisition for the entire issued and to be issued share capital of RSA, a multinational insurance group with strong positions in the P&C insurance market in the UK, Scandinavia and Canada along with supporting international business in Ireland, Continental Europe and the Middle East.

RSA shareholders will receive 685 pence per ordinary share which represents an aggregate cash consideration of approximately £7.2 billion ($12.5 billion), with:

- The Company paying approximately £3.0 billion ($5.2 billion) for the acquisition of RSA's Canadian, UK and International operations and its co-share of RSA's Danish business; and
- Tryg paying approximately £4.2 billion ($7.3 billion) for the acquisition of RSA's Sweden and Norway businesses and its co-share of RSA's Danish business.

In November 2020, the Company economically hedged the purchase price and other items to foreign currency fluctuations. ***Refer to Note 8.3 – Currency hedging in relation with the RSA acquisition.***

Financing for the purchase price of approximately $5.2 billion (£3.0 billion) and expected related transaction costs of approximately $0.7 billion has been raised with $4.45 billion of private placement subscription receipts, €392 million ($600 million) bank term loan facility to be drawn on closing and $600 million of medium-term notes. The remaining balance of approximately $200 million will be raised in 2021 with the issuance of preferred shares or other financing. ***Refer to Note 19*** – ***Debt outstanding and Note 20*** – ***Common shares and preferred shares for more details.***

As part of the acquisition, the Company will assume the full amount of RSA's outstanding issued debt and hybrid securities which totals approximately £0.8 billion ($1.4 billion) and £0.4 billion ($0.7 billion), respectively. The Company will also retain and guarantee the obligations of the closed RSA UK pension schemes. On November 18, 2020, an agreement was reached with the pension trustees requiring the following funding commitments:

- An additional contribution of approximately £75 million ($130 million) at closing; and
- Continuation of current funding arrangements of approximately £75 million ($130 million) per year until the schemes are fully funded, which is estimated to be reached within 10 years.

The acquisition will expand the Company's leadership position in Canada, create a leading specialty lines platform with international expertise and provide an opportunity to enter the UK and Ireland markets at scale.

The acquisition was approved by the Boards of Directors of all three companies on announcement and was approved by RSA's shareholders on January 18, 2021. The transaction is expected to close in the second quarter of 2021, subject to relevant approvals or clearances from regulatory and antitrust authorities and the satisfaction of the other conditions.

The acquisition-related costs of $42 million have been reported in Acquisition, integration and restructuring costs.

b) Business acquisitions completed in 2019

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

On Side Restoration

- On October 1, 2019, the Company acquired control (33% of the participating shares and 51% of the voting shares) 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.
- On December 1, 2020, the Company purchased all of the remaining shares in one single tranche instead of two equal tranches by the end of 2021, for an estimated cash consideration of $119 million (including interest of $10 million paid in 2020 and a holdback of $15 million payable in 2021). As a result, the Company derecognized most of the remaining contingent consideration and recognized a gain of $3 million in Acquisition, integration and restructuring costs.

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

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 following table summarizes the consideration and the final determination of the fair value of assets acquired and liabilities assumed for the above acquisitions as at the acquisition date. There were no significant adjustments to the preliminary fair values.

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	**62**	**-**	**62**
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	**(135)**	**(78)**	**(213)**
Total identifiable net assets acquired	**845**	**86**	**931**
Goodwill	**176**	**48**	**224**

[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 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 acquisition-related and integration costs in connection with the acquisitions are reported in Acquisition, integration and restructuring costs.

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, 2020					
Cash and cash equivalents	**-**	**-**	**-**	**917**	**917**
Short-term notes[1]	**684**	**-**	**-**	**-**	**684**
Fixed income					
Investment grade					
Government	**2,708**	**-**	**3,134**	**-**	**5,842**
Corporate	**2,270**	**-**	**2,968**	**-**	**5,238**
Asset-backed[2]	**366**	**-**	**76**	**-**	**442**
Mortgage-backed					
Agency[3]	**416**	**-**	**281**	**-**	**697**
Non-agency	**507**	**-**	**329**	**-**	**836**
Below investment grade Corporate	**20**	**-**	**4**	**-**	**24**
Non-rated	**335**	**-**	**-**	**-**	**335**
Debt securities	**7,306**	**-**	**6,792**	**-**	**14,098**
Investment grade					
Retractable	**21**	**-**	**-**	**-**	**21**
Fixed-rate perpetual	**303**	**-**	**-**	**-**	**303**
Other perpetual	**1,228**	**-**	**-**	**-**	**1,228**
Preferred shares	**1,552**	**-**	**-**	**-**	**1,552**
Common shares	**2,405**	**17**	**1,357**	**-**	**3,779**
Loans	**-**	**-**	**-**	**284**	**284**
	11,263	**17**	**8,149**	**1,201**	**20,630**
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[2]	540	-	101	-	641
Mortgage-backed					
Agency[3]	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

[1] Includes the invested proceeds of $600 million from the Series 9 and 10 medium-term notes issued on December 16, 2020 ***(refer to Note 19.1 – New financing)***. This amount is held in a segregated account with restricted use until the closing date of the RSA acquisition.
[2] Credit card receivables and auto loans.
[3] 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.

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

6.2 Carrying value of investments

Table 6.2 – Carrying value of investments

As at	FVTPL investments Carrying value	Amortized cost	Unrealized gains[2]	Unrealized losses[2]	Other investments Carrying value	Total investments Carrying value
December 31, 2020						
Cash and cash equivalents	**-**	**917**	**-**	**-**	**917**	**917**
Debt securities	**6,792**	**7,009**	**304**	**(7)**	**7,306**	**14,098**
Preferred shares[1]	**-**	**1,560**	**70**	**(78)**	**1,552**	**1,552**
Common shares	**1,374**	**2,181**	**292**	**(68)**	**2,405**	**3,779**
Loans	**-**	**284**	**-**	**-**	**284**	**284**
	8,166	**11,951**	**666**	**(153)**	**12,464**	**20,630**
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]	-	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

[1] Includes unrealized gains (losses) on embedded derivatives of $(12) million as at December 31, 2020 (nil as at December 31, 2019). These derivatives were presented in Investments, with the related perpetual preferred shares, on the Consolidated balance sheets but their change in fair value was reported in Net gains (losses) in Net income.
[2] Foreign amounts are translated using the period-end exchange rate.

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, 2023.

6.3 Market neutral equity investment strategy

Table 6.3 – Market neutral equity investment strategy

	2020		2019	
As at December 31,	**Fair value**	**Collateral**	**Fair value**	**Collateral**
Long positions – reported in Common shares	**8**	**-**	195	-
Short positions – reported in Financial liabilities related to investments *(Table 7.1)*	**(8)**	**8**	(197)	202

During 2020, the Company reduced certain common equity strategies in order to de-risk and unwind capital-intensive strategies.

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

	2020		2019	
As at December 31,	**Fair value**	**Collateral[1]**	**Fair value**	**Collateral[1]**
Loaned securities – reported in Investments	**1,054**	**1,108**	1,286	1,353

[1] Representing approximately 105% of the fair value of the securities loaned as at December 31, 2020 and 2019.

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

Note 7 – Financial liabilities related to investments

Table 7.1 – Financial liabilities related to investments

As at December 31,	2020	2019
Accounts payable to investment brokers on unsettled trades	**43**	33
Derivative financial liabilities *(Table 8.2)*	**38**	45
Equities sold short positions *(Table 6.3)*	**8**	197
Securities sold under repurchase agreements	**-**	20
	89	295

Note 8 – Derivative financial instruments

8.1 Types of derivatives used

Table 8.1 – 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
		• foreign currency cash flows related to the purchase price and the Company's net investment in foreign operations as a result of the RSA acquisition	Risk management purposes
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

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

8.2 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 8.2 – Fair value and notional amount of derivatives

	2020			2019		
	Notional	Fair value		Notional	Fair value	
As at December 31,	amount	Asset	Liability	amount	Asset	Liability
Foreign currency contracts						
Forwards	**10,328**	**154**	**23**	2,063	23	1
Cross currency swaps	**266**	**12**	**-**	266	6	-
Interest rate contracts						
Futures	**1,841**	**-**	**-**	516	-	-
Equity contracts						
Swaps	**1,348**	**-**	**15**	1,139	-	44
Futures	**427**	**-**	**-**	155	-	-
	14,210	**166**	**38**	4,139	29	45
Held for risk management purposes[1]	**14,075**	**166**	**38**	4,026	29	45
Held for trading purposes	**135**	**-**	**-**	113	-	-
	14,210	**166**	**38**	4,139	29	45
Term to maturity:						
less than one year	**12,312**			3,873		
from one to five years	**1,898**			266		
over five years	**-**			-		
	14,210			4,139		

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

8.3 Currency hedging in relation with the RSA acquisition

Purchase price hedges

In November 2020, in connection with the RSA acquisition, the Company entered into foreign currency forward contracts in order to hedge the £3.0 billion ($5.2 billion) purchase price to exposures from fluctuations in the CAD/GBP and EUR/GBP currency pairs. These derivatives have a notional of £2.7 billion ($4.7 billion) GBP/CAD and £0.3 billion ($0.5 billion) GBP/EUR, of which £2.4 billion ($4.2 billion) are contingent on the closing of the acquisition.

As at December 31, 2020, these derivatives did not qualify as cash flow hedges. As a result, the changes in the fair value were recognized in Net gains (losses) in Net income.

On January 18, 2021 (RSA's shareholders approval date), the RSA acquisition was considered highly probable and the purchase price hedge was designated as a cash flow hedge. From this date, the effective portion of changes in the fair value of GBP/CAD derivatives with a notional value of £2.1 billion ($3.6 billion) was recognized in OCI.

Book value hedges

In November 2020, the Company also entered into foreign currency forward contracts for a notional of £700 million ($1.2 billion), whereby it sells GBP for CAD , in order to reduce its book value exposure to the GBP. These derivatives represent economic hedges and the changes in the fair value are recognized through Net income until closing of the transaction. In addition, the Company intends to hedge its book value exposure to the DKK after closing with its €392 million ($600 million) bank term loan facility. After closing of the acquisition, these derivatives and financial liability will be designated as hedges of net investments in foreign operations, with changes in fair value recognized in OCI.

The Company also entered into other foreign currency forward contracts for a net notional of £100 million ($174 million) CAD/GBP for risk management purposes related to the RSA acquisition. ***Refer to Note 5.1 – Business combinations for more details.***

(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, 2020				
Short-term notes	**459**	**225**	**-**	**684**
Fixed income				
Investment grade				
Government	**2,541**	**3,301**	**-**	**5,842**
Corporate	**-**	**5,238**	**-**	**5,238**
Asset-backed	**-**	**442**	**-**	**442**
Mortgage-backed				
Agency	**-**	**697**	**-**	**697**
Non-agency	**-**	**836**	**-**	**836**
Below investment grade corporate	**-**	**24**	**-**	**24**
Non-rated	**-**	**-**	**335**	**335**
Debt securities	**3,000**	**10,763**	**335**	**14,098**
Preferred shares[1]	**1,552**	**-**	**-**	**1,552**
Common shares	**3,751**	**-**	**28**	**3,779**
Derivative financial assets *(Table 8.2)*	**-**	**166**	**-**	**166**
Total financial assets measured at fair value	**8,303**	**10,929**	**363**	**19,595**
Total financial liabilities measured at fair value *(Table 7.1)*	**8**	**38**	**-**	**46**
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 8.2)*	-	29	-	29
Total financial assets measured at fair value	7,907	9,206	270	17,383
Total financial liabilities measured at fair value *(Table 7.1)*	197	45	-	242

[1] Includes perpetual preferred shares with call options amounting to $1,373 million as at December 31, 2020 ($1,296 million as at December 31, 2019). The fair value of the embedded derivatives component amounting to $63 million as at December 31, 2020 ($49 million as at December 31, 2019) was determined using a Level 3 methodology.

The fair value of loans was $290 million as at December 31, 2020 ($314 million as at December 31, 2019).

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 of 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)

	2020		2019	
For the years ended December 31,	**Net income**	**OCI**	**Net income**	**OCI**
Equity price risk				
Common share prices (10% decrease)[1]	**11**	**(221)**	3	(241)
Preferred share prices (5% decrease)[2]	**12**	**(68)**	11	(64)
Interest rate risk (100 basis point increase)				
Debt securities[3,4]	**(198)**	**(197)**	(182)	(170)
Net claims liabilities	**200**	**-**	184	-
Defined benefit pension plan obligation, net of related debt securities	**-**	**130**	-	111
Currency risk[5]				
Strengthening of CAD by 10% vs all currencies				
International securities	**-**	**-**	-	(20)
Net assets of foreign operations	**6**	**(196)**	32	(236)
Currency derivatives related to RSA acquisition[6]	**-**	**(283)**	-	-
Strengthening of GBP by 10% vs EUR				
Currency derivatives related to RSA acquisition	**(52)**	**-**	-	-

[1] Including the impact of common shares related to the defined benefit pension plan. Net of any equity hedges, including the impact of any impairment.
[2] Including the impact on related embedded derivatives.
[3] Excludes the impact of debt securities related to the defined benefit pension plan.
[4] Interest rate sensitivity is based on the fixed-income portfolio, which comprises approximately 50% of both government-related and corporate-related securities.
[5] After giving effect to forward-exchange contracts.
[6] Effective January 18, 2021, the change in fair value of £2.1 billion ($3.6 billion) derivatives will be recognized in OCI, therefore the above table excludes losses of $22 million incurred in 2021 before that date. ***Refer to Note 8.3 - Currency hedging in relation with the RSA acquisition.***

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.

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

b) Exposure to currency risk

Table 10.4 – Net foreign currency and translation exposure

	USD	
As at December 31,	2020	2019
U.S. investments supporting the Company's Canadian operations	**1,728**	1,370
Less: foreign-currency derivatives, notional amount	**(1,713)**	(1,363)
	15	7
Consolidated net assets of U.S. subsidiaries	**1,811**	2,176
U.S. debt related to the acquisition of The Guarantee and Frank Cowan	**-**	(306)
Less: foreign-currency derivatives, notional amount	**(200)**	(300)
	1,611	1,570
Other net assets denominated in USD	**38**	51
Total net currency exposure to the USD	**1,664**	1,628

In addition, the Company held international securities amounting to $272 million as at December 31, 2019, which were sold in 2020.

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

	2020		2019	
As at December 31,	Fair value	Duration (in years)	Fair value	Duration (in years)
Investments:				
Debt securities	**14,098**	**3.57**	11,826	3.73
Preferred shares	**1,552**	**2.45**	1,465	2.76
Net claims liabilities	**11,399**	**2.46**	10,546	2.38
Defined benefit pension plans				
Debt securities	**2,054**	**18.4**	1,730	18.2
Obligation	**3,151**	**18.8**	2,756	18.8

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.

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

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,	2020	2019
Cash and cash equivalents	**917**	936
Debt securities	**14,098**	11,826
Preferred shares	**1,552**	1,465
Loans	**284**	318
Premiums receivable	**3,822**	3,588
Reinsurance assets	**1,533**	1,511
Other financial assets[1]	**909**	773
On-balance sheet credit risk exposure	**23,115**	20,417
Structured settlements	**1,552**	1,454
Off-balance sheet credit risk exposure	**1,552**	1,454

[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.

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 a 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 at least 97% of the public fixed income investments portfolio to be rated investment grade and at least 68% of preferred shares portfolio to be rated P2 (low) or better. 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,	2020	2019
Debt securities		
AAA	**38%**	41%
AA	**30%**	30%
A	**21%**	19%
BBB	**9%**	8%
Not rated	**2%**	2%
	100%	100%

Table 10.8 – Credit quality of preferred shares

As at December 31,	2020	2019
P2	**80%**	77%
P3	**20%**	23%
	100%	100%

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

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,	**2020**	**2019**	**2020**	**2019**
By country of incorporation				
Canada	**72%**	71%	**85%**	85%
U.S.	**27%**	27%	**8%**	8%
Other	**1%**	2%	**7%**	7%
	100%	100%	**100%**	100%
By industry				
Government	**34%**	30%	**45%**	46%
Financials	**27%**	26%	**20%**	21%
ABS and MBS	**10%**	11%	**-**	-
Energy	**5%**	6%	**3%**	5%
Other	**24%**	27%	**32%**	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.

c) Counterparty credit risk

Counterparty credit risk arises from reinsurance ***(see Note 14.4 – Risk management and counterparty credit risk)***, over-the-counter derivatives, reverse repurchase agreements, 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 $311 million as at December 31, 2020 ($130 million as at December 31, 2019) 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 volatile and unpredictable. The company uses internal liquidity metrics to monitor and control liquidity risk within its insurance subsidiaries.

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 19.5 – Credit facility).***

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, 2020					
Cash and cash equivalents	**917**	**-**	**-**	**-**	**917**
Debt securities	**2,005**	**6,344**	**5,414**	**335**	**14,098**
Preferred shares	**-**	**13**	**8**	**1,531**	**1,552**
Common shares	**-**	**-**	**-**	**3,779**	**3,779**
Loans	**12**	**50**	**222**	**-**	**284**
	2,934	**6,407**	**5,644**	**5,645**	**20,630**
Derivative financial assets	**166**	**-**	**-**	**-**	**166**
	3,100	**6,407**	**5,644**	**5,645**	**20,796**
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

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, 2020					
Claims liabilities – undiscounted value	**4,363**	**6,242**	**1,765**	**-**	**12,370**
Debt outstanding	**510**	**656**	**1,875**	**-**	**3,041**
Lease liabilities – undiscounted value[1]	**83**	**231**	**211**	**-**	**525**
Other financial liabilities	**1,095**	**57**	**27**	**802**	**1,981**
	6,051	**7,186**	**3,878**	**802**	**17,917**
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
Lease liabilities – undiscounted value[1]	69	220	243	-	532
Other financial liabilities	962	112	29	745	1,848
	4,803	7,600	3,373	772	16,548

[1] Lease liabilities in Other Liabilities includes discounting of $78 million as at December 31, 2020 ($71 million as at December 31, 2019) ***(refer to Note 18.2 – Other liabilities).***

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.

The contractual maturity of lease liabilities excludes 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.

(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, 2020			
Balance, beginning of year	**11,846**	**1,300**	**10,546**
Current year claims	**6,888**	**279**	**6,609**
Unfavourable (favourable) prior-year claims development	**86**	**127**	**(41)**
Increase (decrease) due to changes in discount rate *(Note 11.2)*	**356**	**41**	**315**
Total claims incurred	**7,330**	**447**	**6,883**
Claims paid	**(6,345)**	**(349)**	**(5,996)**
Business combinations *(Note 5)*	**-**	**-**	**-**
Exchange rate differences	**(51)**	**(17)**	**(34)**
Balance, end of year	**12,780**	**1,381**	**11,399**
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

In relation to COVID-19, the Company incurred claims of $106 million for certain lines of business for the year ended December 31, 2020.

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

	2020			2019		
As at December 31,	**Direct**	**Ceded**	**Net**	**Direct**	**Ceded**	**Net**
Undiscounted value	**12,370**	**1,313**	**11,057**	11,806	1,261	10,545
Effect of time value of money[1]	**(264)**	**(31)**	**(233)**	(605)	(74)	(531)
Risk margin	**674**	**99**	**575**	645	113	532
	12,780	**1,381**	**11,399**	11,846	1,300	10,546

[1] Using a discount rate of 0.85% for Canada and 1.13% for the U.S. as at December 31, 2020 (2.17% and 2.32% respectively as at December 31, 2019).

(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 year, 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"). In relation to COVID-19, the Company applied actuarial standards to determine its Claims liabilities reserve as well as judgment given the lack of historical data, using different scenarios and assumptions based on the information currently available. As a result of the COVID-19 crisis, the claims liabilities may be subject to volatility from potential distortion in claims development pattern and claim severity for certain lines of business. 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, 2020 and 2019.

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

		2020		2019	
As at December 31,		**Canada**	**U.S.**	**Canada**	**U.S.**
Average claim costs (severity)	+5%	**(344)**	**(71)**	(317)	(54)
Average number of claims (frequency)	+5%	**(80)**	**(10)**	(65)	(7)
Discount rate	+1%	**179**	**26**	161	21

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.

(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, 2020	**Total**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**Earlier**
Undiscounted claims liabilities outstanding at end of accident year		3,703	3,583	3,395	3,462	3,086	2,777	2,660	2,637	2,446	2,356	
Revised estimates												
One year later			3,476	3,304	3,314	3,123	2,674	2,589	2,576	2,413	2,258	
Two years later				3,315	3,285	3,129	2,708	2,582	2,540	2,334	2,187	
Three years later					3,285	3,190	2,730	2,600	2,531	2,291	2,102	
Four years later						3,236	2,750	2,611	2,527	2,265	2,062	
Five years later							2,764	2,599	2,536	2,243	2,031	
Six years later								2,592	2,507	2,237	2,000	
Seven years later									2,496	2,222	1,978	
Eight years later										2,210	1,965	
Nine years later											1,961	
Current estimate		3,703	3,476	3,315	3,285	3,236	2,764	2,592	2,496	2,210	1,961	
Claims paid to date			(1,328)	(1,719)	(2,102)	(2,389)	(2,285)	(2,305)	(2,301)	(2,087)	(1,871)	
Net undiscounted claims liabilities	**11,057**	3,703	2,148	1,596	1,183	847	479	287	195	123	90	406
Discounting and risk margin	**342**											
Net claims liabilities	**11,399**											

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, 2020.

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.

(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, 2020 and 2019.

Table 12.1 – Movements in unearned premiums

For the years ended	Direct	Ceded	Net
December 31, 2020			
Balance, beginning of year	**5,960**	**211**	**5,749**
Premiums written	**12,143**	**527**	**11,616**
Premiums earned	**(11,828)**	**(587)**	**(11,241)**
Exchange rate differences	**(19)**	**1**	**(20)**
Balance, end of year	**6,256**	**152**	**6,104**
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

[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 Canada and 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 2.1 years for the U.S. operations as at December 31, 2020 (2.5 years for Canada and 1.9 years for the U.S. as at December 31, 2019). 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.

(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

	2020		2019	
As at December 31,	**DPW**	**Net claims liabilities**	**DPW**	**Net claims liabilities**
By countries				
Canada	**85%**	**86%**	84%	86%
U.S.	**15%**	**14%**	16%	14%
	100%	**100%**	100%	100%
By lines of business				
Personal auto	**36%**	**45%**	35%	47%
Personal property	**21%**	**6%**	21%	7%
Commercial lines - Canada	**28%**	**35%**	28%	32%
Commercial lines - U.S.	**15%**	**14%**	16%	14%
	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 the Company's Canadian and U.S. operations. The Company maintains Growth and Profitability Committees responsible for balancing growth and profitability of its insurance business and ensuring it remains adequately compensated for the risks that it underwrites.

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.

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, or 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.

Catastrophic events include natural disasters and unnatural events:

- There are a wide variety of natural disasters including but not limited to hurricanes, windstorms, 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 catastrophic events are inherently unpredictable. The extent of losses from a catastrophic event is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

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

For the years ended December 31,	2020	2019
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	**5,300**	4,050

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 10.2% as at December 31, 2020 (5.5% as at December 31, 2019) 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. Effective January 1, 2021, the Company maintained its coverage limits but increased the retention to $150 million and retains participations averaging 9.2% on reinsurance layers between the retention and coverage limit.

With respect to the Intact U.S. (OneBeacon) claims liabilities for accident years 2016 and prior, the Company purchased from a major reinsurer in 2017 an adverse development cover subject to an aggregate limit of US$200 million. As at December 31, 2020, the maximum amount recoverable of US$200 million has been fully utilized.

The Guarantee

Since January 1, 2020, The Guarantee is covered by the corporate multi-risk events and catastrophes reinsurance program and the corporate single risk events property program. The operations of The Guarantee are covered by their own reinsurance program for liability single risk events. The Guarantee also purchased dedicated reinsurance protection for certain lines of business.

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.

Loss portfolio transfer

Subsequent to the exit of the U.S Healthcare business in July 2019, Intact U.S. (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 as at December 31, 2019. 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 for the year ended December 31, 2019.

(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,	2020	2019
Reinsurers' share of claims liabilities *(Note 11.1)*	**1,381**	1,300
Reinsurers' share of unearned premiums *(Note 12.1)*	**152**	211
	1,533	1,511

14.3 Net recovery (expense) from reinsurance

Table 14.3 – Net recovery (expense) from reinsurance

For the years ended December 31,	2020	2019
Ceded earned premiums *(Note 12.1)*	**(587)**	(445)
Ceded claims incurred *(Note 11.1)*	**447**	333
Commissions earned on ceded reinsurance	**90**	45
	(50)	(67)

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 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, 2020 and 2019.

The Company also has minimum rating requirements for its reinsurers. Substantially all reinsurers are required to have a minimum credit rating of 'A-' at inception of the contract. The Company also requires that its contracts include a special termination and security review clause allowing the Company to replace a reinsurer during the contract period should the reinsurer's credit rating fall below the level acceptable to the Company or for other reasons that might jeopardize the Company's ability to continue doing business with such reinsurer as intended at the time of entering into the reinsurance arrangement.

The following table shows the collateral in place to support amounts receivable and recoverable from unregistered reinsurers in Canada and mainly from unauthorized reinsurers in the U.S. This collateral is held in support of policy liabilities and could be used should these reinsurers be unable to meet their obligations.

Table 14.4 – Collateral in place to support amounts receivable and recoverable from unregistered and unauthorized reinsurers

	2020		2019	
For the years ended December 31,	Canadian operations	U.S. operations	Canadian operations	U.S. operations
Collateral consisting of cash, security agreements and letters of credit	**91**	**136**	97	147
Policy liabilities supported by the above collateral	**65**	**110**	61	135

Notes to the Consolidated financial statements
(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, 2020	**2,626**	**2,072**	**483**	**633**	**3,188**
Acquisitions and costs capitalized	**205**	**-**	**109**	**108**	**217**
Business combinations	**4**	**-**	**-**	**-**	**-**
Disposals and write-off	**(2)**	**-**	**(32)**	**-**	**(32)**
Exchange rate differences	**(20)**	**(21)**	**-**	**(1)**	**(22)**
Balance as at December 31, 2020	**2,813**	**2,051**	**560**	**740**	**3,351**
Accumulated amortization					
Balance as at January 1, 2020	**-**	**(124)**	**(258)**	**(283)**	**(665)**
Amortization expense	**-**	**(91)**	**(42)**	**(65)**	**(198)**
Disposals and write-off	**-**	**-**	**19**	**-**	**19**
Exchange rate differences	**-**	**6**	**-**	**1**	**7**
Balance as at December 31, 2020	**-**	**(209)**	**(281)**	**(347)**	**(837)**
Net carrying value	**2,813**	**1,842**	**279**	**393**	**2,514**
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

Intangible assets under development amounted to $88 million as at December 31, 2020 ($77 million as at December 31, 2019). These intangible assets are not subject to amortization but are tested for impairment on an annual basis.

Notes to the Consolidated financial statements
(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,	**2020**	**2019**	**2020**	**2019**
Canada	**1,910**	1,737	**829**	829
U.S.	**903**	889	**8**	8
	2,813	2,626	**837**	837

In connection with the business combinations completed in 2019, Goodwill in the amounts of $186 million and $34 million 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, 2020 and 2019.

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)

	Terminal growth rate		Pre-tax discount rate	
	2020	**2019**	**2020**	**2019**
Canada	**2.5%**	2.5%	**11.1%**	9.5%
U.S.	**3.9%**	3.9%	**11.1%**	10.6%

No impairment loss on goodwill or intangible assets with indefinite lives has been recognized for these CGUs for the years ended December 31, 2020 and 2019.

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.

(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,	2020	2019
Balance, beginning of year	**715**	600
Acquisitions, net of sales	**75**	109
Dividends received	**(27)**	(20)
Share of profit (loss) recorded in:		
net income	**52**	31
OCI	**(4)**	(5)
Balance, end of year	**811**	715
Of which:		
associates	**446**	431
joint ventures	**365**	284

During 2020, there were no events or changes in circumstances that indicated that the carrying values of the 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,	2020	2019
Right-of-use assets[1]	**349**	373
Furniture and equipment	**82**	74
Leasehold improvements	**57**	58
Land and buildings	**32**	33
	520	538

[1] Right-of-use assets mainly related to real estate for which additions for the year ended December 31, 2020 amounted to $45 million ($61 million - December 31, 2019). Total additions to right-of-use assets related to business combinations was $37 million for the year ended December 31, 2019.

(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,	2020	2019
Financial assets related to investments	**230**	106
Industry pools receivable	**168**	137
Other receivables and recoverables	**165**	178
Reinsurance receivable	**137**	77
Investments, at cost	**121**	90
Prepaids	**114**	59
Restricted funds	**86**	95
Accrued investment income	**83**	77
Premium and sale taxes receivable	**44**	40
Contract assets[1]	**16**	34
Surplus notes[2]	**-**	36
Other	**37**	39
	1,201	968

[1] Unbilled revenues related to supply chain operations.
[2] Surplus notes were written-off in 2020 *(refer to Note 23 – Net gains (losses))*. Previously, they were 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.

Considering the COVID-19 crisis and based on the information currently available, the Company believes that the carrying value of investments at cost is not impaired as at December 31, 2020.

18.2 Other liabilities

Table 18.2 – Components of other liabilities

As at December 31,	2020	2019
Deposits received in connection with insurance contracts[1]	**475**	363
Lease liabilities	**447**	461
Commissions payable	**297**	189
Accrued salaries and related compensation	**269**	252
Premium and sale taxes payable	**263**	266
Pension plans in a deficit position and unfunded plans *(Note 27.1)*	**260**	284
Account payables and accrued expenses	**233**	158
Industry pools payable	**151**	131
Other post-employment benefits and other post-retirement benefits	**55**	54
Reinsurance payable	**53**	55
Contingent considerations[2]	**37**	143
Deposits received from reinsurers	**26**	16
Other payables and other liabilities[3]	**376**	274
	2,942	2,646

[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)*.
[3] Includes an amount of $107M recorded in 2020 payable to a broker classified as an investment in joint venture *(see Note 23 – Net gains (losses))*.

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

Note 19 – Debt outstanding

19.1 New financing

On March 24, 2020, the Company completed an offering of $300 million principal amount of Series 8 unsecured medium-term notes (the ''Notes''). The Notes bear interest at a fixed annual rate of 3.691% until maturity on March 24, 2025, payable in semi-annual instalments commencing on September 24, 2020. The net proceeds from this offering of Notes have been used for general corporate purposes.

Term Loan and Medium-term notes in relation with the RSA acquisition
On November 18, 2020, the Company entered into a €392 million ($600 million) 24-month bank term loan facility agreement which it plans to draw in EUR at a rate of Libor plus 100bps and which will be drawn upon closing of the acquisition.

On December 16, 2020, the Company completed an offering of $300 million principal amount of Series 9 unsecured medium-term notes which bear interest at a fixed annual rate of 1.928% until maturity on December 16, 2030, payable in semi-annual instalments commencing on June 16, 2021. On the same day, the Company completed an offering of $300 million principal amount of Series 10 unsecured medium-term notes which bear interest at a fixed annual rate of 2.954% until maturity on December 16, 2050, payable in semi-annual instalments commencing on June 16, 2021.

The proceeds of these medium-term notes are held in a segregated account with IFC's custodian ***(refer to Note 6.1 - Classification of investments)*** and are subject to a special mandatory redemption of the principal amount plus accrued and unpaid interest, if the closing of the acquisition does not occur prior to December 31, 2021.

19.2 Bridge facility in relation with the RSA acquisition

On November 18, 2020, the Company secured a bridge financing facility ("bridge facility") if alternative financing is not available by closing of the acquisition. The bridge facility is subject to a mandatory cancellation if the closing of the acquisition does not occur prior to November 18, 2021. As at December 31, 2020, the amounts available under the bridge facility included a £341 million ($593 million) non-revolving equity bridge and a £47 million ($82 million) non-revolving bond bridge.

Refer to Note 5.1 – Business combinations for more details.

19.3 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) 2020	2019
Medium-term notes							
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**	300
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	**423**	422
Series 8	Mar. 2025	5	3.69%	Mar. & Sept.	300	**298**	-
Series 9	Dec. 2030	10	1.93%	June & Dec.	300	**298**	-
Series 10	Dec. 2050	30	2.95%	June & Dec.	300	**298**	-
2012 U.S. Senior Notes	Nov. 2022	10	4.60%	May & Nov.	USD275	**358**	370
Term loan *(see below)*	May 2021	1.5			USD165	**210**	260
Other debt[1]	Oct 2028					**11**	-
Credit facility *(Note 19.5)*						**-**	165
						3,041	2,362

[1] Related to the acquisition of control of a portion of an investment in joint venture ***(see Note 23 – Net gains (losses))***.

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.

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

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 in 2020. On September 30, 2020, Company repaid US$35 million ($47 million) of its term loan.

Fair value of debt outstanding amounted to $3,482 million as at December 31, 2020 ($2,650 million as at December 31, 2019) and was established using valuation data from a benchmark firm. As at December 31, 2020 and 2019, the Company was in compliance with all debt covenants.

19.4 Movement in the Company's debt outstanding

Table 19.2 – Movement in the Company's debt outstanding

For the year ended December 31,	2020	2019
Balance, beginning of year	**2,362**	2,209
Cash flows from financing activities		
Proceeds from issuance of debt	**894**	266
Borrowing (repayment) on the credit facility, net	**(165)**	145
Repayment of term loan	**(47)**	-
Repayment of term notes on maturity	**-**	(250)
Business combinations *(Note 5)*	**-**	23
Exchange rate differences	**(10)**	(27)
Other[1]	**7**	(4)
Balance, end of year	**3,041**	2,362

[1] Includes debt from the acquisition of control of a portion of an investment in joint venture *(see Note 23 – Net gains (losses)).*

19.5 Credit facility

The Company has an unsecured revolving term credit facility available for an amount of $750 million which matures on November 26, 2024. As at December 31, 2020, no balance was drawn under this credit facility as it was repaid in full in 2020 ($138 million or US$106 million as at December 31, 2019) 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

On December 18, 2020, the credit facility was amended to comply with all covenants upon closing of the RSA acquisition. Furthermore, the credit facility will be increased from $750 million to $1.5 billion in order to provide incremental liquidity, contingent upon the closing of the acquisition of RSA.

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, 2020 and 2019.

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 February 18, 2020, the Company completed a Class A Series 9 offering of preferred shares (the "Series 9 Preferred Shares") by issuing and selling 6,000,000 Series 9 Preferred Shares, at a price of $25.00 per share, for aggregate gross proceeds of $150 million. Share issuance costs of $4 million ($3 million after tax), were accounted for as a reduction in preferred shares on the Consolidated balance sheets.

On or after March 31, 2025, the Company may redeem, in whole or in part, at its option, the Series 9 Preferred Shares, subject to certain conditions.

Private placements of subscription receipts in relation with the RSA acquisition

On November 25, 2020, the Company completed a private placement of subscription receipts (“receipts”) with three Canadian institutional investors for an aggregate of 23.8 million receipts at a price of $134.50 per receipt for gross proceeds of approximately $3.2 billion. The related issuance costs of $128 million are contingent on the closing of the acquisition, as a result, they were not accrued as at December 31, 2020. These fees will be accounted for as a reduction in common shares and will result in net proceeds of approximately $3.1 billion.

On December 3, 2020, the Company completed a private placement of subscription receipts with a group of underwriters for an aggregate of 9,272,000 receipts at a price of $134.50 per receipt for gross proceeds of approximately $1.25 billion. Out of the related issuance costs of $47 million, $23 million was payable on issuance of the receipts using funds in escrow, as a result the Company recorded a payable and other asset related to the deferred equity issuance costs as at December 31, 2020. The remaining amount is contingent on the closing of the acquisition, therefore it was not accrued as at December 31, 2020. These fees will be accounted for as a reduction in common shares and will result in net proceeds of approximately $1.2 billion.

Each receipt entitles the holder to receive one common share of the Company upon closing of the acquisition. The cash proceeds of these private placements are held in escrow and are not under the control of the Company. As a result, the cash and receipts are not included in the Consolidated balance sheets as at December 31, 2020.

The receipt holders are entitled to a dividend equivalent payment equal to any common share dividends declared by the Company from the date of their issuance to the closing of the acquisition. On November 3, 2020, the Company declared dividends of $0.83 per common share, payable on December 31, 2020 to shareholders on record as of December 15, 2020. The related dividend equivalent payment of $27 million was not accrued as at December 31, 2020 since such payment is contingent provided the acquisition closes prior to December 31, 2021.

Refer to Note 5.1 – Business combinations for more details.

20.3 Issued and outstanding

Table 20.1 – Issued and outstanding shares

	2020		2019	
As at December 31,	**Number of shares**	**Amount (in millions)**	**Number of shares**	**Amount (in millions)**
Common shares	**143,018,134**	**3,265**	143,018,134	3,265
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
Series 9	**6,000,000**	**147**	-	-
Total Class A	**48,000,000**	**1,175**	42,000,000	1,028

Issued and outstanding Class A shares rank in priority to common shares with regards to payment of dividends.

Table 20.2 – Reconciliation of number of shares outstanding

	Common shares (in shares)		Preferred shares Class A shares (in shares)	
As at December 31,	**2020**	**2019**	**2020**	**2019**
Balance, beginning of year	**143,018,134**	139,188,634	**42,000,000**	42,000,000
Issued	**-**	3,829,500	**6,000,000**	-
Balance, end of year	**143,018,134**	143,018,134	**48,000,000**	42,000,000

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.

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

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,	2020	2019
Common shares	**3.32**	3.04
Preferred shares		
Series 1	**0.85**	0.85
Series 3	**0.83**	0.83
Series 4	**0.89**	1.08
Series 5	**1.30**	1.30
Series 6	**1.33**	1.33
Series 7	**1.23**	1.23
Series 9	**1.17**	-

The holders of record of the Company's 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, 2020 to but excluding December 31, 2020 was 0.70609% (2.809% 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.
- ***Series 9 Preferred Shares*** – The annual dividend rate is 5.40% and is not subject to a rate reset. The initial dividend paid on June 30, 2020 amounted to $0.4906 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.

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

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, 2020 and 2019, all of 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,	2020	2019
Canadian regulated entities		
Regulatory capital ratio (MCT)	**224%**	198%
Industry-wide supervisory minimum levels	**150%**	150%
Capital above CAL (capital margin)	**1,101**	554
Other regulated entities		
Capital above CAL (capital margin)[1]	**640**	630
Unregulated entities	**988**	38
Total capital margin[2]	**2,729**	1,222

[1] Includes Atlantic Specialty Insurance Company (U.S.) ("ASIC"), Split Rock Insurance, Ltd. (Bermuda), IB Reinsurance Inc. (Barbados). The Guarantee Company of North America USA was included in Other regulated entities as at December 31, 2020 and in Canadian regulated entities as at December 31, 2019. ASIC's RBC was 469% as at December 31, 2020 (457% as at December 31, 2019).

[2] Consists of the aggregate of capital in excess of CALs in regulated entities plus available cash and investments in unregulated entities, including the $600 million from the medium-term notes issued on December 16, 2020. The CAL is 165% MCT for most Canadian insurance subsidiaries effective April 1, 2020 (previously CAL of 170% MCT) and 200% RBC for U.S. insurance subsidiaries.

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

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 2020 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.

The Company took actions to maintain solid capital levels despite the COVID-19 crisis, including reducing its common equity portfolio, issuing medium-term notes ***(refer to Note 19 – Debt outstanding)*** and injecting funds into its insurance subsidiaries ***(refer to Section 25.3 – Maintaining a strong capital position of the Company's MD&A)***.

Note 22 – Net investment income

Table 22.1 – Net investment income

For the years ended December 31,	2020	2019
Interest income from:		
debt securities		
designated or classified as FVTPL	**177**	182
classified as AFS	**158**	166
loans and cash and cash equivalents	**23**	26
Interest income	**358**	374
Dividend income (expense) from:		
common shares, net		
designated or classified as FVTPL	**70**	66
classified as AFS	**96**	102
preferred shares classified as AFS	**76**	62
equities sold short positions	**(1)**	(6)
investments, at cost	**1**	1
Dividend income	**242**	225
Expenses	**(23)**	(23)
	577	576

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

Note 23 – Net gains (losses)

23.1 Net gains (losses)

Table 23.1 – Net gains (losses)

For the years ended December 31,	2020			2019		
Portfolios	Fixed Income	Equity	Total	Fixed Income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	**237**	**(140)**	**97**	115	173	288
classified as FVTPL	**-**	**(5)**	**(5)**	-	1	1
classified as AFS	**35**	**102**	**137**	25	85	110
	272	**(43)**	**229**	140	259	399
derivatives[1]:						
swap agreements	**-**	**85**	**85**	-	(201)	(201)
forwards and futures	**(2)**	**(34)**	**(36)**	(11)	(34)	(45)
other	**-**	**-**	**-**	-	2	2
	(2)	**51**	**49**	(11)	(233)	(244)
Embedded derivatives	**-**	**(14)**	**(14)**	-	(5)	(5)
Net foreign currency gains (losses)	**(1)**	**11**	**10**	-	-	-
Impairment losses on common shares	**-**	**(121)**	**(121)**	-	(76)	(76)
	269	**(116)**	**153**	129	(55)	74
Currency derivative hedges related to the RSA acquisition *(see Note 8.3)*:						
Purchase price[2]			**41**			-
Book value			**(22)**			-
Other gains (losses)[3,4,5]			**10**			91
			182			165

[1] Excluding foreign currency contracts, which are reported in the line net foreign currency gains (losses).
[2] Includes a hedging premium associated with deal contingent forwards.
[3] Includes a gain of $21 million recorded in 2020 related to the acquisition of control of a portion of an investment in joint venture's business.
[4] Includes an impairment loss of $30 million recorded in 2020 for the write-off of Surplus notes net of an unrealized gain of $6 million previously recognized in OCI and reclassified to Net income.
[5] Includes a gain of $14 million recorded in 2020 and of $72M recorded in 2019 related to changes of control which were accounted for as disposals of the subsidiaries' net assets, including the related goodwill, in exchange for joint venture investments retained by the Company in the former subsidiaries.

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.***

For common shares in an unrealized loss position of 50% or more ("significant") as at March 31, 2020, the Company considered additional factors before concluding to an evidence of impairment, given the unprecedented volatility and uncertainty in the worldwide financial markets in March 2020 as a result of the COVID-19 pandemic. Additional factors reviewed included publicly announced dividend reductions and average stock performance in March as well as the review of sector and specific securities. Since the second quarter, financial markets and volatility have stabilized. As a result, the Company applied its usual quantitative impairment model policy.

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

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,	2020	2019
Current income tax expense		
Current year[1]	**322**	121
Adjustments to prior years	**1**	-
Deferred income tax expense (benefit)		
Change related to temporary differences[2]	**(58)**	(19)
Adjustments related to changes in tax legislation[3]	**-**	(18)
Adjustments related to the U.S. Corporate Tax reform[4]	**14**	-
Adjustments to prior years	**(2)**	(5)
	277	79

[1] Includes non-taxable gains of $21 million recorded in 2020 related to the acquisition of control of a portion of an investment in joint venture's business and $14 million recorded in 2020 and $72 million recorded in 2019 related to a change of control of a subsidiary ***(refer to Note 23 – Net gains (losses))***.
[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 current tax expense of $14 million recorded in 2020 related to U.S. corporate tax changes which limit tax deductions for interest payable on certain debt in a U.S. subsidiary. The rules are applicable retroactive to January 1, 2019.

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,	2020	2019
Income tax expense calculated at statutory tax rate	**26.2%**	26.7%
Increase (decrease) in income tax rates resulting from:		
non-taxable investment income	**(4.5)%**	(7.5)%
non-deductible losses (non-taxable gains)[1]	**(1.3)%**	(3.0)%
non-deductible losses (non-taxable income) from subsidiaries	**(1.0)%**	(1.0)%
foreign income taxed at different rates	**(0.2)%**	(1.3)%
recognition of previously unrecognized capital losses[1]	**(0.2)%**	(2.6)%
adjustments related to changes in tax legislation[1]	**-**	(2.2)%
non-deductible expenses	**0.6%**	0.9%
adjustments related to the U.S. Corporate Tax reform[1]	**1.1%**	-
other	**(0.3)%**	(0.5)%
Effective income tax rate	**20.4%**	9.5%

[1] ***See Note 24.1 above for details***.

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.

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

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,	**2020**	**2019**	**2020**	**2019**
Net claims liabilities	**140**	117	**(25)**	5
Difference between market value and book value of investments	**-**	-	**-**	32
Deferred expenses for tax purposes	**65**	64	**(1)**	(2)
Losses available for carry forward	**148**	186	**39**	(11)
DB plans	**71**	76	**4**	(24)
Other	**2**	4	**2**	7
Deferred tax assets	**426**	447	**19**	7
Intangible assets	**(449)**	(494)	**(61)**	(54)
Deferred gains and losses on specified debt obligations	**(6)**	(7)	**(2)**	(2)
Property and equipment	**(59)**	(51)	**7**	21
Difference between market value and book value of investments	**(12)**	(6)	**6**	6
Deferred tax liabilities	**(526)**	(558)	**(50)**	(29)
Net deferred tax asset (liability) / expense (benefit)	**(100)**	(111)	**(31)**	(22)

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, 2020 and 2019, no deferred tax liability has been recognized on the temporary differences of $318 million (2019 – $120 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,	**2020**	**2019**
Balance, beginning of year	**(111)**	(98)
Impact of the adoption of IFRS 16	**-**	14
Adjusted balance, beginning of year	**(111)**	(84)
Income tax benefit (expense):		
recorded in net income	**46**	42
recorded in OCI	**(15)**	(20)
recorded in equity	**1**	6
Business combinations and other acquisitions	**(24)**	(58)
Exchange rate differences and other	**3**	3
Balance, end of year	**(100)**	(111)
Reported in:		
deferred tax assets	**179**	175
deferred tax liabilities	**(279)**	(286)

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, 2020 and 2019.

Table 24.5 – Unused tax losses and credits

	2020			2019		
As at December 31,	**Total**	**Recognized**	**Expiry date**	**Total**	**Recognized**	**Expiry date**
Unused net operating losses:						
U.S. subsidiaries	**219**	**219**	**2033-2036**	297	297	2033-2037
Canada	**256**	**254**	**2037-2040**	252	246	2037-2039
Unused tax credits:						
U.S. subsidiaries	**29**	**29**	**2030-2040**	32	32	2030-2039
Unused allowable capital losses:						
Canada	**5**	**1**	**No expiry date**	100	100	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 2020, the Canada Revenue Agency and Alberta Tax and Revenue Administration reassessed the Company for additional income tax and interest in respect to the 2013 taxation year. Also, the Company expects to receive a reassessment from Revenu Québec in respect of the 2013 taxation year. These tax authorities are denying certain dividend deductions on the basis that they were part of a "dividend rental arrangement". The total amount of additional income taxes and interests owed for the 2013 taxation year is approximately $11 million. The Company also expects to be reassessed for subsequent years up to 2016 on the same basis. 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,	**2020**	**2019**
Net income attributable to shareholders	**1,082**	754
Less: dividends declared on preferred shares, net of tax	**52**	45
Net income attributable to common shareholders	**1,030**	709
Weighted-average number of common shares outstanding (in millions)	**143.0**	139.5
EPS – basic and diluted (in dollars)	**7.20**	5.08

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,	2020			2019		
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 $)
2017 - 2019	**-**	**-**	**-**	277,572	93.30	26
2017 - 2022	**105,515**	**103.88**	**11**	115,991	103.88	12
2018 - 2020	**458,165**	**105.14**	**48**	494,575	105.14	52
2019 - 2021	**451,640**	**102.36**	**46**	469,658	102.36	48
2020 - 2022	**404,755**	**136.06**	**55**	-	-	-
	1,420,075	**112.64**	**160**	1,357,796	101.70	138

b) Movements in LTIP units

Table 26.2 – Movements in LTIP share units

For the years ended December 31,	2020 (in units)	2019 (in units)
Outstanding, beginning of year	**1,357,796**	1,087,611
Awarded	**370,510**	411,500
Net change in estimate of units outstanding	**(25,549)**	130,264
Units settled	**(282,682)**	(271,579)
Outstanding, end of year	**1,420,075**	1,357,796

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,	2020	2019
Cash-settled plans	**13**	15
Equity-settled plans	**38**	43
	51	58

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,	2020 (in units)	2019 (in units)
Outstanding, beginning of year	**116,036**	131,681
Accrued	**124,076**	118,508
Awarded and vested	**(115,299)**	(129,021)
Forfeited	**(1,699)**	(5,132)
Outstanding, end of year	**123,114**	116,036

(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, 2020 and 2019, the ESPP expense was $14 million.

26.3 Deferred share unit

The DSU is accounted for as a cash-settled plan. For the years ended December 31, 2020, the expense was $3 million ($5 million – December 31, 2019). The DSU provision amounted to $18 million as at December 31, 2020 ($15 million as at December 31, 2019).

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,	2020	2019
Value of common shares repurchased for share-based payments	**49**	43
Less: cumulative cost of the units for the Company	**35**	36
Excess of market price over the cumulative cost for the Company	**14**	7
Amount recognized in Retained earnings, net of taxes	**11**	5

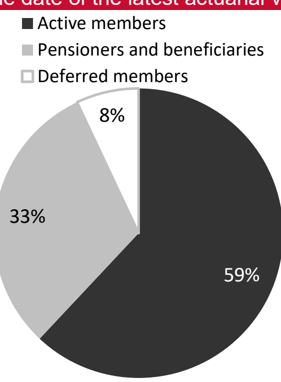
The cumulative cost of the units that vested during the year and were settled through the plan administrator purchasing common shares on the market and remitting them to the participants was removed from Contributed surplus.

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.

(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,	**2020**	**2019**
DB obligation	**(3,151)**	(2,756)
Fair value of plan assets	**2,891**	2,472
Net DB asset (liability)	**(260)**	(284)
Reported in:		
other assets – plans in a surplus position	**-**	-
other liabilities – plans in a deficit position and unfunded plans	**(260)**	(284)
	(260)	(284)
Funded status – funded plans	**97%**	94%

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. The Company's liquidity risk with regards to pension plans is not significant, as inflows from contributions receivable mostly offset 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,	**2020**	**2019**
Balance, beginning of year	**2,756**	2,271
Current service cost	**72**	53
Interest expense on DB obligation	**84**	84
Actuarial losses (gains) due to changes in:		
financial assumptions	**263**	340
plan experience	**34**	30
Employee contributions	**36**	34
Benefit payments	**(94)**	(85)
Business combinations	**-**	29
Balance, end of year	**3,151**	2,756

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.

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

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,	**2020**	**2019**
Balance, beginning of year	**2,472**	2,080
Employer contributions	**51**	47
Employee contributions	**36**	34
Actual return on plan assets		
Interest income on plan assets recognized in Net income	**74**	75
Actuarial gains (losses) recognized in OCI	**356**	299
Benefit payments	**(94)**	(85)
Business combinations	**-**	26
Other	**(4)**	(4)
Balance, end of year	**2,891**	2,472

b) Composition of pension plan assets

Table 27.4 – Composition of pension plan assets

	2020		2019	
As at December 31,	**Fair value**	**% of total**	**Fair value**	**% of total**
Cash and short-term notes	**(7)**	**-**	4	-
Fixed income				
Investment grade				
Government	**1,391**	**48%**	1,198	49%
Corporate	**661**	**23%**	530	21%
Asset-backed	**2**	**-**	2	-
Debt securities	**2,054**	**71%**	1,730	70%
Common shares	**1,043**	**36%**	891	36%
Derivative financial instruments	**59**	**2%**	28	1%
Securities sold under repurchase agreements	**(258)**	**(9)%**	(181)	(7)%
	2,891	**100%**	2,472	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 $59 million in 2021 compared to actual contributions of $51 million in 2020. 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,	**2020**	**2019**
Current service cost	**72**	53
Net interest expense		
Interest expense on DB obligation	**84**	84
Interest income on plan assets	**(74)**	(75)
Other	**4**	4
	86	66

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,	**2020**	**2019**
Remeasurements related to:		
change in discount rate used to determine the DB obligation	**(229)**	(340)
actual return on plan assets	**356**	299
change in other financial assumptions	**(34)**	-
changes in plan experience	**(34)**	(30)
	59	(71)

Remeasurements of the DB obligation and pension plan assets were impacted by the market volatility resulting from the COVID-19 crisis ***(refer to Note 27.6 a) – Assumptions used and sensitivity analysis)***.

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. The COVID-19 crisis impacted the long-term yields of high-quality corporate bonds, which resulted in significant volatility in the discount rate in the first half of the year.

(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,	
	2020	2019	2020	2019
Discount rate:				
determination of DB obligation	**2.71%**	3.15%	**n/a**	n/a
current service cost	**n/a**	n/a	**3.18%**	3.91%
interest expense on the DB obligation	**n/a**	n/a	**2.97%**	3.62%
Rate of increase in future compensation:				
next 3 years	**2.75%**	2.75%	**2.75%**	2.75%
beyond 3 years	**2.49%**	2.34%	**2.34%**	2.39%
Rate of inflation	**1.74%**	1.59%	**1.59%**	1.64%
Life expectancy for pensioners at the age of 65:				
male	**22.2**	22.2	**22.2**	22.2
female	**24.6**	24.6	**24.6**	24.6

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.

The following table presents the sensitivity analysis of the DB pension obligation to key assumptions.

Table 27.8 – Sensitivity of the DB pension obligation to key assumptions

As at December 31,	Change	2020		2019	
		increase	decrease	increase	decrease
Discount rates	1%	**(541)**	**729**	(461)	618
Rate of increase in future compensation	1%	**144**	**(125)**	121	(106)
Rate of inflation	1%	**98**	**(89)**	88	(80)
Life expectancy	One year	**83**	**(83)**	69	(69)

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 (decrease) in life expectancy has been approximated by measuring the impact of members being one year younger (older) than their actual age on the valuation date.

27.7 Risk management and investment strategy

Employee DB provisions expose the Company to balance sheet volatility resulting from changes in actuarial assumptions (such as longevity, interest rates, credit spreads and inflation). 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.

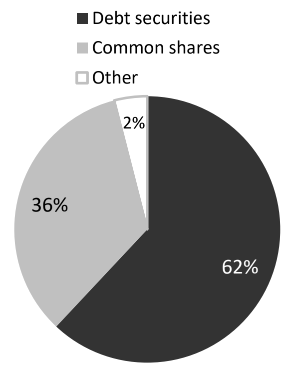
The Management Pension Committee is responsible for the oversight of the pension plans, including the review of the funding policy and investment performance. The Statement of Investment Policies and Procedures of the pension plan (the "SIP&P") formulates investments principles, guidelines and monitoring 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, 2020)



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 72% as at December 31, 2020 (70% as at December 31, 2019).

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, 2020 21% of pension plan assets were invested in Canada Government Real Return Bonds (21% as at December 31, 2019).

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, including the results of the Canadian operations of The Guarantee in 2020.
- Distribution and other include the results from the Company's wholly owned subsidiaries (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, including the results of the U.S. operations of The Guarantee in 2020. 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. In 2019, the results of The Guarantee were included in Corporate and its underwriting results were included in other income (expense) from the acquisition date.

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 PTOI which 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. In addition, the Company presents:

- Other underwriting revenues against Underwriting expenses, as a result, they are not included in segment operating revenues;
- Share of profit from investments in associates & JV before interest and taxes from affiliated brokers ("broker associates");
- Finance costs including finance costs from broker associates.

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***.

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

Table 28.1 – Segment operating performance[1]

	2020				2019			
For the years ended December 31,	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Operating income								
NEP	**9,633**	**1,582**	**5**	**11,220**	8,775	1,431	5	10,211
Investment income	**-**	**-**	**600**	**600**	-	-	599	599
Other	**309**	**-**	**18**	**327**	196	-	50	246
Segment operating revenues	**9,942**	**1,582**	**623**	**12,147**	8,971	1,431	654	11,056
Net claims incurred (before MYA)	**(5,571)**	**(893)**	**(13)**	**(6,477)**	(5,950)	(796)	-	(6,746)
Underwriting expenses	**(2,908)**	**(608)**	**-**	**(3,516)**	(2,462)	(538)	-	(3,000)
Investment expenses	**-**	**-**	**(23)**	**(23)**	-	-	(23)	(23)
Share of profit from invest. in associates & JV	**121**	**-**	**-**	**121**	97	-	-	97
Finance costs	**(11)**	**-**	**(115)**	**(126)**	(10)	-	(110)	(120)
Other	**(155)**	**-**	**(55)**	**(210)**	(84)	-	(73)	(157)
PTOI	**1,418**	**81**	**417**	**1,916**	562	97	448	1,107
Operating income taxes				**(445)**				(202)
NOI				**1,471**				905
PTOI is comprised of:								
underwriting income	**1,154**	**81**	**(8)**	**1,227**	363	97	5	465
net investment income	**-**	**-**	**577**	**577**	-	-	576	576
distribution EBITA and other	**275**	**-**	**-**	**275**	209	-	-	209
finance costs	**(11)**	**-**	**(115)**	**(126)**	(10)	-	(110)	(120)
other income (expense)	**-**	**-**	**(37)**	**(37)**	-	-	(23)	(23)
Investments *(Note 6)*	**-**	**-**	**20,630**	**20,630**	-	-	18,608	18,608
Net claims liabilities *(Table 11.1)*	**9,869**	**1,530**	**-**	**11,399**	8,568	1,422	556	10,546

[1] ***See Section 36 – Non IFRS financial measures*** of the Company's MD&A for the definition and reconciliation 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,	**2020**	**2019**
Segment operating revenues *(Table 28.1)*	**12,147**	11,056
Add: other underwriting revenues	**135**	119
Add: NEP from exited lines	**21**	32
Revenues, as reported	**12,303**	11,207
Segment PTOI *(Table 28.1)*	**1,916**	1,107
Non-operating items[1]:		
net gains (losses)	**182**	165
positive (negative) impact of MYA on underwriting	**(315)**	(125)
amortization of intangible assets recognized in business combinations	**(154)**	(107)
acquisition, integration and restructuring costs	**(115)**	(57)
non-operating pension expense	**(53)**	(48)
underwriting results from exited lines	**(62)**	(66)
other non-operating costs	**(18)**	(19)
Pre-tax income, as reported in the MD&A	**1,381**	850
Less: income taxes from broker associates	**(22)**	(17)
Pre-tax income, as reported	**1,359**	833

[1] ***See Section 35 – Non-operating results*** of the Company's MD&A for the definition of related non-operating measures.

(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,	**2020**	**2019**	**2020**	**2019**
Canada	**10,630**	9,627	**28,235**	24,907
U.S.	**1,673**	1,580	**6,884**	7,385
	12,303	11,207	**35,119**	32,292

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. • 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. • The Guarantee Company of North America • The Nordic Insurance Company of Canada • Trafalgar Insurance Company of Canada
U.S.	• Atlantic Specialty Insurance Company • Intact Insurance Group USA Holdings Inc.	• Intact U.S. Financial Services Inc. • Split Rock Insurance, Ltd. • The Guarantee Company of North America USA

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,	2020	2019
Depreciation of property and equipment[1]	**116**	95
Amortization of intangible assets	**198**	140
Net premiums on debt securities classified as AFS	**31**	15
DB pension expense	**86**	66
Share-based payments expense	**65**	72
Share of profit from investments in associates and joint ventures	**(52)**	(31)
Other	**(7)**	6
	437	363

[1] Includes depreciation of right-of-use assets of leases.

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,	2020	2019
Unearned premiums, net	**375**	274
Premiums receivable, net	**(246)**	(136)
Deferred acquisition costs, net	**(70)**	(63)
Other operating assets	**(124)**	(5)
Other operating liabilities	**295**	35
Dividends received from investments in associates and joint ventures	**27**	20
	257	125

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

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,	2020	2019
Income and expenses reported in:		
net investment income	**5**	6
underwriting expenses	**349**	302
Assets and liabilities reported in:		
loans and other receivables	**279**	294
other payables and other liabilities	**107**	-
commissions payable	**60**	33

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 $28 million for the year ended December 31, 2020 ($27 million – December 31, 2019).

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.

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 $8 million for the year ended December 31, 2020 ($7 million – December 31, 2019). The Company made contributions to pension plans of $51 million for the year ended December 31, 2020 ($47 million – December 31, 2019).

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. ***Refer to Note 10.5 b) – Financial liabilities by contractual maturity and Note 18.2 – Other liabilities for details on lease liabilities.***

a) Other non-cancellable commitments

The following table presents other non-cancellable commitments including operational costs and variable lease payments.

Table 31.1 – Other non-cancellable commitments

As at December 31, 2020	Leases[1]	Other	Total
Less than 1 year	**56**	**61**	**117**
From 1 to 5 years	**179**	**139**	**318**
Over 5 years	**196**	**21**	**217**
	431	**221**	**652**

[1] Includes variable lease payments not based on an index or rate, such as property taxes.

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

b) Amounts recognized in the Consolidated statements of income

Table 31.2 – Amounts recognized in the Consolidated statements of income

For the year ended December 31,	2020	2019
Interest expense on lease liabilities	**13**	13
Operational costs and variable lease payment expenses	**65**	58

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. ***For details on class actions relating to business interruption coverage refer to Note 3.2 – COVID-19 pandemic.***

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 $3.8 billion, or 72% of the Canadian Company's automobile DPW for the year ended December 31, 2020 ($3.6 billion, or 75% – December 31, 2019).

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 original effective date was for annual periods beginning on or after January 1, 2021, however, in June 2019, the IASB issued an exposure draft which proposed amendments to IFRS 17, including the deferral of the effective date by one year to January 1, 2022. In March 2020, the IASB tentatively decided to further extend the deferral of the effective date to January 1, 2023 as well as extend the temporary exemption from applying IFRS 9 as provided by IFRS 4 until the effective date of IFRS 17. In June 2020, amendments to the final standard were issued and the IASB officially extended the deferral of the effective date to January 1, 2023. The Company plans to adopt the new standard on the required effective date together with IFRS 9.

In addition to the deferred effective date, the main amendments that would be applicable to the Company are the following: the recognition of a loss recovery on reinsurance contracts held when an underlying insurance contract is onerous, the transitional reliefs related to contracts acquired in their settlement period and the treatment of accounting estimates in the interim financial statements.

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 issued by the Company.

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 receivables, 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 program structure was put in place, comprised of a dedicated multi-disciplinary team representing Finance, Actuarial and Information Technology. Strong governance was established to assist program sponsors who report regularly to the Executive Steering Committee.

In 2020, the Company progressed in its efforts towards formulating accounting policies, documenting detailed requirements and designing new processes. As well, the Company has made progress with regards to the development and the testing of the technological solutions required for the compliance with IFRS 17 requirements. The Company also continued to have regular discussions with industry groups and other stakeholders regarding adoption and interpretation of the standard. In 2021, the Company is aiming to finalize its accounting policies, monitor regulatory changes, evaluate the impact on processes and continue the development and testing of the technological solutions started in 2020.

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)

33.2 Financial instruments

IFRS 9 is a three-part standard that replaced IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") and is 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 flow 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 Reference to the Conceptual Framework (amendments to IFRS 3)

In May 2020, the IASB issued amendments to IFRS 3 to update references to the revised Conceptual Framework without significantly changing its requirements ***(see Note 4.3 - Conceptual Framework for financial reporting).*** It also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential day 2 gains or losses for some types of liabilities and contingent liabilities. Finally, it clarified existing guidance by explicitly prohibiting the recognition of contingent assets in a business combination.

The amendments apply prospectively to annual periods beginning on or after January 1, 2022, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

33.4 Interest rate benchmark reform – Phase 2

In August 2020, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Leases* ("IFRS 16"). The amendments complement those issued in 2019 ***(see Note 4.4 – Interest rate benchmark reform)*** and focus on the effects on financial statements when an entity replaces an old interest rate benchmark with an alternative benchmark rate as part of the reform.

The amendments clarify that, if the contractual cash flows of a financial instrument are modified as a result of the reform, an entity updates the effective interest rate to reflect the change instead of derecognizing it or adjusting its carrying amount. In addition, hedge accounting relationships shall not be discontinued if changes are required by the reform, as long as the hedge meets other hedge accounting criteria. Finally, additional disclosures about new risks arising from the reform and how the entity manages the transition to alternative benchmark rates are required.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2021, with earlier application permitted. Companies are not required to restate prior periods. The Company is currently assessing the impact of these amendments.

Glossary

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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, 2020 for further details.

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

Adjusted earnings per share (AEPS)[1]
Adjusted net income attributable to common shareholders, divided by the *WANSO*.

Adjusted net income[1]
Net income, as reported under IFRS, adjusted for the after-tax impact of acquisition-related items, such as amortization of intangible assets recognized in business combinations, as well as acquisition and integration costs.

Adjusted net income attributable to common shareholders[1]
Adjusted net income less preferred share dividends.

Adjusted return on equity (AROE)[1]
Adjusted net income attributable to common shareholders for a 12-month period, divided by the *Average common shareholders' equity* over the same 12-month period.

Affiliated brokers
Brokers in which we hold an equity investment or provide financing.

Average common shareholders' equity
Mean of *Common shareholders' equity* at the beginning and end of the period, adjusted on a prorata basis (number of days) for significant capital transactions, if appropriate.

Book value per share
Common shareholders' equity divided by the number of common shares outstanding at the same date.

Case reserves
The liability established to reflect the estimated cost of unpaid claims that have been reported and claims expenses that the insurer will ultimately be required to pay.

Catastrophe losses (CAT 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.

CAT loss ratio
Current year CAT claims plus net reinstatement premiums, expressed as a percentage of *NEP (MD&A basis)* before reinstatement premiums.

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 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.

Claims ratio[1]
Total net claims expressed as a percentage of *NEP (MD&A basis)*.

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.

Common shareholders' equity
Shareholders' equity (excluding preferred shares) determined in accordance with IFRS at the end of a specific period.

Company action levels (CALs)
Thresholds below which regulator notification is required together with a company action plan to restore capital levels. The CAL is 165% MCT for most Canadian insurance subsidiaries effective April 1, 2020 and going forward (previously 170% MCT) and 200% RBC and other CALs in other jurisdictions.

Current year CAT claims
Current accident year *Catastrophe losses*, net of reinsurance, excluding those of exited lines.

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 the impact of industry pools, fronting and 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.

[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.

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 (a specialty managing general agent in Canada) and On Side Developments Ltd. (a Canadian restoration firm).

DPW growth in constant currency[1]

DPW growth, 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 year.

Earnings per share (EPS)

Net income attributable to common shareholders divided by the *WANSO*, as reported in the Consolidated financial statements.

Expense ratio[1]

Underwriting expenses (MD&A basis), expressed as a percentage of *NEP (MD&A basis)*.

Finance costs (MD&A)[1]

Finance costs, as reported under IFRS, adjusted to include finance costs from our broker associates, which are accounted for using the equity method under IFRS.

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.

Income before income taxes (MD&A basis)[1]

Income before income taxes, as reported under IFRS, excluding income taxes from our broker associates, which are accounted for using the equity method under IFRS. In the MD&A, income taxes from our broker associates are included in *Total income taxes (MD&A)*. In the Financial statements, the share of profit (loss) from investments in associates and joint ventures is presented net of taxes.

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.

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. An interest rate hedge ratio below 100% indicates that funded status of the pension plans would increase if government bonds yield rise, all else equal.

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

The annualized total pre-tax investment income (before expenses) divided by the average net investments. Average net investments are defined as the mid-month average fair value of net equity and fixed-income securities held during the reporting period.

Market yield adjustment (MYA)

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.

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 exited lines.

[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.

Net income attributable to common shareholders
Net income, as reported under IFRS, less preferred share dividends.

Net operating income (NOI)[1]
Net income, as reported under IFRS, excluding the after-tax impact of *Non-operating results*.

Net operating income attributable to common shareholders[1]
Net operating income, less preferred share dividends.

Net operating income per share (NOIPS)[1]
Net operating income attributable to common shareholders, divided by the *WANSO*.

Net premiums written (MD&A basis)[1]
Direct premiums written (MD&A basis) plus assumed premiums (external and industry pools) less ceded premiums (reinsurers and industry pools).

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 pension expense
Difference between the asset return (interest income on plan assets) calculated using the expected return on plan assets versus the IFRS discount rate. The expected return better reflects our operating performance given our internal investment management expertise and the composition of our pension asset portfolio.

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, *Acquisition, integration and restructuring costs*, Net gains (losses), *Non-operating pension expense, Market yield adjustment* on underwriting, *Underwriting results of 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, as well as direct losses related to the COVID-19 crisis.

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]
Net operating income attributable to common shareholders for a 12-month period, divided by the *Average common shareholders' equity* (excluding accumulated other comprehensive income) over the same 12-month period.

Other income (expense)[1]
Include general corporate expenses and income, consolidation adjustments, regulatory fees related to our public company status, special projects and other operating items.

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.

Pre-tax operating income (PTOI)[1]
Comprises of the following items (MD&A basis): *Underwriting income*, Net investment income, *Distribution EBITA and Other, Finance costs* and *Other income (expense)*.

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.

PYD (MD&A basis)[1]
Prior year claims development (IFRS), net of reinsurance, excluding the PYD related to exited lines.

PYD ratio[1]
PYD (MD&A basis), expressed as a percentage of *NEP (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.

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.

Return on equity (ROE)
Net income attributable to common shareholders for a 12-month period, divided by the *Average common shareholders' equity* over the same 12-month period.

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 (CALs) in regulated entities plus available cash and investments in unregulated entities.

Total income taxes (MD&A)[1]
Income tax expense, as reported under IFRS, adjusted to include income taxes from our broker associates, which are accounted for using the equity method under IFRS.

Total net claims[1]
Claims incurred, net of reinsurance (as determined in accordance with IFRS), excluding the *Impact of MYA on underwriting results*, adjustment for *Non-operating pension expense* and net claims of exited lines.

Underlying current year loss ratio[1]
Total net claims, excluding *Current year CAT claims* and prior year claims development, expressed as a percentage of *NEP (MD&A basis)* before reinstatement premiums.

Underwriting expenses (MD&A basis)[1]
Underwriting expenses, net of reinsurance and other underwriting revenues, including commissions, premium taxes and general expenses related to underwriting activities but excluding the adjustment for non-operating pension expense and underwriting expenses of exited lines.

Underwriting income (MD&A basis)[1]
NEP (MD&A basis) less *Total net claims* and *Underwriting expenses (MD&A basis)* for a specific period.

Underwriting results of exited lines
Included the results of the U.S. Commercial's business Programs, Architects and Engineers, Healthcare (effective July 1, 2019), as well as BC auto exit (effective in Q4-2020).

WANSO
Weighted-average number of common shares outstanding on a daily basis during a specific period.

Written insured risks
The number of vehicles in personal automobile insurance and the number of premises in personal property insurance written for 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.

Five-Year Financial History

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This table contains non-IFRS financial measures. Refer to Section 36 – Non-IFRS financial measures of the MD&A for the year-ended December 31, 2020 for further details.

	2020	2019	2018	2017	2016	3-year average	5-year average	10-year average
Consolidated performance								
Direct premiums written[1]	**12,039**	11,049	10,090	8,730	8,277	**11,059**	**10,037**	**8,478**
Net earned premiums[1]	**11,220**	10,211	9,715	8,530	7,946	**10,382**	**9,524**	**8,083**
Underwriting income[1]	**1,227**	465	474	486	375	**722**	**605**	**504**
Net investment income	**577**	576	541	448	429	**565**	**514**	**461**
Distribution EBITA and Other[1]	**275**	209	175	158	134	**220**	**190**	**139**
Net operating income[1]	**1,471**	905	839	771	660	**1,072**	**929**	**791**
Non-operating gains (losses)[1]	**(535)**	(257)	(147)	(36)	(156)	**(313)**	**(226)**	**(158)**
Effective income tax rate[1]	**21.7%**	11.3%	21.4%	17.0%	22.2%	**18.1%**	**18.7%**	**18.5%**
Net income attributable to shareholders	**1,082**	754	707	792	541	**848**	**775**	**683**
Combined ratio[1]	**89.1%**	95.4%	95.1%	94.3%	95.3%	**93.2%**	**93.8%**	**93.9%**
Per share measures ($)								
Net operating income per share[1]	**9.92**	6.16	5.74	5.60	4.88	**7.27**	**6.46**	**5.69**
Earnings per share	**7.20**	5.08	4.79	5.75	3.97	**5.69**	**5.36**	**4.90**
Book value per share	**58.79**	53.97	48.73	48.00	42.72	**53.83**	**50.44**	**42.65**
Dividend per common share	**3.32**	3.04	2.80	2.56	2.32	**3.05**	**2.81**	**2.29**
Return on equity								
Operating return on equity[1]	**18.4%**	12.5%	12.1%	12.9%	12.0%	**14.3%**	**13.6%**	**14.4%**
Adjusted return on equity[1]	**15.0%**	11.4%	11.8%	13.0%	11.0%	**12.7%**	**12.4%**	**13.7%**
Return on equity	**12.8%**	10.0%	9.9%	12.8%	9.6%	**10.9%**	**11.0%**	**12.2%**
Underwriting performance								
P&C Canada								
Direct premiums written[1]	**10,216**	9,399	8,601	8,423	8,277	**9,405**	**8,983**	**7,946**
Net earned premiums[1]	**9,633**	8,775	8,332	8,204	7,946	**8,913**	**8,578**	**7,610**
Combined ratio[1]	**88.0%**	95.9%	95.2%	94.2%	95.3%	**93.0%**	**93.7%**	**93.9%**
Personal auto								
Direct premiums written[1]	**4,322**	4,067	3,750	3,818	3,792	**4,046**	**3,950**	**3,562**
Net earned premiums[1]	**4,187**	3,818	3,727	3,782	3,704	**3,911**	**3,844**	**3,495**
Combined ratio[1]	**86.6%**	97.7%	99.5%	101.7%	99.9%	**94.6%**	**97.1%**	**95.5%**
Personal property								
Direct premiums written[1]	**2,586**	2,337	2,186	2,135	2,030	**2,370**	**2,255**	**1,924**
Net earned premiums[1]	**2,444**	2,184	2,098	2,040	1,880	**2,242**	**2,129**	**1,811**
Combined ratio[1]	**81.7%**	92.5%	88.3%	89.1%	90.9%	**87.5%**	**88.5%**	**91.9%**
Commercial lines – Canada								
Direct premiums written[1]	**3,308**	2,995	2,665	2,470	2,455	**2,989**	**2,779**	**2,465**
Net earned premiums[1]	**3,002**	2,773	2,507	2,382	2,362	**2,761**	**2,605**	**2,304**
Combined ratio[1]	**95.1%**	96.0%	94.6%	86.5%	91.5%	**95.2%**	**92.7%**	**93.0%**
P&C U.S. (in canadian dollars)[2]								
Direct premiums written[1]	**1,823**	1,650	1,489	307	-	**1,654**	**n/a**	**n/a**
Net earned premiums[1]	**1,582**	1,431	1,380	326	-	**1,464**	**n/a**	**n/a**
Combined ratio[1]	**94.9%**	93.2%	94.8%	97.4%	-	**94.3%**	**n/a**	**n/a**
Financial condition								
Total assets	**35,119**	32,292	28,461	27,838	22,866	**31,957**	**29,315**	**24,827**
Total capital margin	**2,729**	1,222	1,333	1,135	970	**1,761**	**1,478**	**1,028**
Debt-to-total capital ratio	**24.1%**	21.3%	22.0%	23.1%	18.6%	**22.5%**	**21.8%**	**20.4%**

1 These are non-IFRS financial measures. See glossary on page 196 for definitions.
2 2017 only includes Q4 results.

Three-Year Quarterly Financial History

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This table contains non-IFRS financial measures. Refer to Section 36 – Non-IFRS financial measures of the MD&A for the year-ended December 31, 2020 for further details.

	2020				2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance												
Direct premiums written[1]	2,872	3,264	3,382	2,521	2,670	3,012	3,152	2,215	2,392	2,708	2,908	2,082
Net earned premiums[1]	2,879	2,863	2,712	2,766	2,692	2,581	2,500	2,438	2,509	2,462	2,410	2,334
Underwriting income (loss)[1]	415	369	284	159	229	198	75	(37)	210	152	93	19
Net investment income	143	143	141	150	142	146	148	140	143	136	137	125
Distribution EBITA and Other[1]	72	81	78	44	45	56	72	36	42	41	62	30
Net operating income[1]	467	411	350	243	303	277	212	113	281	237	201	120
Non-operating gains (losses)[1]	(125)	(114)	(130)	(166)	(109)	(119)	(62)	33	(44)	(37)	(46)	(20)
Effective income tax rate[1]	20.4%	22.9%	19.1%	27.9%	13.4%	20.8%	15.0%	(14.0)%	21.8%	23.5%	21.5%	15.6%
Net income attributable to shareholders	378	334	263	107	240	187	168	159	244	199	161	103
Combined ratio[1]	85.6%	87.1%	89.5%	94.3%	91.5%	92.3%	97.0%	101.5%	91.7%	93.8%	96.1%	99.2%
Per share measures ($)												
Net operating income per share[1]	3.18	2.78	2.35	1.61	2.08	1.91	1.44	0.73	1.93	1.62	1.38	0.81
Earnings per share	2.55	2.25	1.74	0.66	1.63	1.26	1.13	1.06	1.67	1.34	1.10	0.68
Book value per share	58.79	56.22	53.95	51.71	53.97	51.20	49.90	50.21	48.73	49.27	48.64	47.32
Dividend per common share	0.83	0.83	0.83	0.83	0.76	0.76	0.76	0.76	0.70	0.70	0.70	0.70
Return on equity												
Operating return on equity[1]	18.4%	16.9%	15.6%	14.0%	12.5%	12.4%	12.0%	11.9%	12.1%	11.6%	11.9%	12.4%
Adjusted return on equity[1]	15.0%	13.4%	12.0%	11.0%	11.4%	11.6%	12.1%	12.3%	11.8%	11.2%	11.3%	12.3%
Return on equity	12.8%	11.5%	10.1%	9.2%	10.0%	10.2%	10.6%	10.6%	9.9%	9.8%	10.0%	11.7%
Underwriting performance												
P&C Canada												
Direct premiums written[1]	2,471	2,724	2,896	2,125	2,328	2,491	2,727	1,853	2,067	2,239	2,534	1,761
Net earned premiums[1]	2,446	2,479	2,330	2,378	2,302	2,234	2,155	2,084	2,129	2,114	2,069	2,020
Combined ratio[1]	84.0%	86.0%	89.0%	93.3%	92.0%	91.8%	97.4%	102.9%	90.8%	93.9%	96.6%	99.8%
Personal auto												
Direct premiums written[1]	984	1,214	1,242	882	941	1,126	1,204	796	818	1,003	1,137	792
Net earned premiums[1]	1,087	1,081	990	1,029	1,007	962	939	910	934	939	935	919
Combined ratio[1]	82.6%	84.9%	84.7%	94.6%	96.5%	93.4%	99.5%	101.9%	97.3%	99.9%	95.6%	106.4%
Personal property												
Direct premiums written[1]	623	719	753	491	566	653	679	439	517	606	640	423
Net earned premiums[1]	630	620	601	593	566	555	537	526	534	531	521	512
Combined ratio[1]	73.2%	83.7%	88.6%	81.8%	82.0%	89.1%	99.6%	99.8%	78.5%	83.8%	102.7%	88.3%
Commercial lines – Canada												
Direct premiums written[1]	864	791	901	752	821	712	844	618	732	630	757	546
Net earned premiums[1]	729	778	739	756	729	717	679	648	661	644	613	589
Combined ratio[1]	95.3%	89.4%	95.1%	100.7%	93.5%	91.8%	92.8%	106.7%	91.6%	94.9%	92.9%	99.5%
P&C U.S. (in canadian dollars)												
Direct premiums written[1]	401	540	486	396	342	521	425	362	325	469	374	321
Net earned premiums[1]	432	383	381	386	389	346	343	353	379	347	340	314
Combined ratio[1]	92.0%	94.5%	93.2%	100.1%	88.8%	95.9%	94.8%	94.0%	96.7%	93.5%	93.8%	95.3%
Financial condition												
Total assets	35,119	34,110	33,184	32,229	32,292	30,103	29,580	28,806	28,461	28,540	28,410	27,330
Total capital margin	2,729	1,871	1,707	1,485	1,222	1,116	1,269	1,367	1,333	1,177	1,243	1,067
Debt-to-total capital ratio	24.1%	21.2%	22.1%	24.1%	21.3%	19.3%	21.6%	21.5%	22.0%	21.7%	22.5%	23.4%

[1] These are non-IFRS financial measures. See glossary on page 196 for definitions.

ESG content map

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The Company's disclosure with respect to environmental, social and governance factors is included across our annual disclosure documentation:

- **2020 Annual Report (which includes the Company's consolidated financial statements and Management's Discussion and Analysis for the fiscal year ended December 31, 2020)**
- **2020 Annual Information Form**
- **2021 Management Proxy Circular**
- **2020 Social Impact Report**

You will find below a quick and easy guide to where you can find our ESG content:

	Pages			
	2020 Annual Report	**2020 Social Impact Report**	**2021 Management Proxy Circular**	**2020 Annual Information Form**
Environmental				
Carbon emissions		58		
Climate adaptation and resiliency	53 to 55, 81 to 82	28 to 33		
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Shareholder and Corporate Information

Credit rating

	A.M. Best	DBRS	Fitch	Moody's
IFC senior unsecured debt ratings	a-	A	A-	Baa1
Intact U.S. (OneBeacon) senior unsecured debt ratings	a-	A	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+	AA(low)	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, Non-cumulative Class A Series 6 preferred shares, Non-cumulative Rate Reset Class A Series 7 preferred shares and Non-cumulative Class A Series 9 preferred shares (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 and special meeting of the shareholders
Date: Wednesday, May 12, 2021
Time: 1:00 p.m. (Eastern Time)
Place: Virtual-only meeting via live webcast. The webcast will be available at https://web.lumiagm.com/439189203. 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.

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

Auditors
Ernst & Young LLP

Earnings conference call dates
Q1 – May 12, 2021
Q2 – July 28, 2021
Q3 – November 10, 2021
Q4 – February 9, 2022

Investor inquiries
Ryan Penton, Director, Investor Relations
416 341 1464 ext. 45112
ryan.penton@intact.net

Media inquiries
Jennifer Beaudry, Manager, Media Relations
1 514 282 1914, ext. 87375
jennifer.beaudry@intact.net

Dividend reinvestment
Shareholders can reinvest their cash dividends in common shares of Intact Financial Corporation on a commission-free basis either through a broker, subject to eligibility as determined by the broker, or through Canadian ShareOwner Investments Inc. Full details can be obtained by visiting the 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. 15, 2020	**Dec. 31, 2020**	**$0.83**
Sept. 15, 2020	**Sept. 30, 2020**	**$0.83**
June 15, 2020	**June 30, 2020**	**$0.83**
Mar. 16, 2020	**Mar. 31, 2020**	**$0.83**
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

Common share prices and volume

	High	Low	Close	Volume
2020 Q1	**$157.65**	**$104.81**	**$121.63**	**27,168,157**
2020 Q2	**$143.10**	**$117.54**	**$129.21**	**25,805,748**
2020 Q3	**$147.81**	**$128.61**	**$142.58**	**16,552,737**
2020 Q4	**$157.74**	**$131.94**	**$150.72**	**18,551,508**
2020 YE	**$157.74**	**$104.81**	**$150.72**	**88,078,150**
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

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.

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Intact Financial Corporation
700 University Avenue
Toronto, Ontario M5G 0A1

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