INTACT FINANCIAL CORPORATION
ANNUAL REPORT 2021

Our Purpose, Values and Core Belief

We are here to help people, businesses and society prosper in good times and be resilient in bad times.

Our Values guide our decision-making, keep us grounded, help us outperform and are key to our success.

Integrity

Be honest, open and fair

Set high standards

Stand up for what is right

Respect

Be kind

See diversity as a strength

Be inclusive and collaborate

Customer-driven

Listen to our customers

Make it easy, find solutions

Deliver second-to-none experiences

Excellence

Act with discipline and drive to outperform

Embrace change, improve every day

Celebrate success, yet remain humble

Generosity

Help others

Protect the environment

Make our communities more resilient

People are at the heart of our organization – and of our success. How we do things is just as important as what we achieve. We are a purpose-driven company based on values and a belief that insurance is about people, not things.

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What we are aiming to achieve

Our customers are our ADVOCATES

3 out of 4 customers are our advocates

4 out of 5 brokers value our specialized expertise

Our people are ENGAGED

We are a **best employer**

Our employees and leaders are **representative of the communities we serve**

Our company is one of the MOST RESPECTED

3 out of 4 stakeholders recognize us as leaders in building resilient communities

Achieve **Net Zero by 2050**, and halve our operations emissions by 2030

Exceed industry **ROE by 5pts**

Grow NOIPS **10% yearly over time**

Our strategic roadmap

10% NOIPS GROWTH ANNUALLY OVER TIME

500 bps ANNUAL ROE OUTPERFORMANCE*

Expand our leadership position in Canada

- Leading customer experience
- 3 out of 4 customers digitally engaged
- Scale in distribution
- Further consolidation in Canada
- Outperform industry combined ratio by 5 pts

Strengthen our leading position in UK & Ireland

- Leading customer experience
- 3 out of 4 customers digitally engaged
- Optimize Underwriting performance
- Focus footprint for outperformance
- Low 90's combined ratio

Build a Specialty Solutions leader

- Specialized customer value proposition
- Expand distribution
- Profitable & growing mix of verticals
- Consolidate fragmented market
- Low 90's combined ratio

Transform our competitive advantages

- Global leader in leveraging data and AI for pricing and risk selection
- Deep Claims expertise & strong supply chain network
- Strong capital & investment management expertise

STRENGTHEN OUR OUTPERFORMANCE MINDSET

Invest in our people

- Be a best employer
- Be a destination for top talent & experts
- Future proof our people to succeed

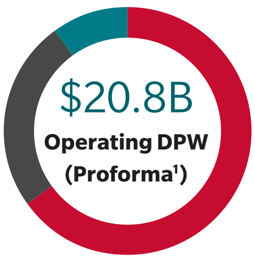
*Based on a weighted-average industry ROE of P&C insurers in Canada, US and the UK.

A leading provider of P&C insurance, with a proven track record of industry outperformance

Largest provider of P&C insurance in Canada with some of the strongest brands in the market, a leading provider of global specialty insurance, and a leader in personal and commercial lines in the UK and Ireland.

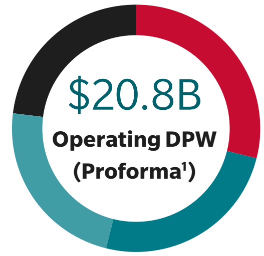
$36.7B
Investment portfolio

26,000 +
employees



65% Canada
25% UK & International
10% US

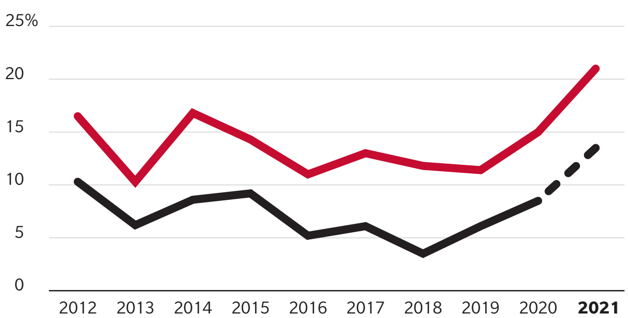
UK and International includes UK, Ireland, Europe and Middle East.



29% Personal auto
25% Personal property
23% Specialty lines
23% Commercial lines

Industry Outperformance

Adjusted return on equity[2]



- Intact
- Industry (country weighted)
- Estimate[4]

14.1%
Intact[3] 2012-2021 average

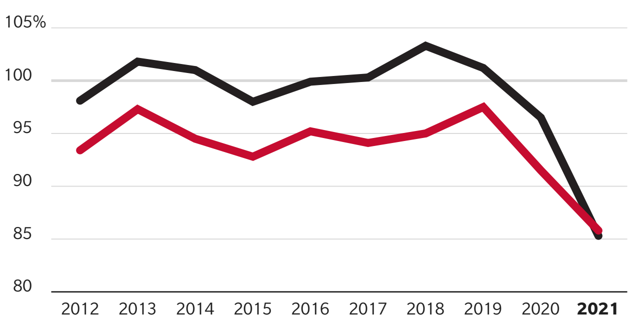
6.4 pts
2012-2021 average outperformance

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

Canada combined ratio

4.8 pts
2012-2021 average outperformance

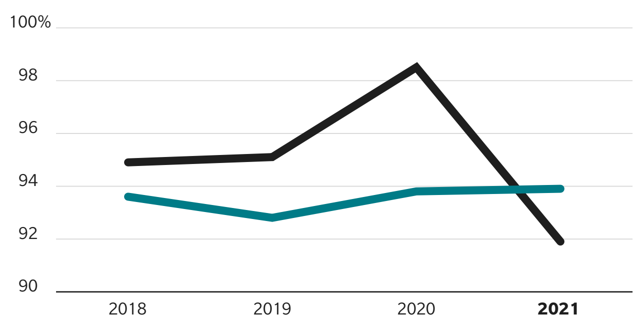
- Intact Canada
- Benchmark[5]



US combined ratio

1.6 pts
2018-2021 average outperformance

- Intact US
- Benchmark[6]



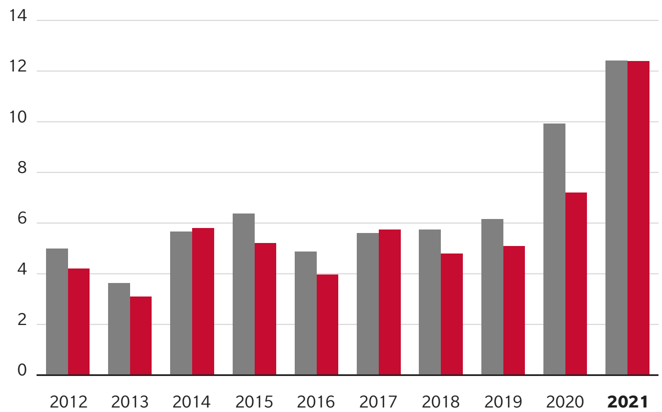
Our sophisticated pricing, underwriting discipline and in-house claims expertise enable us to outperform the industry benchmark combined ratio.

1 Includes the impact of the RSA Acquisition for a full year.
2 Adjusted return on equity is a non-GAAP financial measure. See Section 38 – Non-GAAP and other financial measures of the MD&A for the definition and reconciliation to the most comparable GAAP measure.
3 IFC's ROE outperformance is measured against the weighted-average industry ROE. The weighting is based on deployed capital as follows: 2017 and prior Canada 100%; 2018 to 2020 Canada 80% and US 20%; 2021 Canada 74%, US 15%, UK 11%. Canada industry data is based on MSA. US industry data is based on NAIC statutory filings for the top 200 US P&C insurance entities and includes comparability adjustments.
4 Includes estimated UK industry ROE.
5 Canada industry benchmark consists of the 20 largest comparable companies in the P&C industry based on MSA.
6 US industry benchmark consists of the 11 most relevant competitors in the P&C industry, for which reliable and comparable information is publicly available.

Consolidated Financial Highlights

NOIPS[1] and EPS

(in $ per share)

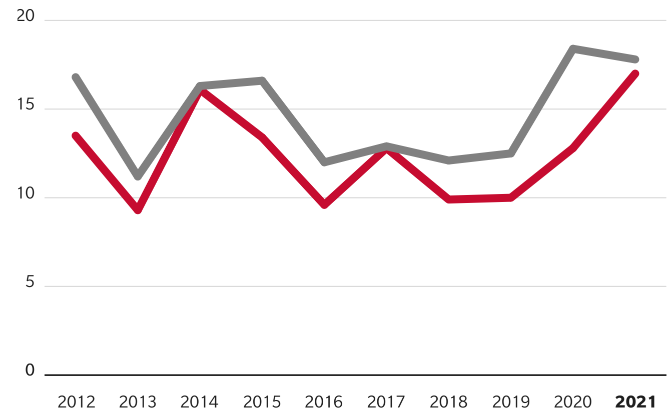


12%
NOIPS 10 year CAGR

12%
EPS 10 year CAGR

OROE[1] and ROE[1]

(%)

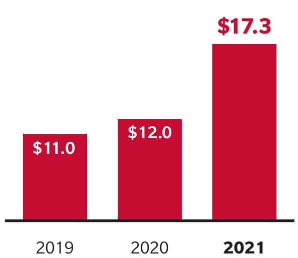


14.7%
10 year average OROE

12.4%
10 year average ROE

Operating DPW[1]

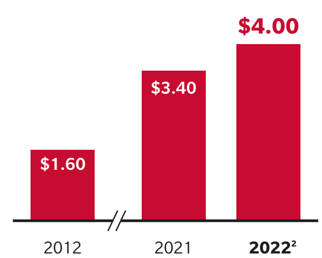
(in $ billions)



13%
Operating DPW[1] 10 year CAGR

Growth reflects increased scale, strong growth from acquisitions and organic expansion.

Dividend per common share



10%
10 year CAGR

Track record of dividends increase; this represents the 17th increase since initial public offering in 2005.

2021 Drivers of Operating Performance

Operating combined ratio[1]
88.8%

Net investment income
$706M

Distribution income[1]
$362M

2021 Financial strength

Book value per share
$82.34

Adjusted debt-to-total capital ratio[1]
23.0%

Total capital margin
$2.9B

1 These are non-IFRS financial measures. See Section 38 – Non-GAAP and other financial measures of the MD&A for the definition and reconciliation to the most comparable GAAP measures.
2 Annual dividend for 2022 is projected.

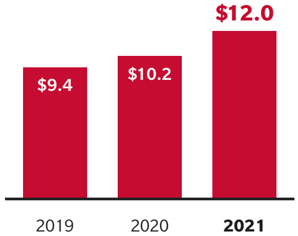
Canada

Largest P&C provider with broad-based capabilities and scale advantage

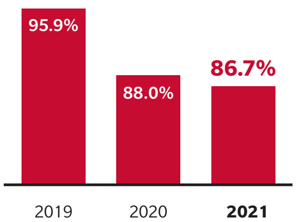
- **Largest provider of P&C insurance in Canada** with an approximate market share of 20%, supported by the strongest brands in the marketplace.
- **Coast to coast presence and broad product portfolio comprised** of two thirds personal lines and one third commercial lines.
- **Multi-channel distribution platform** focused on leading digital solutions and second-to-none customer experience.
- **Industry-leading capabilities in pricing, risk selection and claims management.**
- **Track record** of industry outperformance on return on equity.
- **The successful integration of RSA** remains a key focus.
- **We will continue to expand our leadership position in Canada** through delivering a second to none customer experience, driving scale in distribution, accelerating digital engagement and pursuing further consolidation opportunities.

Operating DPW[1]

(in $ billions)



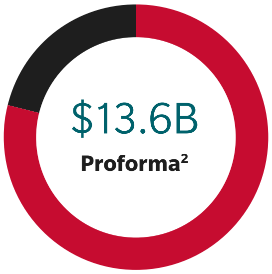
Operating combined ratio[1]



2021 Performance

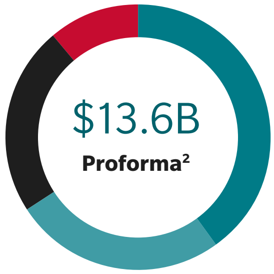
	Personal auto	Personal property	Commercial lines
Operating DPW[1]	$4.8B	$3.1B	$4.1B
Operating Combined Ratio[1]	86.9%	83.8%	88.6%

Operating DPW[1]



79% Brokers and MGAs

21% Direct



40% Personal auto

26% Personal property

23% Commercial lines

11% Specialty lines

Total number of employees

~ 20,000

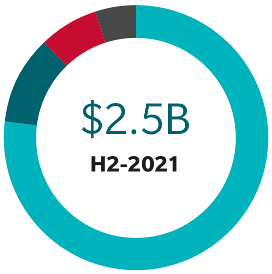
1 These are non-GAAP financial measures. See glossary on page 232 for definitions.
2 Includes the impact of the RSA Acquisition for a full year.

UK and International

Leading Positions in the UK & Ireland

- **Leading Personal and Commercial insurer in UK and Ireland.**
- **Strong UK domestic commercial product** offering through brokers under the RSA brand, with an emphasis on mid-market risks.
- **Multinational, Specialty, and Wholesale risks** served through the London market and European operations.
- **Strong presence in UK personal insurance** serving clients through the direct insurance brand MORE TH>N and affinity partners.
- Focus is on:
  - **scaling most profitable portfolios;**
  - **improving underwriting performance** by leveraging risk selection, data and analytics, and claims management expertise; and
  - **simplifying the business and investing in technology** to improve efficiency and customer experience.

Operating DPW[1]



77% UK
11% Ireland
7% Europe
5% Middle-East

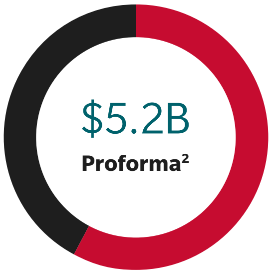
Operating combined ratio[1]

93.4%
H2-2021

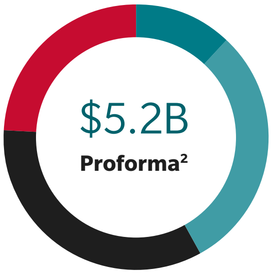
H2-2021 Performance

	Personal lines	Commercial lines
Operating DPW[1]	$1.1B	$1.4B
Operating Combined Ratio[1]	97.0%	90.5%

Operating DPW[1]



58% Brokers and MGAs
42% Direct



12% Personal auto
30% Personal property
34% Commercial lines
24% Specialty lines

Total number of employees

5,000 +

[1] These are non-GAAP financial measures. See glossary on page 232 for definitions.
[2] Includes the impact of the RSA Acquisition for a full year.

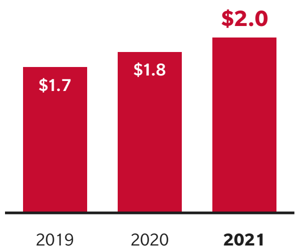
United States of America

Strongly positioned in the US Specialty Insurance market

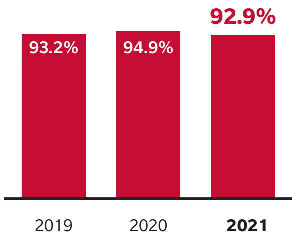
- **Deep expertise across a broad range of specialty insurance** products and services tailored to meet the unique needs of specific industry segments or customer groups.
- **Conduct business in all 50 states** under the Intact Insurance Specialty Solutions brand and sold through independent agencies, regional and national brokers, and wholesalers and managing general agencies.
- **Strong profitability underpinned by** more sophisticated pricing and predictive models, deep expertise in underwriting and loss control, as well as improved efficiency primarily through IT investments.
- **Build a Specialty Solutions leader** by expanding in outperforming businesses, building out existing distribution relationships, delivering a specialized customer value proposition and consolidating a fragmented market.

Operating DPW[1]

(in $ billions)



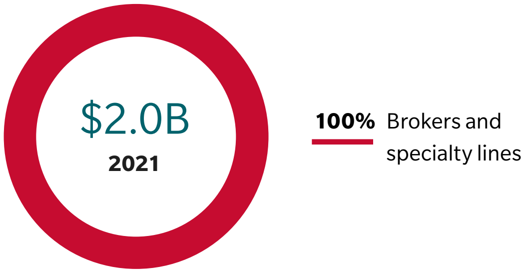
Operating combined ratio[1]



2021 Performance

	Specialty lines
Operating DPW[1]	$2.0B
Operating Combined Ratio[1]	92.9%

Operating DPW[1]



Total number of employees

~ 1,400

[1] These are non-GAAP financial measures. See glossary on page 232 for definitions.

CEO's Letter

Chief Executive Officer
Charles Brindamour

Dear Shareholders:

The world continues to face an unprecedented period of upheaval. From the ongoing socio-economic impacts of the pandemic and the increasing incidence of extreme weather, to the humanitarian crisis inflicted by the war in Ukraine, it remains an unsettling time.

At Intact, we live our Values of integrity, respect, customer-driven, excellence and generosity no matter how tough the environment is. Because we believe that values are more important than results. And those values have been most helpful in guiding our actions over the past year. In times like this it is also important to focus on why we exist: to help people, businesses and society prosper in good times and be resilient in bad times.

As I reflect on the past year, I believe our people have lived these values and have been focused on helping to create a resilient society.

We manage Intact to ensure that we can be there for customers and employees in all conditions. That's why we entered the pandemic from a position of strength. Our financial performance and strategic advances last year are a testament to this philosophy. There is no doubt in my mind that our strategic position and financial strength have dramatically improved over the last year. Values, strategy and financial performance are fundamental to our ability to help customers and society.

In fact, it was a milestone year at Intact. We completed our largest acquisition, onboarded 9,000 new colleagues, entered new markets, and all that while delivering very strong results.

We built massive capabilities – investing heavily to position the business for future success. Technology investments in Canada and the U.S. improved the broker and customer experience, making it easier for our employees to support them. We continued to improve risk selection through our advanced AI capabilities and our claims operations through supply chain management. We began to bring the specialty lines business together under a global platform, demonstrating an impressive growth trajectory.

Our people – now 26,000 strong – continued to bring their best every day. They helped customers get back on track as quickly as possible in a year dominated by floods, wildfire, wind and hail. These events have vividly demonstrated how vulnerable communities are to the physical impacts of climate change. As we prepare for a net zero world over the next 30 years, we must double down on adapting to the current impacts of extreme weather. At Intact, we have built a comprehensive climate transition strategy over the last year that does just that.

We finished 2021 with an opportunity set that is ten times greater than it was just five years ago. I believe we have the people, the capabilities and the strategy to win where we play. More importantly, we have demonstrated that we can win and help society at the same time.

2021 Performance in Review

We made excellent progress against our financial objectives in 2021. We did this while integrating RSA, managing the impacts of severe weather and the pandemic, and making new investments in the business.

Net operating income per share (NOIPS) grew 25% to $12.41 in 2021 and operating ROE stood at 17.8%, driven by robust underwriting and distribution income, as well as meaningful accretion from RSA.

Our overall combined ratio of 88.8% reflected strong underlying performance and favourable prior year claims development. Operating direct premiums written grew 45% to $17.3 billion, fuelled by the RSA acquisition and solid organic growth.

Net investment income increased 22%, mainly on account of growth in the investment portfolio following the RSA acquisition. In our distribution business, income grew 32% to $362 million, driven by higher variable commissions and accretive acquisitions.

The integration of RSA is on track across all geographies. With a 12% accretion to NOIPS in the seven months since the transaction closed, we have increased confidence in the quality of the acquired portfolio and expected synergies.

Our balance sheet remains strong, with $2.9 billion of total capital margin and solid regulated capital ratios in all jurisdictions. With the sale of our 50% stake in Codan DK expected to close in the first half of 2022, the adjusted debt-to-total capital ratio will return to our target of 20%.

Given solid momentum across the business and a robust balance sheet, we were pleased to increase the quarterly dividend by 10% to $1.00 per share and initiate a share buyback program in February 2022.

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 an estimated ROE outperformance of 750 bps in 2021. Our track record over the past decade is strong, with NOIPS compounding at 12% annually and our estimated ROE outperformance averaging 640 bps.

Outlook

As economies emerge from the pandemic, we expect to operate in an inflationary environment, with dislocation in supply chains and a tight labour market. Interest rates will most likely continue to rise in the near- to-mid-term. While economies are currently robust, we expect to operate in a period of suppressed growth over the mid-term. The war in Ukraine and the resulting humanitarian crisis will exacerbate these conditions. As a result, we remain prudent in managing our resources. We will focus on identifying and managing claims inflation while being open to the opportunities presented in this environment.

We have observed that natural disasters have increased by a factor of four over the last thirty years. This trend will continue unabated in the coming decade. We remain proactive in managing climate inflation and capitalizing on the need for protection across the markets in which we operate.

Looking specifically at the insurance industry where we operate, we expect poor pre-pandemic underwriting performance, inflationary pressures, the war in Ukraine and capital markets volatility will keep capacity and supply of insurance tight. This will result in rising prices in the near to mid term. As an outperformer with a solid capital position, this environment plays to our strengths.

In Canada, we expect firm market conditions to continue in personal property, while personal auto rates remain tempered in the pandemic environment.

In commercial lines across the U.S., Canada, and the UK & Ireland, firm pricing conditions are expected to continue. In UK personal lines, near-term industry growth levels are uncertain as companies navigate the recently introduced pricing reforms.

Strategy

The acquisition of RSA makes us bigger and, more importantly, better. To capitalize on this, we have updated our strategic objectives, outlining what we aim to achieve and how we intend to get there as described in our strategic roadmap.

We have three strategic objectives that are common across Canada, the U.S. and in the UK and Europe through the RSA Group. It starts with our customers – we want *3 out of 4 customers to be our advocates*, meaning they would be willing to recommend us to friends and family. We also aspire to have *4 out of 5 brokers value our specialized expertise* to ensure we are equipping them to provide the solutions and advice our mutual customers are seeking.

Employees are at the heart of our success and our second objective is to ensure our people are engaged. We measure this through engagement surveys, benchmarking against *best employer* status. Last year we also added a measure to ensure *our employees and leaders are representative of the communities we serve*.

Our third objective is to ensure that we are one of the most respected companies. Our financial measures include *exceeding industry ROE by five points* and *growing NOIPS by 10% yearly over time*. We've also added two non-financial metrics – to have *3 out of 4 stakeholders recognize us as leaders in building resilient communities*. And new for 2022 – *to achieve net zero overall by 2050 and halve our corporate operations emissions by 2030*.

While ESG factors have always been embedded in our strategy, these refreshed objectives make it easier to see our concrete targets in relation to people, the planet and sustainable profitability.

We made substantial progress in advancing our roadmap in 2021, and it is evolving rapidly in 2022. Here are some key highlights:

Expand our Leadership Position in Canada

We continued to expand our leadership position – growing by 30% in Canada – with the acquisition of RSA in 2021. We immediately established a collaborative approach despite a virtual working environment. This helped us onboard employees in Canada faster than any previous acquisition. The integration is on track and remains a top priority in 2022. Louis Gagnon and his team are doing a brilliant job.

Our distribution footprint is second to none in the industry. We serve a wide range of customers, from those who want a simplified experience through belairdirect to the advice-based service at Intact Insurance and the specialized offerings at Intact Prestige. And we now provide affinity insurance solutions through the Johnson Affinity Groups.

We also distribute products on behalf of other insurers through BrokerLink, which also had a banner year, completing 21 acquisitions and expanding its reach coast to coast. This business now generates over $2.5 billion in annual premiums and ranks among the largest brokerages in Canada. Distribution income is approaching $400 million annually and is a significant driver of our ROE outperformance. BrokerLink also achieved all-time highs in customer satisfaction this year.

We continued to ramp up our digital engagement with customers, as use of our self-service tools increased another 10% in 2021. In fact, more than half of our customers connected with us digitally last year. We also saw 23% growth in Client Centre account registrations with 1.75 million Intact Financial customers now registered.

Updated versions of both the belairdirect and Intact Insurance mobile apps were launched to improve the customer experience, resulting in a 30% increase in mobile app log-ins.

Most of all, I'm proud of how we delivered for customers in what was another challenging year. From the continuing waves of the pandemic to increasingly intense weather, we really stepped up to get our customers back on track.

Strengthen our Leading Position in the UK & Ireland

In our UK & International operations we are focusing on where we will win in the next 24 months. A strategic review is nearing completion to develop a mid-term roadmap that will position the business for outperformance.

As part of that review, we've identified the biggest priorities. Strengthening pricing sophistication tops that list and we have a new Data Lab team dedicated to this work. We will also look to capitalize on opportunities in the mid-market and regions, and invest in technology to increase the business' agility.

We have a very talented team in the UK&I and we continue to build on that strength. In addition to the appointment of Ken Norgrove as CEO, changes were made in commercial lines, specialty lines and underwriting teams to ensure that the right talent and structure are in place to execute and deliver on our strategic roadmap.

Build a Specialty Solutions Leader

The RSA acquisition has substantially transformed our Specialty Lines capabilities. Intact Global Specialty Lines is operating in four major markets – Canada, U.S., UK, and Europe. The addition of RSA's London Market and European businesses broadens our distribution footprint, provides existing specialty business access to new regions, and ensures that customers and brokers can benefit from the full breadth of specialized expertise across the organization. We can now reach 70% of the global specialty solutions market.

It's important to provide some context on how much stronger this business is. Five years ago, when we welcomed Mike Miller to Intact, Specialty Lines was generating $500 million in premiums. Now thanks to Mike's leadership, we are close to $5 billion with a combined ratio below 90% in 2021. With the addition of the UK&I business, our outperforming platform in North America now has new capabilities, an even stronger team and global access. The economics of this business are very compelling, and it is a cornerstone of our growth strategy.

Transform our Competitive Advantages

Our track record of ROE out-performance is solid averaging at 640 bps over the last decade. But we don't take past success for granted. We remain focused on challenging our recipe to ensure we capitalize on a changing world when it comes to how technology is changing how people live. Transforming our competitive advantages is key to our ability to outsmart our competitors. Investing in digital acceleration, AI, claims expertise and supply chain penetration is mission critical and a big differentiator.

The Data Lab continued to rapidly develop and deploy data and AI applications throughout our business, with over 200 models in production. Key deliverables were focused on improving our pricing and risk selection capabilities. We also accelerated our deployment of machine learning models in claims to accelerate cycle times, in sales to reduce time required for call quality control, and to improve our capabilities in Intact Investment Management.

We made major IT investments to modernize our core systems in both Canada and the U.S. this year and we will begin similar investments in the UK&I. Our new Omnichannel platform in Canada allows customers to interact with us seamlessly by phone, email, text or chat.

Insourcing claims service over time has been a key advantage for us and has resulted in better customer satisfaction levels. As part of the RSA integration in Canada we hired more claims employees this year. Our team grew to 5,000 including 200 new people for our claims legal team. We continued to expand digital options for customers, connecting in many forms, including via 73,000 texts, and providing 75% of claims payments via e-transfer.

On Side, our Canadian property restoration company, is the largest such firm in Canada with 40 branches and more than 1,400 employees. On Side played a critical role during an active extreme weather year. Two-thirds of On Side related claims had coverage confirmed within two hours and this helped Intact achieve record customer satisfaction scores for claims services provided during catastrophes. Extreme weather will continue to intensify despite best efforts to reduce carbon emissions, and the restoration business will be an important area of growth and customer satisfaction.

Our people in finance, risk, capital and Intact Investment Management have taken the organization to a whole new level, operating among the best global teams. Intact Investment Management now has almost $37 billion in assets under management, and will play an active role in encouraging investees to disclose their net zero ambitions while continuing to generate strong returns.

Invest in Our People

Our people are at the heart of our strategy. It is critical that we have an engaged and mobilized workforce that is proud of what they do and enjoy and trust their colleagues. We continued to invest in building an inspiring and inclusive workplace this year despite the challenges of remote and hybrid work.

With 9,000 new colleagues we are now a global team of more than 26,000. The talent pool is very impressive – our people are top-notch across our markets and in our shared services functions.

While our talent pool is now even stronger, we remain focused on attracting and retaining top talent and experts. We offer an environment where people can shape the future, win as a team and grow with us. Retention and recruitment will be a key focus for us in 2022 in an increasingly tight labour market.

We continued to take concrete actions in diversity and inclusion this year to ensure our employees and leaders represent the communities we serve. We are addressing diversity at all levels of the organization, including the Board of Directors. Our ***Count Me In!*** campaign in Canada exceeded our objectives in 2021, with nearly 80% of employees sharing diversity information – helping us build better career pathways. Our UK&I business became a signatory to the Race at Work Charter and the Women in Finance Charter.

It was an intense year for our employees. Caring for people – one of our leadership success factors – was more important than ever. We enhanced our existing mental health and resilience supports. For example, in Canada we provided access to ***LifeSpeak***, an online platform offering employees real-time access to expert mental health support. And in the UK&I we provided refresher training to our network of 170 certified mental health first aiders.

I am proud that these efforts have not gone unnoticed. We were named a Best Employer in Canada, the U.S. and North America by Kincentric in 2021. This is the sixth year running for Canada and the third consecutive year for the U.S. In 2022, we will begin to measure engagement across more markets including our UK business.

Social Impact and Climate

The pandemic has tested many aspects of society in an extraordinary way. Expectations are changing at a pace never seen before, and businesses are responding.

As I wrote at the beginning of this letter, values really matter in a crisis. At Intact, our Values have always informed how we define success. That success includes how we help our customers, employees and society, and must be backed by concrete actions.

Our social impact strategy defines how we help our communities, and it reflects our Value of generosity. Our mandate is focused on resilience. Building resiliency applies to climate change and to creating opportunities for families and children living in poverty. We believe our expertise, scale and resources can help accelerate meaningful solutions to these complex challenges.

We've been on the front lines of climate change for more than a decade, helping our customers recover from the devastating impacts of extreme weather, while actively managing the risks in our business. We've recognized the importance of shifting from climate defence to offence to find the intersection of helping and winning. Our soon-to-be launched climate transition strategy seeks to find that balance and incorporate an inclusive approach with our partners and customers.

Intact's global five-part climate plan includes the following commitments:

1. Achieving net zero by 2050 and halving emissions from our corporate operations by 2030;
2. Doubling down to help people adapt to climate change;
3. Shaping climate-friendly behaviour among customers;
4. Enabling the transformation of industries key to the transition; and
5. Collaborating with governments and industry to accelerate climate action.

In doubling down on adaptation, we have increased our investment in the Intact Centre on Climate Adaptation at the University of Waterloo to $10.5 million over ten years. The Intact Centre also helped us launch a $1 million Municipal Climate Resiliency Grant program to help municipalities adapt to climate change.

In addition, we will soon announce an exciting partnership with the Nature Conservancy of Canada, an NGO leading the way on natural infrastructure conservation and stewardship.

We will also be ramping up our climate resiliency partnerships in the UK&I, and the U.S. starting in 2022. RSA Group invested nearly £300k in 2021 on partnerships that support nature-based solutions, protect biodiversity and offset carbon emissions.

Severe weather often impacts the most vulnerable people in their communities. We are beginning to look at how we can build both climate and economic resiliency among vulnerable populations. While we can't eliminate complex, deep-rooted societal problems overnight, we can take immediate and concrete actions to help find solutions.

We've invested $3.7 million globally in strategic partnerships that create opportunity for children and families living in poverty – activating local solutions in education and social mobility; employment and financial inclusion; and food security. And we will continue to explore the intersection of climate change and poverty and what we can do to help.

In reflecting more broadly on the social upheaval of the last two years, we need to work harder at finding common ground versus focusing on what separates us. And businesses can do a better job of finding out how their unique strengths can contribute to solving society's biggest problems. At Intact, we believe the intersection between winning and helping is where strong and sustainable performance can best be found.

Conclusion

While the world around us continues to be tough to navigate, Intact had an outstanding year in 2021. Building on our strong momentum we are focusing on five key areas in 2022:

1. Continuing the successful integration of RSA operations in Canada, building out our Global Specialty Lines platform, and transitioning the UK&I to sustainable outperformance over time;
2. Expanding our leadership positions where we operate by delivering for our customers through continued investments in our brands, distribution, technology and digital capabilities;
3. Transforming our competitive advantages by accelerating our data and AI advantage, and by continuing to leverage our size in claims and supply chain management;
4. Accelerating the deployment of our climate strategy across the globe; and
5. Investing in our people to attract and retain top talent and experts and ease the transition to a flexible hybrid work environment.

I want to take a moment to talk about our Board. Claude Dussault, our Chairman, has indicated that he will retire at the end of his term. Claude has served as Board chair since 2008, director since 2000, and as President and CEO of the company from 2001 to 2007. Claude has been instrumental in the development and execution of our vision and strategy over the last decade. I thank him for his leadership and guidance. I'm also very pleased that Bill Young will become Chairman at our Annual Meeting. I look forward to working closely with Bill and the Board to build on our track record.

Most of all, I thank our employees across our markets for their passion and dedication in continuing to deliver service that is second to none to customers and brokers over the last year. While the world may continue to experience volatility and upheaval for some time, we have a strong financial foundation and a proven ability to thrive in difficult environments. We are well positioned for continued growth and success, with a strong team and an ambitious strategy.

Charles Brindamour
Chief Executive Officer

Chairman's Letter

Chairman of the Board
Claude Dussault

2021 was an outstanding year for Intact, marked by the completion of the RSA acquisition. The business has grown significantly since the acquisition, and we are establishing a truly global specialty solutions platform. As the world continues to navigate the uncertainties of the pandemic, Intact has had to adapt its business to changing circumstances, and our strong financial position has underpinned our ability to evolve and grow.

Intact ended the year in a position of strength. Our premiums increased 45%, with RSA contributing 40 points, and our net operating income per share was up 25%. The RSA integration is on track. We welcomed 9,000 new colleagues and entered new markets. Momentum across the business is strong.

These results stem from a solid business strategy that aims to build and retain a strong and engaged team, have customers be our advocates, and be recognized as respected leaders and industry experts. The Board is pleased that Intact has once again been recognized as one of Canada's most respected companies, attaining the top position in The Globe & Mail Board Games 2021 rankings for a second year in a row. This reflects the company's strong governance, purpose and Values.

A company's success directly reflects its team, which is why Intact aims to attract, retain, and develop high-performing employees with a wide range of experiences, abilities, and backgrounds. One of Intact's strategic objectives is to reflect the communities it serves and we established goals to achieve greater diversity on our Board in 2021. Bringing diverse perspectives to the table is key to building an engaged team and this will strengthen our position in the market.

Intact was founded on a belief that insurance is about people, not things – with a purpose to help people, businesses, and society prosper in good times and be resilient in bad times. On top of the challenges brought on by the pandemic, climate change and extreme weather have made 2021 a difficult year for customers, brokers, and employees across our markets. For Intact, addressing broader social issues such as climate is a fundamental part of business strategy and Environmental, Social, Governance (ESG) principles. This was an essential priority for the Board in 2021, as we supported Management on charting a low carbon/net-zero path for the company. We invite you to read more about how Intact manages climate change and works to build a resilient society in the upcoming **Social Impact Report**.

Another critical aspect of Intact's strong governance and Values is the regular communications among shareholders, the Board and Management. In the past year, I and other members of the Board met virtually with shareholders who together represented approximately 42% of our investor base. We believe it is important to maintain an ongoing dialogue with our shareholders, both at the Board level as well as with Management.

I want to take a moment to thank the members of the Board of Directors for their leadership and dedication that have guided Intact through challenges and uncertainty, helping it reach the strong position it is in today. I thank Tim Penner, who is retiring after twelve years of service on the Board, providing us with the benefit of his experience and guidance on, among others, our Human Resources and Compensation Committee as well as our Compliance Review and Corporate Governance Committee. His contribution over the past twelve years is extremely valued by his fellow Directors. I am pleased to welcome Stephani Kingsmill as a nominee for election to our Board at this year's Annual Meeting of Shareholders. Should she be elected, our Board will have an equal number of men and women directors.

After fourteen years as Chair of the Board and eight years before that as CEO of Intact, the time has come for me to retire and pass on the torch. I'm thrilled to hand it to Bill Young, an exceptional director who has had significant experience leading the boards of major Canadian public companies. His knowledge and expertise have already contributed significantly to the success of the company, and I know Intact will continue to prosper under his leadership.

I would also like to thank Charles Brindamour and his Executive team. They have done an extraordinary job growing Intact into the strong, global company it is today. Their calm and steadfast leadership in the face of challenges gives me great confidence that Intact will continue to prosper and serve the interests of all stakeholders.

Finally, as I sign off on my last letter as Chairman, I want to thank employees, customers, brokers, and shareholders for their continued trust and support. Intact's strength, resilience and commitment to excellence were made clear yet again this year, and I look forward to seeing the company continue to outperform for many years to come.

Claude Dussault
Chairman of the Board

Board of Directors

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

Charles Brindamour
Chief Executive Officer

Emmanuel Clarke (1), (4)
Corporate Director

Janet De Silva (1), (4)
President & CEO of Toronto Region Board of Trade

Jane E. Kinney (1), (2)
Corporate Director

Robert G. Leary (3), (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

Dr. Indira Samarasekera (2), (3)
Corporate Director and Senior Advisor, Bennett Jones, LLP

Frederick Singer (1), (2)
Corporate Director

Carolyn A. Wilkins (1), (4)
Senior Research Scholar at the Griswold Center for Economic Policy Studies, Princeton University

William L. Young (1), (2)
Corporate Director, Chair, 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 Officers*

Charles Brindamour
Chief Executive Officer

Ken Anderson
Chief Financial Officer and Executive Director, RSA UK&I

Patrick Barbeau
Executive Vice President & Chief Operating Officer

Sonya Côté
Senior Vice President and Group Chief Internal Auditor

Frédéric Cotnoir
Executive Vice President & Chief Legal Officer and Secretary

Debbie Coull-Cicchini
Executive Vice President, Intact Insurance (excluding Québec)

Anne Fortin
Executive Vice President, Direct Distribution and Chief Marketing and Communications Officer

Louis Gagnon
Chief Executive Officer, Canada

Darren Godfrey
Executive Vice President, Global Specialty Lines

Charlotte Jones
Chief Financial Officer, UK&I

Louis Marcotte
Executive Vice President & Chief Financial Officer

Timothy Michael Miller
Chief Executive Officer, Global Specialty Lines

Benoit Morissette
Executive Vice President, Chief Risk & Actuarial Officer

Werner Muehlemann
Executive Vice President & Managing Director, Intact Investment Management Inc.

Ken Norgrove
Chief Executive Officer, UK&I

Carla Smith
Executive Vice President & Chief People, Strategy and Climate Officer

*As at February 8, 2022.

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 121**;
Financial Statements – **pages 1 to 89**.

INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the year ended December 31, 2021

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

INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the year ended December 31, 2021

(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 (the "Board") for the year ended December 31, 2021. 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, 2021, compared to the corresponding periods in 2020. It should be read in conjunction with our Consolidated financial statements for our fiscal year ended December 31, 2021. This MD&A is dated February 8, 2022.

"Intact", the "Company", "IFC", "we" and "our" are terms used throughout this 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***.

On June 1, 2021, together with the Scandinavian P&C leader Tryg A/S, we completed the acquisition of RSA Insurance Group plc (RSA). RSA's results of operations and balance sheet are included in our Consolidated financial statements from the closing date. Effective in Q3-2021, the operating DPW and underwriting income of RSA's Canadian and UK&I operations are reported in their respective segments. The new UK&I segment includes RSA's operations in the UK, Ireland, Europe and the Middle East. *See Section 7 – UK&I for more details.*

- Abbreviations and definitions of selected key terms used in this MD&A are defined in *Section 42 – Glossary and definitions.*
- Other insurance-related terms are defined in *Section 42 – Glossary and definitions* of our MD&A, as well as in the glossary available in the "Investors" section of our web site at ***www.intactfc.com***.
- 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%.

Non-GAAP and other financial measures

We use both GAAP measures ("reported"), as well as non-GAAP financial measures and ratios to assess our performance. Non-GAAP financial measures and Non-GAAP financial ratios (which are calculated using non-GAAP 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-GAAP financial measures** included in the MD&A and other financial reports are: operating DPW, operating NPW, operating NEP, operating net claims, operating net underwriting expenses, underwriting income, distribution income, total finance costs, other operating income (expense), operating and total income tax expense (benefit), PTOI, NOI, NOI attributable to common shareholders, pre-tax income, non-operating results, adjusted net income, adjusted average common shareholder's equity, adjusted average common shareholder's equity (excluding AOCI), debt outstanding (excluding hybrid debt), debt outstanding and preferred shares (including NCI) and adjusted total capital.

The **Non-GAAP ratios** included in the MD&A and other financial reports (other than Consolidated financial statements) are:

- operating growth and operating growth in constant currency (for both operating DPW and NPW);
- operating NEP growth and operating NEP growth in constant currency;
- operating combined ratio, claims ratio (including underlying current year loss ratio, CAT loss ratio and PYD ratio) and expense ratio (including commissions ratio, general expenses ratio and premium taxes ratio);
- operating and total effective income tax rates;
- NOIPS and AEPS, as well as ROE, OROE and AROE;
- book value per share (BVPS) excluding AOCI; and
- adjusted debt-to-total capital ratio and total leverage ratio.

We believe that similar measures and ratios are widely used in the industry and provide investors, financial analysts, rating agencies and other stakeholders with a better understanding of our business activity and financial results over time, in line with how management analyse performance. Non-GAAP and other financial measures used by management are fully defined and reconciled to the corresponding GAAP measures. We also use other financial measures to assess our performance, including supplementary financial measures and segment measures, which are further presented in the MD&A.

See Section 38 – Non-GAAP and other financial measures for the definition and reconciliation to the most comparable GAAP measures (or "reported measures").

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, 2021, and are subject to change after that date. This MD&A contains forward-looking statements with respect to the acquisition (the "RSA Acquisition") and integration of RSA Insurance Group PLC ("RSA") and the sale (the "Sale") of Codan Forsikring A/S's Danish business ("Codan DK") to Alm. Brand A/S group ("Alm.Brand"), the separation and transfer of the businesses in Sweden and Norway from Codan DK (the "Separation"), the receipt of all requisite approvals or clearances of the Separation and the Sale in a timely manner and on terms acceptable to the Company, the realization of the expected strategic, financial and other benefits of the Sale 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 realization of the expected strategic, financial and other benefits of the RSA Acquisition, the Separation and the Sale, and economic and political environments and industry conditions. However, the completion of the Sale is subject to customary closing conditions, termination rights and other risks and uncertainties, including, without limitation, the Separation, regulatory approvals and clearances, and there can be no assurance that the Sale will be completed in a timely manner, or at all. There can also be no assurance that the strategic and financial benefits expected to result from the RSA Acquisition, the Separation or the Sale, 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;
- government regulations designed to protect policyholders and creditors rather than investors;
- 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;
- intense competition and disruption;
- 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 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;
- 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 ability to achieve synergies arising from successful integration plans relating to acquisitions;
- 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;
- COVID-19 related coverage issues and claims, including certain class actions and related defence costs, could negatively impact our claims reserves;
- terrorist attacks 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 dependence on and ability to retain key employees;
- the cyclical nature of the P&C insurance industry;
- management's ability to accurately predict future claims frequency and severity,
- the Company's ability to successfully pursue its acquisition strategy;
- the Company's ability to execute its business strategy;
- management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the Separation, the Sale and resulting impact on growth and accretion in various financial metrics;
- unfavourable capital markets developments or other factors that may adversely affect Alm.Brand's ability to complete the Sale;
- the Company's ability to improve its combined ratio, retain existing and attract new business, attract and retain key employees with the in-depth knowledge and necessary skills, maintain market position arising from successful integration plans relating to the RSA Acquisition, as well as management's

- the Company's ability to contain fraud and/or abuse;
- periodic negative publicity regarding the insurance industry;
- 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 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 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;
- litigation and regulatory actions, including with respect to the COVID-19 pandemic;
- 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;
- 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 participation in the Facility Association (a mandatory pooling arrangement among all industry participants) and similar mandated risk-sharing pools;
- 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 Company's ability to hedge exposures to fluctuations in foreign exchange rates;
- future sales of a substantial number of its common shares;
- the Company's ability to meet its net zero carbon emission targets; 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 8, 2022 are qualified by these cautionary statements and those made in the section entitled Risk management (*Sections 30-35*) of this MD&A for the year ended December 31, 2021 and the Company's Annual Information Form for the year ended December 31, 2021. 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 – We are here to help people, businesses and society prosper in good times and be resilient in bad times.

Our values guide us – Our values guide our decision-making, keep us grounded, help us outperform and are key to our success.

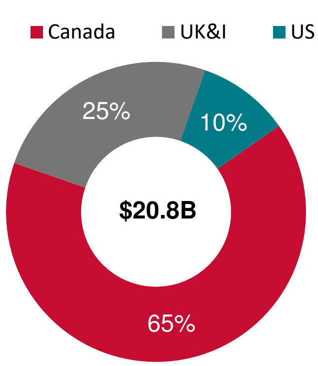
Our Values	Integrity | Respect | Customer Driven | Excellence | Generosity

People are at the heart of our organization, and of our success – How we do things is just as important as what we achieve. We are a purpose-driven company based on values and a belief that insurance is about people, not things.

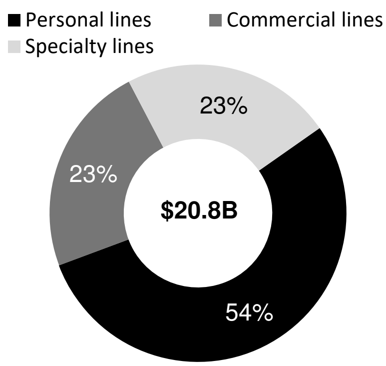
1.2 What defines us

- A global team of more than 26,000 employees putting our collective strengths to work – supporting customers and brokers and delivering on the key strategies and best in class operations that are essential to the success of Intact Financial Corporation.
- Largest provider of P&C insurance in Canada, a leading specialty lines insurer with international expertise and a leader in personal and commercial lines in the UK and Ireland. Our business has grown organically and through acquisitions to over $20 billion of total annual premiums.
- In Canada, we distribute insurance under the Intact Insurance and RSA brands through a wide network of brokers, including our wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect. We also provide affinity insurance solutions through the Johnson Affinity Groups. In the US, Intact Insurance Specialty Solutions provides a range of specialty insurance products and services through independent agencies, regional and national brokers, and wholesalers and managing general agencies. Across the UK, Ireland, Europe and the Middle East, we provide personal, commercial and specialty insurance solutions through the RSA brands.

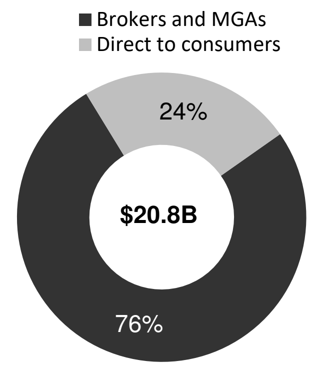
2021 Operating DPW (pro forma)[1] by business segment



2021 Operating DPW (pro forma)[1] by type



2021 Operating DPW (pro forma)[1] by distribution channel



[1] Operating DPW (proforma) include the impact of the RSA Acquisition for a full year, which is a better indication of our annual premiums. There is no equivalent GAAP measure.

Section 2 - Segments and lines of business

Following the RSA Acquisition on June 1, 2021, we now report our financial results under the three business segments and lines of business set out below. The composition of our segments is aligned with our internal financial reporting based on management structure and geography.

Reportable business segments			
Canada (CAN) Segment	**UK and International (UK&I)**	**US Segment**	**Group reinsurance, Corporate and Other (Corporate)**
Underwriting and distribution activities in Canada. **Three lines of business:** Personal auto Personal property Commercial lines	Underwriting activities in the UK, Ireland, Europe and the Middle East. **Two lines of business:** Personal lines Commercial lines	Underwriting activities in the US. **One line of business:** Commercial lines	Activities managed centrally, including investing related to P&C insurance, reinsurance, treasury and capital management. Corporate also includes **RSA's Canadian and UK&I underwriting results for the month of June 2021**

Intact Financial Corporation

Personal auto – CANADA
We provide various levels of coverage to our customers for their vehicles, including accident benefits, third party property and physical damage. Our coverage is also available for motor homes, recreational vehicles, motorcycles, snowmobiles and all terrain vehicles.

Personal property – CANADA
We provide various levels of protection to our customers for their homes and contents from risks such as fire, theft, vandalism, water damage and other damages, as well as personal liability coverage. Property coverage is also available for tenants, condominium owners, non-owner-occupied residences and seasonal residences.

Commercial lines (including specialty lines) – CANADA
We provide a broad range of coverages tailored to the needs of a diversified group of small to medium-sized businesses. Commercial property coverages protect the physical assets of a business. 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.

Personal lines – UK&I
We provide various levels of coverage to our customers for their home, motor, pet and other insurance products in the UK, Ireland and the Middle East.

Commercial lines (including specialty lines) – UK&I
We provide a broad range of general insurance, specialty lines and risk management expertise for businesses and other organisations in the UK, Ireland, the Middle East, France, Belgium, Spain and the Netherlands.

Commercial lines (specialty lines) – US
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, technology, ocean marine, inland marine, 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, cyber and environmental.

Specialty lines

Specialty lines are embedded in the commercial operations of each segment. Specialty is about focus and deep knowledge of a unique customer segment (such as marine, technology, entertainment and public entities) or product niche (such as surety, excess property, multi-national programs, management liability and cyber). With the RSA Acquisition, we have strengthened our leading North American specialty lines platform, introduced new specialized verticals in Canada, and with a broader distribution footprint, provided existing specialty franchises access to new regions and expanded support for multinational customers.

Section 3 - Building sustainable competitive advantages

We have many unique advantages which have enabled us to consistently outperform P&C insurers in the markets where we operate. These competitive advantages, which we will continue to strengthen and leverage, 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 broker relationships across Canada, US, UK and Europe 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.
Leading 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.
Best Employer	• Our people are the cornerstone to execution of our strategy. As a Best Employer, we attract, retain and engage 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 US, the UK and Europe) and lines of business (personal, commercial and specialty). • Our growing stream of distribution income, 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 and strong supply chain network	• The majority of our claims are handled in house with the support of our preferred network of suppliers. • We have invested directly in our auto and property 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 of the strategy. • We are a proven industry consolidator with 18 successful acquisitions since 1988, including the RSA Acquisition, which has expanded our leadership position in Canada and advanced our objective to build a global specialty solutions leader in Canada, the US, the UK and Europe. • 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 highlights

Q4-2021 Highlights

- **NOIPS[1] of $3.78 for Q4-2021 and $12.41 for 2021** increased by 19% and 25%, respectively, driven by robust underwriting and distribution income, and meaningful accretion from RSA
- **EPS growth of 51% for Q4-2021 and 72% for 2021**, reflecting strong operating results and investment gains
- **Operating DPW[1] grew 75% for the quarter and 45% for 2021,** mainly from RSA, with healthy organic growth in commercial lines
- **Operating combined ratio[1] of 87.8% for Q4-2021,** as strong underlying performance outweighed elevated CAT losses
- **OROE[1] of 17.8% and ROE of 17.0%,** with BVPS growth of 40% to $82.34
- **Quarterly dividend increased by 10% to $1.00** per common share and initiating share buyback program

Table 1 - Consolidated performance[1]

	Section	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW[1] *(growth in constant currency)*	*4.2*	**5,017**	2,872	75%	**17,283**	12,039	45%
Direct premium written *(reported DPW growth)*		**5,318**	2,928	82%	**17,994**	12,143	48%
Operating NEP[1]		**4,931**	2,879	71%	**16,043**	11,220	43%
Net earned premiums		**5,003**	2,899	73%	**16,238**	11,241	44%
Operating income							
Underwriting income[1]	*4.2*	**600**	415	45%	**1,787**	1,227	46%
Net investment income	*10.1*	**220**	143	54%	**706**	577	22%
Distribution income[1]	*6.5*	**77**	72	7%	**362**	275	32%
Total finance costs[1]	*4.2*	**(43)**	(32)	nm	**(162)**	(126)	nm
Other operating income (expense)[1]		**4**	2	100%	**(25)**	(37)	nm
Pre-tax operating income (PTOI)[1]	*5.1*	**858**	600	43%	**2,668**	1,916	39%
NOI attributable to common shareholders[1,2]		**666**	454	47%	**2,017**	1,419	42%
Net income		**701**	378	85%	**2,088**	1,082	93%
Claims ratio[1]		**56.2%**	55.1%	1.1 pts	**55.9%**	57.8%	(1.9) pts
Expense ratio[1]		**31.6%**	30.5%	1.1 pts	**32.9%**	31.3%	1.6 pts
Operating combined ratio[1]	*4.2*	**87.8%**	85.6%	2.2 pts	**88.8%**	89.1%	(0.3) pts
Per share measures, basic and diluted (in dollars)							
NOIPS[1]	*4.2*	**3.78**	3.18	19%	**12.41**	9.92	25%
EPS	*4.2*	**3.85**	2.55	51%	**12.40**	7.20	72%
BVPS[1]	*28.7*	**82.34**	58.79	40%			
Return on equity for the last 12 months							
OROE[1]	*4.2*	**17.8%**	18.4%	(0.6) pts			
AROE[1]		**21.0%**	15.0%	6.0 pts			
ROE[1]	*4.2*	**17.0%**	12.8%	4.2 pts			
Total capital margin	*28.2*	**2,891**	2,729	162			
Adjusted debt-to-total capital ratio[1]	*28.2*	**23.0%**	24.1%	(1.1) pts			

[1] *See Section 38 – Non-GAAP and other financial measures for the definition and reconciliation to the most comparable GAAP measures.*
[2] Net of preferred share dividends and net income attributable to non-controlling interests. *See table 45 for more details.*

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

4.2 Consolidated performance

Effective July 1, 2021, RSA's underwriting results are reported as part of the Canada and UK&I segments. The operating DPW and underwriting income of RSA's Canadian and UK&I operations for the month of June 2021 are included in Corporate and Other.

Table 2 – Consolidated underwriting performance

	Section	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW *(growth in constant currency)*							
Canada	*6.1*	**3,283**	2,471	33%	**12,023**	10,216	18%
UK&I	*7.1*	**1,274**	n/a	nm	**2,538**	n/a	nm
US	*8.1*	**460**	401	19%	**1,988**	1,823	17%
Corporate (RSA for June 2021)		**n/a**	n/a	nm	**734**	n/a	nm
IFC		**5,017**	2,872	75%	**17,283**	12,039	45%
Operating combined ratio							
Canada	*6.1*	**84.4%**	84.0%	0.4 pts	**86.7%**	88.0%	(1.3) pts
UK&I	*7.1*	**93.0%**	n/a	nm	**93.4%**	n/a	nm
US	*8.1*	**92.5%**	92.0%	0.5 pts	**92.9%**	94.9%	(2.0) pts
Corporate (RSA for June 2021)		**n/a**	n/a	nm	**90.7%**	n/a	nm
IFC		**87.8%**	85.6%	2.2 pts	**88.8%**	89.1%	(0.3) pts

	Q4-2021 vs Q4-2020	2021 vs 2020
Operating DPW growth *(in constant currency)* *(Sections 6-8)*	• **On a constant currency basis, overall premium growth of 75%,** bolstered by the RSA Acquisition, which contributed 69 points. • **Excluding this impact, premium growth was 6% for Q4-2021 and 5% for 2021** on a constant currency basis, driven by solid growth in commercial lines across all segments.	• **On a constant currency basis, overall premium growth of 45%,** bolstered by the RSA Acquisition, which contributed 40 points.
Underwriting performance *(Sections 6-8)*	• **Overall operating combined ratio was solid at 87.8%,** with strength across all segments, despite 3.8 points ($186 million) of CAT losses, well above expectations for the fourth quarter.	• **Overall operating combined ratio was strong at 88.8%**, after absorbing $676 million (4.2 points) of CAT losses, reflecting strong underlying performance across all lines and favourable PYD.
Net investment income *(Section 10.1)*	• **Net investment income increased by 54% to $220 million,** driven by the growth in our investment portfolio following the RSA Acquisition and including a special dividend of $23 million from one of our investments.	• **Net investment income increased by 22% to $706 million,** mainly driven by the growth in our investment portfolio following the RSA Acquisition.
Distribution income *(Section 6.5)*	• **Distribution income grew by 7% compared to a strong Q4-2020,** driven by the impact of accretive acquisitions.	• **Distribution income grew by 32%**, driven by higher variable commission revenues, as well as accretive acquisitions.
Total finance costs	• **Total finance costs of $43 million for Q4-2021 and $162 million for 2021** were higher than last year, due to the impact of the RSA Acquisition.	
NOIPS	• **NOIPS of $3.78 improved by 19% compared to a very strong Q4-2020,** driven by meaningful accretion from RSA, as well as robust underwriting and investment income. *See Section 21.2 – Integration and transition of more details on RSA NOIPS accretion.*	• **NOIPS increased by 25% to $12.41,** driven by continued strong underwriting and distribution performances, and the addition of RSA.

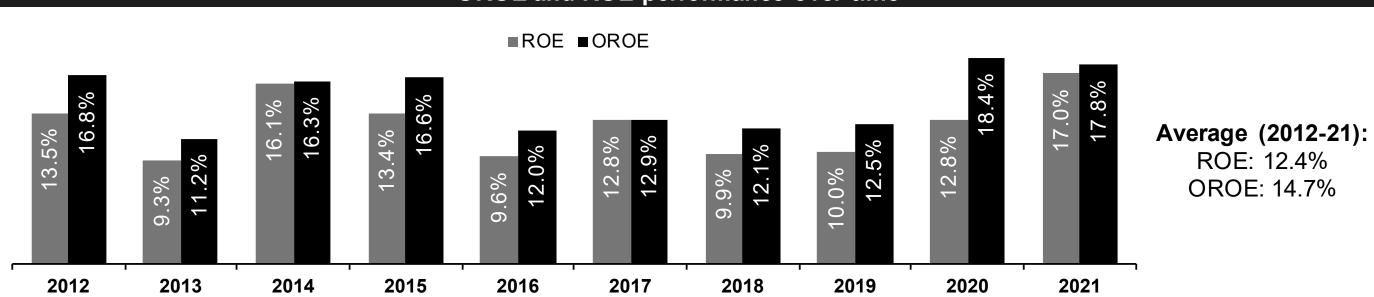
Management's Discussion and Analysis for the year ended December 31, 2021

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

	Q4-2021 vs Q4-2020	2021 vs 2020
Non-operating results *(Section 37)* *See Section 10.3 for more details on investment gains and losses excluding FVTPL bonds*	• **Non-operating gains of $17 million** reflected investment gains excluding FVTPL bonds ($262 million), partly offset by net adverse development cover ("ADC") cost for UK&I ($71 million) and RSA integration costs ($35 million).	**Non-operating losses of $70 million** included: • Integration costs of $285 million, including those related to the RSA Acquisition ($167 million) and net ADC cost for UK&I ($71 million); • RSA acquisition costs ($90 million); • investment gains excluding FVTPL bonds ($516 million); • a purchase price gain from the RSA Acquisition ($204 million), which was mostly offset by amortization of intangible assets recognized in business combinations; and • Other non-operating losses totalling $216 million, including exited lines, non-operating pension expense, and restructuring and other costs.
Effective income tax rates[1] *(Section 11.2)*	• **Operating effective income tax rate of 19.8% for Q4-2021** reflected approximately 3 points of tax benefit recognized for previously unrecognized losses in the UK. • **Total effective income tax rate of 20.1% for Q4-2021,** reflected the previously-mentioned UK tax benefit (2 points).	• **Operating effective income tax rate of 21.6%** was broadly in line with expectations. • **Total effective income tax rate of 19.6% for 2021** was lower than 2020, mostly due to the non-taxable purchase price gain of $204 million on the RSA Acquisition.
EPS	• **EPS increased by 51% to $3.85**, mainly driven by strong operating results and net investment gains from favourable equity markets, partly offset by net ADC cost for UK&I.	• **EPS increased 72% to $12.40**, mainly driven by strong operating results and the purchase price gain on the RSA Acquisition, partly offset by RSA acquisition and integration costs, and net ADC cost for UK&I.
Return on equity for the last 12 months	• **Strong operating ROE of 17.8%,** driven by strong operating performance. We expect OROE to be at a mid-teens level in the medium term. • **Strong ROE of 17.0%, a sharp increase versus 12.8% last year,** reflecting a strong operating performance and favourable non-operating results.	
BVPS *(Section 28.7)*	• **BVPS increased sequentially by 4% to $82.34**, driven by strong earnings.	• **BVPS increased by 40% year-over-year**, driven by strong earnings and the RSA financing.
Adjusted debt-to-total capital ratio *(Section 28.2)*	• Our **adjusted debt-to-total capital ratio decreased to 23.0% as at December 31, 2021**. Given the anticipated proceeds from the sale of Codan Denmark, we expect the adjusted debt-to-total-capital ratio to return to 20% ahead of our objective.	
Financial condition *(Section 28.2)*	• **We ended the year in a strong financial position, with $2.9 billion of total capital margin** and solid regulated capital ratios in all jurisdictions.	

[1] *See Note 27.2 – Effective income tax rate to the Consolidated financial statements for more details.*

OROE and ROE performance over time



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

Section 5 - Segment performance

5.1 Operating performance by segment

The operating DPW and underwriting income of RSA's Canadian and UK&I operations for June 2021 was reported in Corporate (RSA).

Table 3 – Operating performance by segment[1]

For the quarters ended December 31,						2021				2020
	CAN	UK&I	US	Corporate		Total	CAN	US	Corp.	Total
				RSA	Other					
Operating DPW	**3,283**	**1,274**	**460**	**-**	**-**	**5,017**	2,471	401	-	2,872
Growth in constant currency	***33%***	***n/a***	***19%***	**-**	***n/a***	***75%***	*6%*	*19%*	*n/a*	*8%*
Operating income										
Operating NEP	**3,296**	**1,145**	**485**	**-**	**5**	**4,931**	2,446	432	1	2,879
Operating net claims[2]	**1,774**	**682**	**285**	**-**	**32**	**2,773**	1,332	240	13	1,585
Operating net UW expenses[2]	**1,009**	**383**	**164**	**-**	**2**	**1,558**	722	157	-	879
Underwriting income	**513**	**80**	**36**	**-**	**(29)**	**600**	392	35	(12)	415
Net investment income	**-**	**-**	**-**	**-**	**220**	**220**	-	-	143	143
Distribution income	**77**	**-**	**-**		**-**	**77**	72	-	-	72
Total finance costs	**(1)**	**-**	**-**	**-**	**(42)**	**(43)**	(3)	-	(29)	(32)
Other operating income (expense)[3]	**-**	**-**	**-**	**-**	**4**	**4**	-	-	2	2
PTOI	**589**	**80**	**36**	**-**	**153**	**858**	461	35	104	600
For the years ended December 31,						**2021**				**2020**
	CAN	**UK&I**	**US**	**Corporate**		**Total**	**CAN**	**US**	**Corp.**	**Total**
				RSA	**Other**					
Operating DPW	**12,023**	**2,538**	**1,988**	**734**	**-**	**17,283**	10,216	1,823	-	12,039
Growth in constant currency	***18%***	***n/a***	***17%***	***n/a***	***n/a***	***45%***	*9%*	*9%*	*n/a*	*9%*
Operating income										
Operating NEP	**11,450**	**2,319**	**1,652**	**608**	**14**	**16,043**	9,633	1,582	5	11,220
Operating net claims[2]	**6,259**	**1,381**	**910**	**351**	**72**	**8,973**	5,571	893	13	6,477
Operating net UW expenses[2]	**3,666**	**786**	**625**	**200**	**6**	**5,283**	2,908	608	-	3,516
Underwriting income	**1,525**	**152**	**117**	**57**	**(64)**	**1,787**	1,154	81	(8)	1,227
Net investment income	**-**	**-**	**-**	**-**	**706**	**706**	-	-	577	577
Distribution income	**362**	**-**	**-**	**-**	**-**	**362**	275	-	-	275
Total finance costs	**(9)**	**-**	**-**	**-**	**(153)**	**(162)**	(11)	-	(115)	(126)
Other operating income (expense)[3]	**-**	**-**	**-**	**-**	**(25)**	**(25)**	-	-	(37)	(37)
PTOI	**1,878**	**152**	**117**	**57**	**464**	**2,668**	1,418	81	417	1,916

[1] The totals of the segment measures reconcile to *Table 1 – Consolidated performance.*
[2] *See Section 38 – Non-GAAP and other financial measures for the definition and reconciliation to the most comparable GAAP measures*
[3] Other operating income (expense) can fluctuate from quarter to quarter and includes general corporate expenses related to the operation of the group and our public company status, consolidation adjustments, and other operating items.

Section 6 - Canada segment (P&C Canada and Distribution)

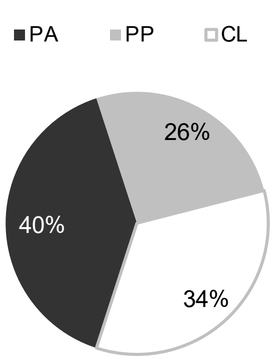
Canada segment

UNDERWRITING ACTIVITIES IN CANADA *(see Section 6.1 – P&C Canada)*

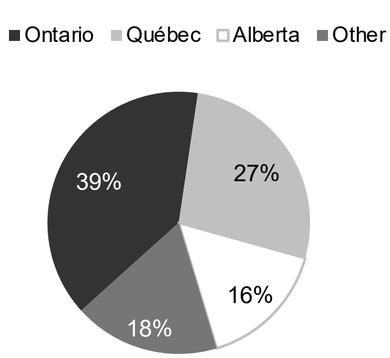
- With the RSA Acquisition, we have expanded our position in Canada, with more than $13 billion in annual operating DPW on a pro-forma basis[1] and an approximate market share of 21%.
- We underwrite **automobile, home and business insurance contracts** to individuals and businesses in Canada, which are reported under three lines of business: personal auto, personal property and commercial lines (including specialty lines).
- We offer our products through **multiple distribution channels including brokers, direct to consumer and managing general agent (MGA) platform.**
  - Intact Insurance branded products are sold through a wide network of brokers, including our wholly-owned subsidiary BrokerLink.
  - The belairdirect and RSA's leading brand Johnson are direct to consumer brands.
  - Intact Public Entities is the MGA platform for distributing public entity insurance products in Canada. Coast Underwriters, added as part of the RSA Acquisition, is our new MGA specialized in Marine Insurance.
- We also provide white label capability to select financial institutions.

DISTRIBUTION AND OTHER ACTIVITIES IN CANADA *(see Section 6.5 – Distribution income)*

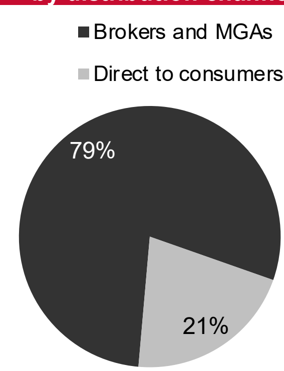
2021 Operating DPW (proforma)[1] by line of business



2021 Operating DPW (proforma)[1] by region



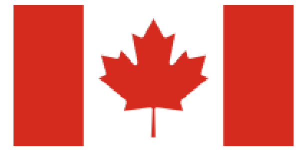
2021 Operating DPW (proforma)[1] by distribution channel



PA: Personal auto; PP: Personal property: CL: Commercial lines
Operating DPW (proforma) include the impact of the RSA Acquisition for a full year, which is a better indication of our annual premiums.

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

6.1 P&C Canada



Underwriting results for P&C Canada reflect two full quarters of RSA Canada's results following the close of the acquisition on June 1, 2021. The operating DPW and underwriting income of RSA Canada for the month of June 2021 are included in Corporate and Other.

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

	Section	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW		**3,283**	2,471	33%	**12,023**	10,216	18%
Personal auto	*6.2*	**1,234**	984	25%	**4,843**	4,322	12%
Personal property	*6.3*	**831**	623	33%	**3,104**	2,586	20%
Commercial lines	*6.4*	**1,218**	864	41%	**4,076**	3,308	23%
Operating NEP		**3,296**	2,446	35%	**11,450**	9,633	19%
Underwriting income		**513**	392	31%	**1,525**	1,154	32%
Underwriting ratios							
Underlying current year loss ratio		**54.6%**	53.2%	1.4 pts	**55.8%**	55.6%	0.2 pts
CAT loss ratio		**3.2%**	2.7%	0.5 pts	**3.3%**	3.1%	0.2 pts
(Favourable) unfavourable PYD ratio		**(4.0)%**	(1.4)%	(2.6) pts	**(4.4)%**	(0.9)%	(3.5) pts
Claims ratio		**53.8%**	54.5%	(0.7) pts	**54.7%**	57.8%	(3.1) pts
Commissions[1]		**16.6%**	16.0%	0.6 pts	**18.2%**	16.5%	1.7 pts
General expenses[1]		**10.1%**	10.2%	(0.1) pts	**10.0%**	10.1%	(0.1) pts
Premium taxes[1]		**3.9%**	3.3%	0.6 pts	**3.8%**	3.6%	0.2 pts
Expense ratio		**30.6%**	29.5%	1.1 pts	**32.0%**	30.2%	1.8 pts
Operating combined ratio		**84.4%**	84.0%	0.4 pts	**86.7%**	88.0%	(1.3) pts
Personal auto	*6.2*	**87.5%**	82.6%	4.9 pts	**86.9%**	86.6%	0.3 pts
Personal property	*6.3*	**79.5%**	73.2%	6.3 pts	**83.8%**	81.7%	2.1 pts
Commercial lines	*6.4*	**84.3%**	95.3%	(11.0) pts	**88.6%**	95.1%	(6.5) pts

[1] *See Section 38 – Non-GAAP and other financial measures.*

Q4-2021 vs Q4-2020	2021 vs 2020

- **Premium growth of 33% for Q4-2021 and 18% for 2021** was bolstered by the RSA Acquisition, and reflected six months of premiums for 2021. Excluding this impact, operating DPW growth was 5% for Q4-2021 and 4% for 2021. Premium growth reflected continued strength in personal property and commercial lines, while personal auto continued to be muted.

Q4-2021 vs Q4-2020

- **Expense ratio increased to 30.6%**, driven by higher variable commissions due to underwriting profitability, while premium taxes were higher compared to a low level in Q4-2020. All lines have seen similar trends, although the impact from variable commissions may vary based on their share of profitability.
- **Operating combined ratio of 84.4%** reflected continued strength across all lines. Performance was very strong, driven by our profitability actions over time, despite elevated property CAT losses. While we continue to observe a gradual increase in driving activity, it remains below the pre-pandemic levels.

2021 vs 2020

- **Expense ratio increased to 32.0%**, driven by higher variable commissions and technology spend, partly offset by expense synergies and favourable mix due to the RSA Acquisition.
- **Very strong operating combined ratio of 86.7%**, with all lines delivering a sub-90s combined ratio, driven by continued strong underlying performance and favourable PYD.

See Section 15 – Prior year claims development and Section 16 – CAT losses and weather conditions for more details.

6.2 Personal auto

Table 5 – Underwriting results for personal auto[1]

	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW	**1,234**	984	25%	**4,843**	4,322	12%
Written insured risks (in thousands)	**1,109**	908	22%	**4,694**	4,246	11%
Operating NEP	**1,390**	1,087	28%	**4,825**	4,187	15%
Underwriting income (loss)	**174**	189	(8)%	**632**	560	13%
Underlying current year loss ratio	**66.5%**	58.8%	7.7 pts	**64.4%**	61.0%	3.4 pts
CAT loss ratio	**0.4%**	0.6%	(0.2) pts	**0.5%**	1.1%	(0.6) pts
(Favourable) unfavourable PYD ratio	**(3.9)%**	(1.0)%	(2.9) pts	**(3.9)%**	(0.1)%	(3.8) pts
Claims ratio	**63.0%**	58.4%	4.6 pts	**61.0%**	62.0%	(1.0) pts
Expense ratio	**24.5%**	24.2%	0.3 pts	**25.9%**	24.6%	1.3 pts
Operating combined ratio	**87.5%**	82.6%	4.9 pts	**86.9%**	86.6%	0.3 pts

[1] *See Section 38 – Non-GAAP and other financial measures.*

Q4-2021 vs Q4-2020

- **Premium growth of 25%,** driven by the RSA Acquisition. We continue to operate in a muted rate environment, with strong retention levels and modest unit growth. We remain cautious in our rating strategy as we monitor trends in driving activity and claims severity.
- **Underlying current year loss ratio was strong at 66.5%,** despite higher driving activity compared to a particularly low level last year. Claims severity remains under control.
- **CAT loss ratio of 0.4%** was essentially in line with expectations.

2021 vs 2020

- **Premium growth of 12%** was bolstered by the RSA Acquisition. Excluding this impact, operating DPW declined by 1% in a muted rate environment.
- **Underlying current year loss ratio remained strong at 64.4%,** with driving activity below the pre-pandemic level throughout 2021.
- **CAT loss ratio of 0.5%** was below expectations and last year.

- **Favourable PYD was strong at 3.9% for Q4-2021 and 2021**, reflecting reduced uncertainty around claims patterns during the pandemic.
- **Expense ratio** variation to last year for the quarter and full year is consistent with trends at the Canada level *(see Section 6.1 – P&C Canada)*.

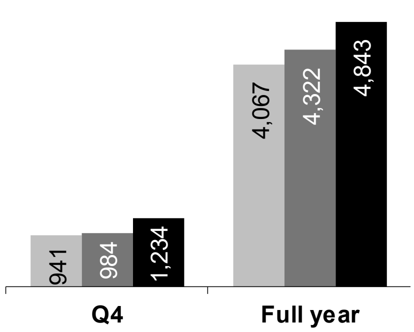
Q4-2021 vs Q4-2020

- **Very strong operating combined ratio of 87.5%**, reflecting a strong underlying performance and favourable PYD, with driving activity remaining below the pre-pandemic level.

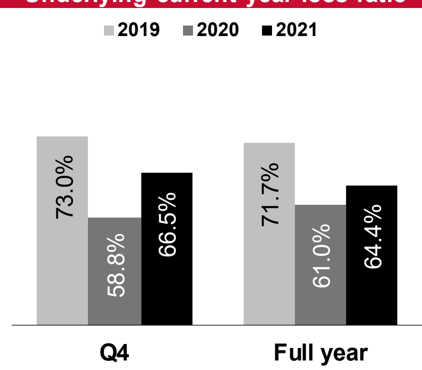
2021 vs 2020

- **Very strong operating combined ratio of 86.9%**, driven by our profitability actions over time and lower driving activity, net of customer premium relief measures.

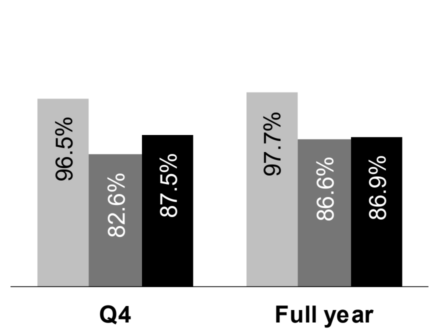
Operating DPW



Underlying current year loss ratio



Operating combined ratio



6.3 Personal property

Table 6 – Underwriting results for Personal property[1]

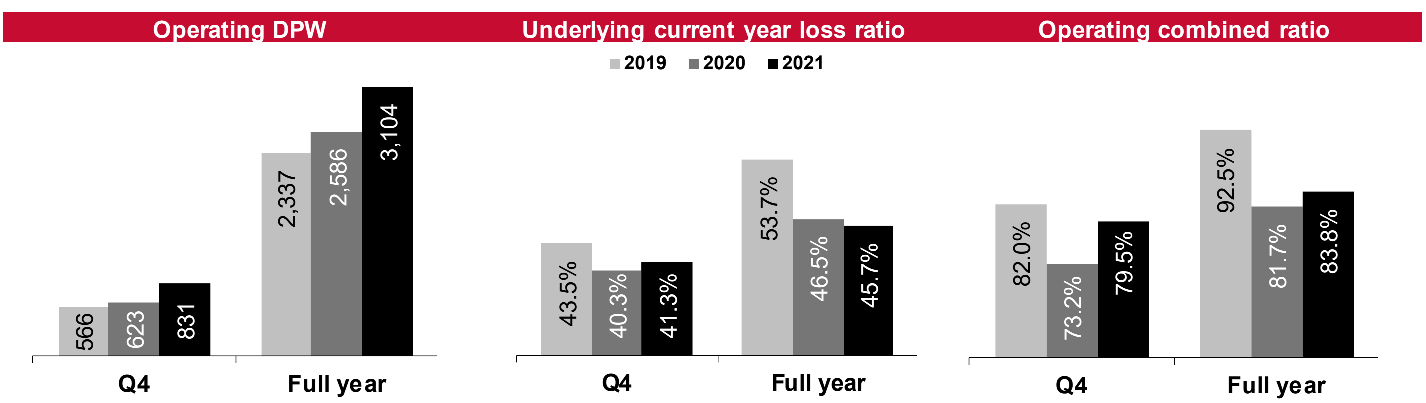
	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW	**831**	623	33%	**3,104**	2,586	20%
Written insured risks (in thousands)	**730**	579	26%	**2,833**	2,480	14%
Operating NEP	**838**	630	33%	**2,924**	2,444	20%
Underwriting income (loss)	**171**	169	1%	**472**	446	6%
Underlying current year loss ratio	**41.3%**	40.3%	1.0 pts	**45.7%**	46.5%	(0.8) pts
CAT loss ratio	**6.8%**	2.4%	4.4 pts	**7.1%**	3.8%	3.3 pts
(Favourable) unfavourable PYD ratio	**(1.0)%**	(2.4)%	1.4 pts	**(3.4)%**	(1.9)%	(1.5) pts
Claims ratio	**47.1%**	40.3%	6.8 pts	**49.4%**	48.4%	1.0 pts
Expense ratio	**32.4%**	32.9%	(0.5) pts	**34.4%**	33.3%	1.1 pts
Operating combined ratio	**79.5%**	73.2%	6.3 pts	**83.8%**	81.7%	2.1 pts

[1] *See Section 38 – Non-GAAP and other financial measures.*

Q4-2021 vs Q4-2020	2021 vs 2020
• **Premium growth of 33%**, bolstered by the RSA Acquisition. Excluding this impact, operating DPW growth was 5%, mainly driven by firm market conditions, with strong retention levels.	• **Premium growth of 20%**, bolstered by the RSA Acquisition. Excluding this impact, operating DPW growth was 5%, mainly driven by rate increases.
• **Underlying current year loss ratio of 41.3%** remained strong, reflecting the benefit of higher earned rates and benign weather.	• **Strong underlying current year loss ratio improved to 45.7%,** driven by higher earned rates and lower non-CAT weather losses.
• **CAT loss ratio of 6.8%** was above last year and expectations and reflected the impact of the BC floods and Ontario and Québec windstorms *(see Section 16.5 – Weather conditions)*.	• **CAT loss ratio of 7.1%** was in line with expectations, with most of the CAT activity in H2-2021, mainly due to the impact of rain and hailstorms in Alberta, Ontario and Atlantic Canada.
• **Favourable PYD ratio was healthy at 1.0%**, while slightly below historical average due to adverse development on large losses.	• **Favourable PYD ratio of 3.4%** was in line with historical averages and higher than last year, mainly due to favourable development on prior year CAT losses.

• **Expense ratio decreased slightly in the quarter and was up in 2021**, consistent with trends at the Canada level *(see Section 6.1 – P&C Canada)*.

Q4-2021 vs Q4-2020	2021 vs 2020
• **Operating combined ratio was very strong at 79.5%,** after absorbing 6.8 points of elevated CAT losses, driven by our profitability actions over time and benign weather.	• **Operating combined ratio was very strong at 83.8%**, driven by continued strength in underlying performance, healthy favourable PYD and benign weather.



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

6.4 Commercial lines

Table 7 – Underwriting results for Commercial lines Canada[1]

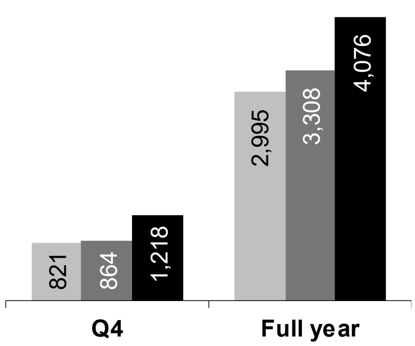
	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW	**1,218**	864	41%	**4,076**	3,308	23%
Operating NEP	**1,068**	729	47%	**3,701**	3,002	23%
Underwriting income (loss)	**168**	34	394%	**421**	148	184%
Underlying current year loss ratio	**49.5%**	55.8%	(6.3) pts	**52.3%**	55.3%	(3.0) pts
CAT loss ratio	**3.9%**	6.0%	(2.1) pts	**4.0%**	5.5%	(1.5) pts
(Favourable) unfavourable PYD ratio	**(6.3)%**	(1.0)%	(5.3) pts	**(5.7)%**	(1.1)%	(4.6) pts
Claims ratio	**47.1%**	60.8%	(13.7) pts	**50.6%**	59.7%	(9.1) pts
Expense ratio	**37.2%**	34.5%	2.7 pts	**38.0%**	35.4%	2.6 pts
Operating combined ratio	**84.3%**	95.3%	(11.0) pts	**88.6%**	95.1%	(6.5) pts

[1] *See Section 38 – Non-GAAP and other financial measures.*

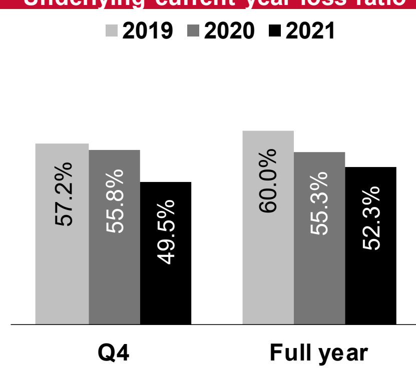
Q4-2021 vs Q4-2020 | **2021 vs 2020**

- **Premium growth of 41%** was bolstered by the RSA Acquisition. Excluding this impact, operating DPW growth was 11%, reflecting hard market conditions and our focus on profitable growth, compared to a lower premium base in 2020 due to relief provided.
- **Premium growth of 23%** was bolstered by the RSA Acquisition. Excluding this impact, operating DPW growth was 9%, mainly reflecting hard market conditions.
- **Underlying current year loss ratio improved to a very strong 49.5% for Q4-2021 and 52.3% for 2021,** driven by the benefit of our higher earned rates and benign weather. The improvement also reflected the impact of customer relief measures on last year's performance.
- **CAT loss ratio of 3.9%** was driven by the BC floods and was above expectations.
- **CAT loss ratio of 4.0%** was above expectations.
- **Favourable PYD ratio was strong at 6.3% for Q4-2021 and 5.7% for 2021**, reflecting reduced uncertainty around claims patterns during the pandemic and favourable development on CAT losses.
- **Expense ratio** variation to last year for the quarter and full year is consistent with trends at the Canada level *(see Section 6.1 – P&C Canada)*.
- **Operating combined ratio was very strong at 84.3%,** improving by 11 points compared to last year, which was impacted by 6 points from customer relief measures. Excluding this impact, the improvement reflects a strong underlying performance and favourable PYD.
- **Operating combined ratio was strong at 88.6%,** mainly driven by the benefit of our profitability actions over time. Strong favourable PYD partly offset elevated CAT activity.

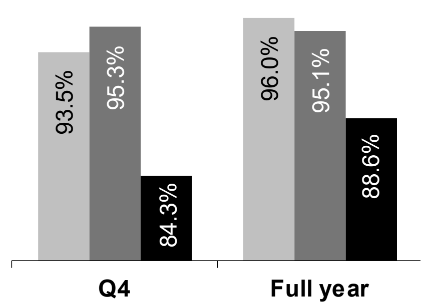
Operating DPW



Underlying current year loss ratio



Operating combined ratio



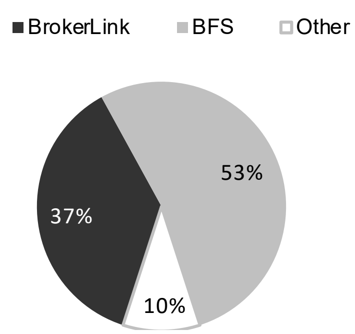
6.5 Distribution Income

Distribution income

Distribution income 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, MGAs in Canada, On Side Restoration ("On Side") and Johnson Group Benefits.

- **Our strategy is to increase scale in distribution and to be a preferred partner by supporting brokers in their growth and profitability ambitions**. We aim to continue to:
  - Support our brokers as they expand and grow their businesses, while actively participating in broker consolidation through Intact Insurance Agencies, BrokerLink and partners.
    - BrokerLink is a distributor of P&C products in Canada, with over $2.5 billion of written premiums. In 2021, BrokerLink completed 21 acquisitions totalling $475 million in premiums.
    - Broker Financial Solutions ("BFS") offers financial support and advice to our network of brokers, in areas such as succession planning, growth, and profitability improvement.
  - Expand our distribution footprint in specialty lines through the acquisition of MGAs.
    - Intact Public Entities is the MGA platform for distributing public entity insurance products in Canada.
    - As part of the RSA Acquisition, we added Coast Underwriters, a MGA specialized in Marine Insurance.
- We will continue to seek investment opportunities in profitable supply chain businesses that can improve both customer experience and margins.
  - We own On Side, a Canadian restoration firm providing repair and restoration services for personal and commercial property claims across Canada. It gives us greater control over the customer experience, being faster in our response and ensuring the quality of the repair, while being more efficient on costs.
- Distribution income adds a strong and diversified earnings stream that supports our ROE objectives.

Distribution income by source

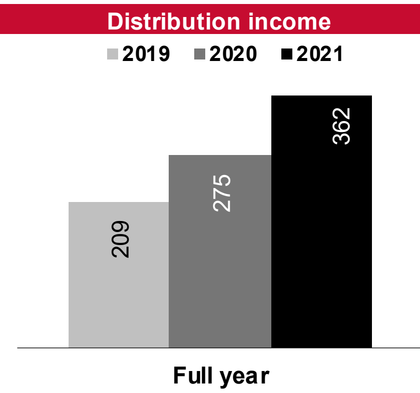


[1]Other includes On Side, Coast Underwriters and Johnson Group Benefits.

Distribution income grew by 32% to $362 million, as expected, driven by higher variable commission revenues, as well as accretive acquisitions.

We expect distribution income to be above $400 million in 2022.

Distribution income



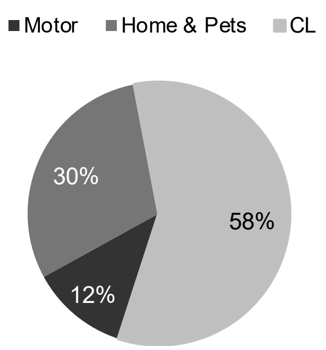
Section 7 - UK and International (UK&I) segment

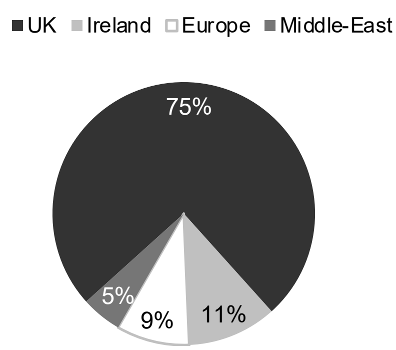
Underwriting activities in the UK, Ireland, Europe and the Middle East

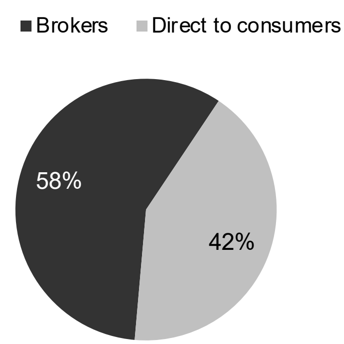
INSURANCE: P&C UK&I *(see Section 7.1 – P&C UK&I)*

- We underwrite **automobile, home, pet and business insurance** to individuals and businesses in the UK, Ireland, Europe and the Middle East, as well as internationally through our global network, with over £3 billion ($5 billion), using an exchange rate of 1.72431) in annual operating DPW. We distribute insurance through a wide network of affinity partners and brokers or directly to consumers.
- In the UK, we hold a top 5 position in both commercial lines and personal property. Personal auto, personal property and pet insurance is offered to our customers through MORE THAN and affinity partners, which include major retailers and large banks. Commercial lines in the UK are offered through the RSA brand via brokers or directly to consumers.
- In Ireland, we hold a top 4 position overall, with over £334 million in annual operating DPW. Personal and commercial insurance are distributed through 123.ie (our direct to consumer brand), affinity partnerships and brokers.
- In Europe, RSA provides commercial and specialty insurance in Belgium, France, Spain and the Netherlands. We also provide an intermediary platform to allow non-european insurers to place risks in Europe,
- Our Middle East operations cover Bahrain, the United Arab Emirates, Oman (where RSA operates under the Al Ahlia brand) and Saudi Arabia (where RSA operates under the Al Alamiya brand).

2021 Operating DPW (proforma) [1] by line of business	2021 Operating DPW (proforma) [1] by region	2021 Operating DPW (proforma) [1] by distribution channel







PL: Personal lines: CL: Commercial lines

[1] Operating DPW (proforma) include the impact of the RSA Acquisition for a full year, which is a better indication of our annual premiums.

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

7.1 P&C UK&I

Underwriting results for P&C UK&I reflect two quarters of RSA's underwriting activities in the UK, Ireland, Europe and the Middle East following the close of the RSA Acquisition on June 1, 2021. The underwriting results of P&C UK&I for the month of June 2021 are included in Corporate and Other.

All figures in the table below are shown in CAD, using an GBP/CAD average exchange rate of 1.699 for Q4-2021 and 1.7172 for H2-2021.

Table 8 – Underwriting results for P&C UK&I[1]

	Section	Q4-2021	2021[2]
Operating DPW		**1,274**	**2,538**
Personal lines	*7.2*	**517**	**1,099**
Commercial lines	*7.3*	**757**	**1,439**
Operating NEP		**1,145**	**2,319**
Underwriting income		**80**	**152**
Underwriting ratios			
Underlying current year loss ratio		**58.8%**	**55.3%**
CAT loss ratio		**3.5%**	**7.0%**
(Favourable) unfavourable PYD ratio		**(2.7)%**	**(2.7)%**
Claims ratio		**59.6%**	**59.6%**
Commissions		**18.0%**	**18.2%**
General expenses		**15.4%**	**15.6%**
Expense ratio		**33.4%**	**33.8%**
Operating combined ratio		**93.0%**	**93.4%**
Personal lines	*7.2*	**96.1%**	**97.0%**
Commercial lines	*7.3*	**90.4%**	**90.5%**

[1] *See Section 38 – Non-GAAP and other financial measures.*
[2] Reflected the underwriting results for the period from July 1, 2021 to December 31, 2021.

Q4-2021	H2-2021
• **Operating DPW growth of 3%** led by commercial lines, with strong rate increases and retention. Personal lines growth was subdued as we remained disciplined in competitive market conditions.	• **Operating DPW growth of 3%,** reflecting hard market conditions across commercial lines, partly offset by competitive market conditions in personal auto.
• **Expense ratio of 33.4% for Q4-2021 and 33.8% for 2021** was generally in line with expectations and reflected a sharp improvement versus last year (close to 4 points), driven by continued expense management discipline.	
• **Operating combined ratio was strong at 93.0%**, supported by solid underlying performance and healthy favourable PYD. We remain disciplined in personal lines as the regulatory changes come into effect in the UK.	• **Operating combined ratio was strong after six months at 93.4%**, despite absorbing 7.0 points of CAT losses, driven by strong underlying performance in commercial lines.

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

7.2 Personal lines – UK&I

Table 9 – Underwriting results for personal lines – UK&I[1]

	Q4-2021	2021[2]
Operating DPW	**517**	**1,099**
Operating NEP	**516**	**1,054**
Underwriting income (loss)	**20**	**32**
Underlying current year loss ratio	**61.4%**	**58.5%**
CAT loss ratio	**0.9%**	**2.7%**
(Favourable) unfavourable PYD ratio	**(3.0)%**	**(1.8)%**
Claims ratio	**59.3%**	**59.4%**
Expense ratio	**36.8%**	**37.6%**
Operating combined ratio	**96.1%**	**97.0%**

[1] *See Section 38 – Non-GAAP and other financial measures.*
[2] Reflected the underwriting results for the period from July 1, 2021 to December 31, 2021.

<table>
<tr><th>Q4-2021</th><th>H2-2021</th></tr>
<tr><td colspan="2">• Operating DPW declined by 3% for Q4-2021 and 2% for H2-2021. Personal auto premiums in the UK declined year-over-year as we remained disciplined in competitive market conditions. UK pet and home insurance are performing well, with retention levels above expectations.</td></tr>
<tr><td>• Underlying current year loss ratio increased from last quarter but was solid at 61.4%, after absorbing elevated non-CAT weather-related losses, as we continue to work on improving profitability.</td><td>• Underlying current year loss ratio was solid at 58.5%, driven by continued lower claims frequency in Q3-2021, tempered by non-CAT weather-related losses in Q4-2021.</td></tr>
<tr><td>• CAT loss ratio of 0.9%, with no weather-related CAT events in the quarter.</td><td>• CAT loss ratio of 2.7% for H2-2021 was above expectations, mostly driven by the floods in the UK and Europe in Q3-2021.</td></tr>
<tr><td colspan="2">• Favourable PYD was strong at 3.0% for Q4-2021 and healthy at 1.8% for H2-2021 as we remain prudent in our reserve practices.</td></tr>
<tr><td colspan="2">• Expense ratio of 36.8% for Q4-2021 and 37.6% for H2-2021 remained elevated, reflecting lower earned premiums, partly offset by continued expense management discipline.</td></tr>
<tr><td>• Operating combined ratio of 96.1%, driven by solid underlying performance and strong favourable PYD.</td><td>• Operating combined ratio of 97.0% for H2-2021, significantly impacted by severe weather conditions.</td></tr>
</table>

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

7.3 Commercial lines – UK&I

Table 10 – Underwriting results for commercial lines – UK&I[1]

	Q4-2021	2021[2]
Operating DPW	**757**	**1,439**
Operating NEP	**629**	**1,265**
Underwriting income (loss)	**60**	**120**
Underlying current year loss ratio	**56.6%**	**52.7%**
CAT loss ratio	**5.7%**	**10.5%**
(Favourable) unfavourable PYD ratio	**(2.5)%**	**(3.5)%**
Claims ratio	**59.8%**	**59.7%**
Expense ratio	**30.6%**	**30.8%**
Operating combined ratio	**90.4%**	**90.5%**

[1] *See Section 38 – Non-GAAP and other financial measures.*
[2] Reflected the underwriting results for the period from July 1, 2021 to December 31, 2021.

Q4-2021 and H2-2021

- **Operating DPW grew by 7% for Q4-2021 and H2-2021,** reflecting continued hard market conditions and strong retention levels.

Q4-2021

- **Underlying current year loss ratio was strong at 56.6%,** despite being higher than last quarter, driven by continued pricing actions and benign weather conditions.
- **CAT loss ratio of 5.7%** was above expectations, reflecting three non weather-related CAT losses.

H2-2021

- **Underlying current year loss ratio was strong at 52.7%,** mainly driven by lower-than-expected non-CAT weather-related losses.
- **CAT loss ratio of 10.5% for H2-2021** was significantly higher than expectations, driven by the floods in the UK and Europe in Q3-2021 and non weather-related CAT losses in Q4-2021.

Q4-2021 and H2-2021

- **Favourable PYD was strong at 2.5% for Q4-2021 and 3.5% for H2-2021**.
- **Expense ratio of 30.6% for Q4-2021 and 30.8% for H2-2021** was lower than expected, reflecting the benefit of higher earned rates and continued expense management discipline.

Q4-2021

- **Operating combined ratio was strong at 90.4%,** driven by strong underlying performance and favourable PYD, tempered by elevated CAT losses.

H2-2021

- **Operating combined ratio was strong at 90.5% for H2-2021,** as significantly elevated CAT losses were offset by very strong underlying performance.

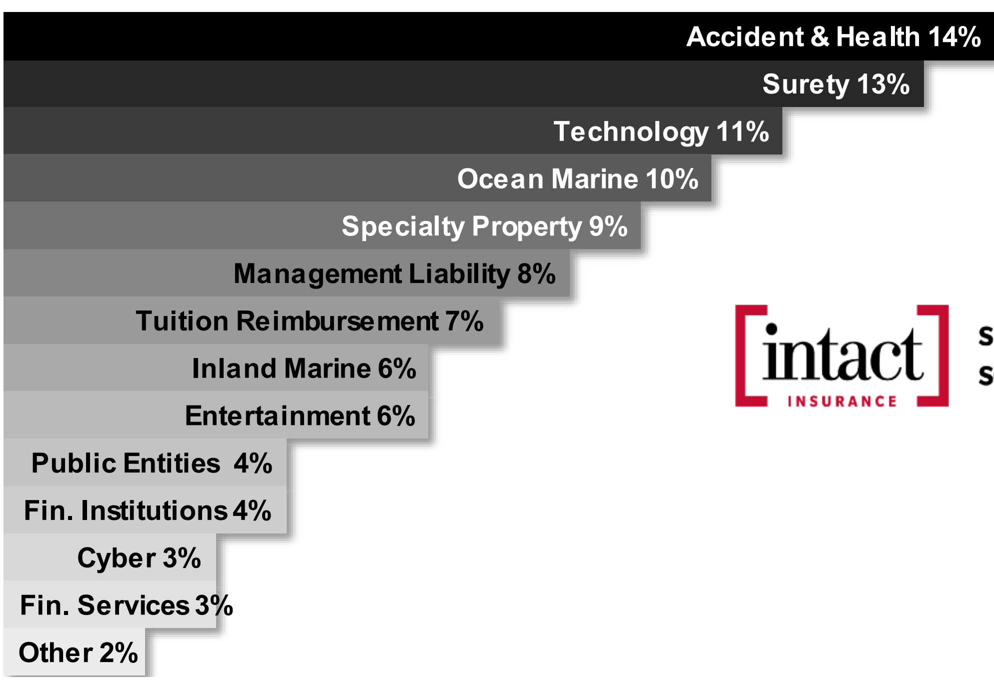
Section 8 - US segment

Underwriting activities in the US

INSURANCE: P&C US

- We are focused on small to medium-sized businesses, with nearly US$1.6 billion ($2.0 billion) in annual operating DPW.
- We distribute insurance products and services in the US under the Intact Insurance Specialty Solutions brand through independent agencies, regional and national brokers, wholesalers and managing general agencies.
- 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 & health (transportation, specialty health, and sharing economy), technology, ocean marine, inland marine (construction, transportation, and fine arts), 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, cyber and environmental.
- Each business unit is managed by an experienced team of specialty insurance professionals focused on a specific customer group or industry segment.
- We seek to maintain a market-leading position in each customer or product niche in which we operate.
- 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.

2021 Operating DPW by business units



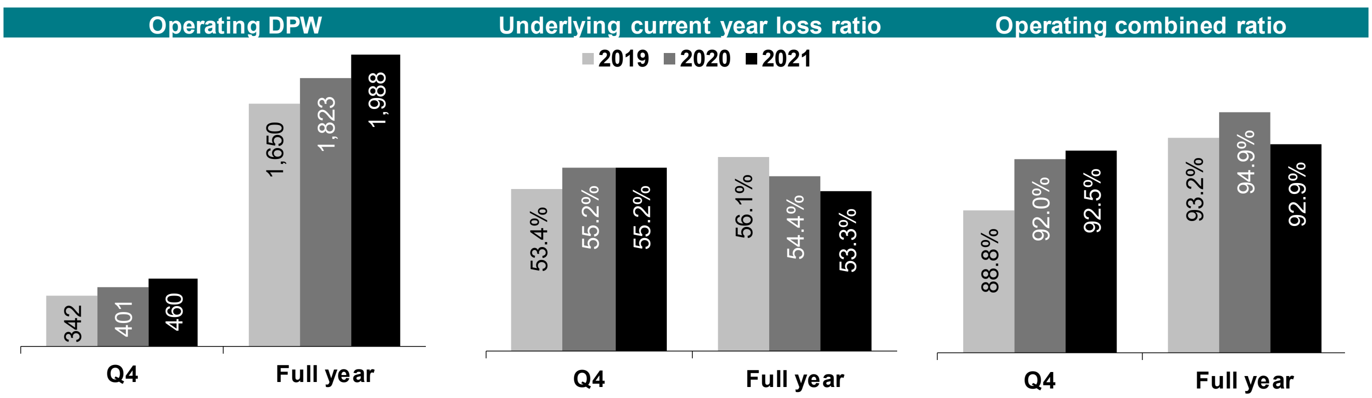
(in millions of Canadian dollars, except as otherwise noted)

8.1 P&C US

Table 11 – Underwriting results for P&C US[1]

	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW	**460**	401	15%	**1,988**	1,823	9%
Growth in constant currency			19%			17%
Operating NEP	**485**	432	12%	**1,652**	1,582	4%
Growth in constant currency			16%			12%
Underwriting income	**36**	35	3%	**117**	81	44%
Underlying current year loss ratio	**55.2%**	55.2%	-	**53.3%**	54.4%	(1.1) pts
CAT loss ratio	**2.3%**	(0.9)%	3.2 pts	**3.3%**	3.0%	0.3 pts
(Favourable) unfavourable PYD ratio	**1.2%**	1.3%	(0.1) pts	**(1.5)%**	(0.9)%	(0.6) pts
Claims ratio	**58.7%**	55.6%	3.1 pts	**55.1%**	56.5%	(1.4) pts
Commissions	**15.7%**	16.2%	(0.5) pts	**16.8%**	16.5%	0.3 pts
General expenses	**16.1%**	18.5%	(2.4)pts	**18.8%**	19.7%	(0.9) pts
Premium taxes	**2.0%**	1.7%	0.3 pts	**2.2%**	2.2%	-
Expense ratio	**33.8%**	36.4%	(2.6) pts	**37.8%**	38.4%	(0.6) pts
Operating combined ratio	**92.5%**	92.0%	0.5 pts	**92.9%**	94.9%	(2.0) pts

[1] *See Section 38 – Non-GAAP and other financial measures.*



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

Q4-2021 vs Q4-2020	2021 vs 2020
• **On a constant currency basis, strong operating DPW growth was 19%,** mainly driven by new business growth, new products, as well as strong renewals in most lines, combined with rate increases in hard market conditions.	• **On a constant currency basis, strong operating DPW growth was 17%.** Growth was driven by strong renewals and new business in most lines, including the recent expansion of MGA relationships, amid ongoing hard market conditions. Throughout 2021, we also delivered strong growth in lines most impacted by the COVID-19 crisis in 2020.
• **Underlying current year loss ratio was strong at 55.2% for Q4-2021 and 53.3% for 2021,** driven by the benefit of our profitability actions, including rate adequacy and a focus on portfolio quality.	
• **CAT loss ratio of 2.3%** was above expectations and included a large non-weather claim.	• **CAT loss ratio of 3.3%** was well above expectations, driven by severe weather events (including the Texas winter storms and Hurricane Ida) and a large non-weather claim in Q4-2021.
• **PYD ratio was unfavourable at 1.2%,** mainly due to adverse development from one business unit under a profitability improvement plan, obscuring favourable PYD across most business units.	• **Favourable PYD ratio was healthy at 1.5%** across most business units.
• **Expense ratio improved by 2.6 points to 33.8%,** mainly due to a growing premium base.	• **Expense ratio improved by 0.6 points to 37.8%,** reflecting a growing premium base and effective general expense management throughout the year.
• **Operating combined ratio was solid at 92.5%**, essentially in line with last year, despite absorbing 2.3 points of CAT losses.	• **Operating combined ratio of 92.9%,** after absorbing 3.3 points of CAT losses well above expectations. Strong underwriting discipline, including our profitability actions, helped deliver solid underlying results.

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

Section 9 - Corporate

Group reinsurance, Corporate and Other

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

- Investment management activities *(see Section 10 – Investment performance);*
- Treasury and capital management;
- Corporate reinsurance *(see details below)*; and
- Other corporate activities.

Corporate also includes RSA's Canadian and UK&I underwriting results for the month of June 2021 given the timing of the RSA acquisition (June 1, 2021 closing).

9.1 Corporate and Other

Table 12 – Corporate and other

	Section	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating DPW (RSA)		**-**	-	-	**734**	-	734
Underwriting income (loss)							
Corporate reinsurance *(see below)*		**(29)**	(12)	(17)	**(64)**	(8)	(56)
RSA (June 2021)		**-**	-		**57**	-	57
Net investment income	*10.1*	**220**	143	77	**706**	577	129
Total finance costs	*4.2*	**(42)**	(29)	nm	**(153)**	(115)	nm
Other operating income (expense)[1]		**4**	2	nm	**(25)**	(37)	nm
Corporate and other		**153**	104	49	**521**	417	104

[1] Other operating income (expense) can fluctuate from quarter to quarter and includes general corporate expenses related to the operation of the group and our public company status, consolidation adjustments, and other operating items.

9.2 Corporate reinsurance

As part of our global risk management optimization strategy and international insurance operations, we have:

- an aggregate reinsurance cover at the RSA level that provides protection against an unexpected accumulation of CAT and large losses; and
- internal reinsurance arrangements to optimize global reinsurance.

The impact of these reinsurance arrangements is included in our consolidated underwriting performance as follows:

Table 13 – Corporate and other (Corporate reinsurance)

	Q4-2021	Q4-2020	Change	2021	2020	Change
Operating NEP	**5**	1	4	**14**	5	9
Operating net claims	**32**	13	19	**72**	13	59
Operating net underwriting expenses	**2**	-	2	**6**	-	6
Underwriting income (loss)	**(29)**	(12)	(17)	**(64)**	(8)	(56)

Q4-2021 vs Q4-2020	2021 vs 2020
• **Underwriting loss of $29 million in Q4-2021** included $30 million of CAT losses ceded through internal reinsurance, mostly related to the BC floods and one commercial fire.	• **Underwriting loss of $64 million in 2021** included $57 million of CAT losses ceded through internal reinsurance, mostly related to commercial fires and BC floods.

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

Section 10 - Investment performance

10.1 Net investment income

Table 14 – Net investment income

	Q4-2021	Q4-2020	Change	2021	2020	Change
Interest income	**126**	88	38	**426**	358	68
Dividend income	**96**	62	34	**297**	242	55
Investment property rental income	**9**	-	9	**17**	-	17
Investment income, before expenses	**231**	150	81	**740**	600	140
Expenses	**(11)**	(7)	(4)	**(34)**	(23)	(11)
Net investment income	**220**	143	77	**706**	577	129
Average investments[1,3]	**36,532**	20,017	83%	**30,016**	19,190	56%
Market-based yield[2,3]	**2.56%**	3.04%	(48) bps	**2.50%**	3.18%	(68) bps

[1] Defined as the mid-month average fair value of investments held during the reporting period.
[2] Defined as the annualized total pre-tax investment income (before expenses), divided by the weighted-average investments.
[3] This measure has been adjusted to align with the financial statements. Comparative figures are reported on the same basis.

Q4-2021 vs Q4-2020	2021 vs 2020

- **Net investment income increased by $77 million for Q4-2021 and $129 million for 2021**, mainly driven by the growth in our investment portfolio following the RSA Acquisition. RSA contribution to net investment income was $54 million in Q4-2021 and $116 million after seven months.

Q4-2021 vs Q4-2020	2021 vs 2020
• Excluding the impact from the RSA acquisition, net investment income was up 16%, driven by a special dividend from one of our investments ($23 million).	• Excluding the impact from the RSA acquisition, net investment income was up 2%, mainly driven by the benefit of higher invested assets and a special dividend received in Q4-2021, partly offset by lower reinvestment yields and a weaker USD.

- **Average investments increased by 83% for Q4-2021 and 56% for 2021,** reflecting the addition of RSA's investment portfolio ($14.3 billion on June 1, 2021), positive mark-to-market and cash inflows from operations.
- **Market-based yield decreased to 2.56% for Q4-2021 and 2.50% for 2021,** mainly related to the RSA Acquisition reflected through higher average investments and lower yields, partially offset by the special dividend received in Q4-2021.

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

10.2 Realized and unrealized gains (losses) on FVTPL bonds

Realized and unrealized gains and losses on our FVTPL bonds are expected to offset the change in rates used to discount our claims liabilities (MYA), which are both reflected in non-operating results.

Q4-2021 vs Q4-2020	2021 vs 2020
• **Net losses of $68 million for Q4-2021 and $267 million for 2021,** mainly driven by the increase in interest rates and widening spreads in Canada, the US and the UK *(see Section 25.5 – Capital market update).*	
• **Net losses of $7 million in Q4-2020** driven by a slight increase of interest rates in both Canada and the US.	• **Net gains of $237 million in 2020**, mainly driven by the significant decline in interest rates in both Canada and the US.

10.3 Net gains (losses) excluding FVTPL bonds

Net investment gains (losses) are reported in Non-operating results and included the following items. *See Section 25.5 – Capital market update for more details on market performance.*

Table 15 – Net gains (losses) excluding FVTPL bonds[1]

	Q4-2021	Q4-2020	Change	2021	2020	Change
Realized and unrealized gains (losses)[2] on:						
AFS bonds, net of derivatives	**12**	-	12	**-**	33	(33)
Equity securities, net of derivatives	**137**	62	75	**214**	8	206
Embedded derivatives	**(6)**	(12)	6	**(96)**	(14)	(82)
Investment property	**41**	-	41	**79**	-	79
Net foreign currency gains (losses) on investments	**(29)**	(1)	(28)	**10**	10	-
Impairment losses on AFS investments	**(11)**	(22)	11	**(92)**	(121)	29
Currency derivative hedges (RSA Acquisition):						
Purchase price	**-**	41	(41)	**(71)**	41	(112)
Book value	**-**	(22)	22	**36**	(22)	58
Gain related to an investment in associate	**-**	-		**273**	-	273
Impairment loss on Intact US Surplus notes	**-**	-		**-**	(30)	30
Other[3]	**118**	7	111	**163**	40	123
Gains (losses) excluding FVTPL bonds	**262**	53	209	**516**	(55)	571

[1] *See Note 25 – 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.
[3] Includes realized gains on broker transactions, as well as an unrealized gain of $68 million related to certain venture investments.

Q4-2021 vs Q4-2020

Net gains of $262 million for Q4-2021 reflected:

- realized gains on equity securities from favourable markets;
- positive mark-to-market on certain investment properties;
- unrealized gain of $68 million related to certain venture investments.

Partly offset by:

- net foreign currency losses on our GBP investment portfolio, and impairment losses on AFS investments.

2021 vs 2020

Net gains of $516 million for 2021, mainly reflected:

- realized gains from favourable equity markets and positive mark-to-market on certain investment properties;
- unrealized gain of $68 million related to certain venture investments; and
- a net gain of $66 million related to a venture investment for which we no longer have any exposure, as well as broker gains.

Partly offset by:

- mark-to-market losses on our embedded derivatives related to our preferred shares.

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

Section 11 - Income taxes

11.1 Statutory income tax rates

We are subject to income tax law in various jurisdictions where we operate. The statutory income tax rates in the main jurisdictions we operate were as follows:

Table 16 – Statutory income tax rates

As at December 31,	2021	2020
Canada[1]	**26.2%**	26.2%
UK	**19.0%**	n/a
US	**21.0%**	21.0%
Corporate[2]	**25.9%**	26.0%

[1] Represents the combined Canadian tax rates applicable in provinces where the Group operates.
[2] Represents the combined Canadian federal and provincial statutory income tax rate of the top parent company.

Tax legislative changes

- The UK corporate tax rate will rise from 19% to 25% on April 1, 2023. The impact of this rate change on deferred tax assets and liabilities has been reflected in the Consolidated financial statements as at December 31, 2021, as enacted.
- In 2021, the US Congress proposed a legislation called the *Build Back Better Act* that proposes changes to corporate income tax laws. We are actively monitoring future developments on this proposed legislation and any potential impact on the Group.
- In 2021, 136 countries and jurisdictions, including Canada, have agreed to implement the Organisation for Economic Co-operation and Development's (OECD) Pillar Two rules, effective in 2023. The proposed Pillar Two rules are designed to ensure that large multinational enterprises pay a minimum level of tax (currently agreed upon at 15%) on the income arising in each jurisdiction where they operate. The proposed rules remain subject to approval and ratification in multiple countries and jurisdictions. We are actively monitoring future developments on this proposed legislation and any potential impact on the Group.

11.2 Effective income tax rates

Our effective income tax rate ("ETR") is different from our Corporate combined Canadian federal and provincial statutory income tax rate. The following table presents the reconciliation of the operating ETR and total ETR to the income tax expense calculated at statutory tax rates.

Table 17 – Effective income tax rate reconciliation

As at December 31,	2021	2020
Statutory income tax rate - Corporate *(Table 16)*	**25.9%**	26.2%
Adjustment for different rates of other jurisdictions	**(1.2)%**	(0.5)%
Non-taxable investment income	**(2.5)%**	(2.7)%
Utilization of previously unrecognized tax benefits associated with losses	**(1.4)%**	(0.1)%
Other	**0.8%**	0.3%
Operating effective income tax rate, as reported in MD&A[1]	**21.6%**	23.2%
Non-taxable portion of capital gains	**(1.5)%**	(1.3)%
Non-taxable bargain purchase gain	**(2.1)%**	-
Non-deductible expenses	**1.0%**	0.6%
Other	**0.6%**	(0.8)%
Total effective income tax rate, as reported in MD&A[1]	**19.6%**	21.7%
Remove: share of income tax expense of broker associates[1]	**(0.9)%**	(1.3)%
Effective income tax rate, as reported under IFRS	**18.7%**	20.4%

[1] Include income taxes from our broker associates, which are accounted for using the equity method (net of tax) under IFRS. We adjust for the MD&A in order to present distribution income on a pre-tax basis.

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

2021 vs 2020

- **The Group's operating ETR of 21.6% in 2021 was within our expectations and down from 23.2%,** primarily due to:
    - the impact of utilizing previously unrecognized tax benefits associated with net operating losses in the UK; and
    - changes in earnings mix, and underwriting income taxed at different rates in other jurisdictions.
- **The Group's total ETR of 19.6% in 2021 was down from 21.7%,** mostly due to the impact of the non-taxable purchase gain of $204 million resulting from the RSA Acquisition.

Please refer to Note 27 – Income taxes of the Consolidated Financial Statements for further details related to income taxes.

11.3 Unrecognized net operating losses

The following table presents a summary of unrecognized net operating losses as at December 31, 2021.

Table 18 – Unrecognized net operating losses

As at December 31,	Expiry dates	2021
Canada	2037-2041	**3**
UK	No expiry date	**2,788**
Ireland	No expiry date	**353**
Other jurisdictions	No expiry date	**112**
		3,256

Recognition of tax benefits

- Deferred tax assets related to the net operating losses above have not been recognized on the balance sheet since it is not considered probable that they will be utilized in the future. However, management will continue to identify opportunities, including a sustained improvement of the profitability in the UK, in order to be able to use these unrecognized losses through time which will favorably impact the operating ETR and total ETR.
- Any utilization of previously unrecognized tax benefits associated with unrecognized net operating losses in the UK would have a favourable impact on the Group's operating ETR in future years given the quantum of these losses *(refer to table 18 for more details on unrecognized net operating losses).*

Please refer to Note 27 – Income taxes of the Consolidated Financial Statements for further details related to income taxes.

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

ENVIRONMENT & OUTLOOK

Section 12 - P&C insurance industry outlook

Summary

- Canadian industry profitability improved in the twelve months to September 30, 2021, helped in part by favourable PYD and reduced driving activity during the pandemic. However, high pre-pandemic combined ratios, emerging inflation, and the still relatively low interest rate environment support continuation of favourable market conditions.
- In Canada, we expect firm market conditions to continue in personal property, while personal auto rates remain tempered in the pandemic environment.
- In commercial lines in both US and Canada, hard market conditions are expected to continue.
- In the UK&I, hard market conditions are expected to continue across commercial lines. In UK personal lines, near term industry growth levels are uncertain as companies navigate the recently introduced pricing reforms.

	P&C insurance industry 12-month outlook	Our response
Personal Auto Canada	• Industry premiums grew by low-single digits in the first three quarters of 2021. We estimate that actual growth was flat, if adjusted for the impact of COVID-19 premium relief on prior year figures. • Industry profitability improved in the first three quarters of 2021, due to lower driving levels and a change in driving patterns during the pandemic. • However, given a gradual pickup in claims frequencies and poor industry profitability prior to the pandemic, we are starting to see early signs of industry corrective measures. • We expect industry premium growth to remain muted in the near term, returning to low-to-mid single-digit growth as driving patterns return to pre-pandemic norms.	• Our COVID-19 relief measures have been risk- and needs-based, enabling us to adapt, while maintaining margins. • We continue to monitor closely how driving, mobility and inflation trends are evolving and adjust our rating strategies accordingly. • Our telematics 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 continue to invest 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 maintain our emphasis on portfolio quality and sustaining target profitability levels.
Personal Property Canada	• The COVID-19 crisis has not materially impacted personal property. • Industry growth was high single digit in the first three quarters of 2021. • We expect continued firm market conditions since this line of business is subject to challenging weather and inflation over time. We expect premium growth at a mid single-digit level over the next 12 months.	• We are continuously adapting our products and profitability actions over time have positioned this business very well. • We continue to aim for sustainable results even with severe weather. • We actively monitor for signs of inflation within our portfolio, and are proactively defending against potential inflation through supply chain initiatives and increasing internalization of claims. For example, the acquisition of On Side deepens our supply chain penetration to improve customer experience, capture margins, expand capacity, and control costs.

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

	P&C insurance industry 12-month outlook	Our response
Commercial lines Canada	• In the first three quarters of 2021, the industry reported low teens growth, clear evidence of hard market conditions. Rate actions are continuing, driven by low industry profitability for a number of years and tight capacity. • We expect upper single-digit premium growth for the industry over the next 12 months, in favourable market conditions supported by the still relatively low interest rate environment, rising reinsurance costs, elevated CAT losses, and industry concerns over emerging inflation pressures.	• We continue to provide risk- and needs-based relief to customers impacted by the COVID-19 crisis through premium adjustments to reflect changed commercial automobile usage or declining revenues, sales receipts and payroll. • The majority of our businesses had low exposure to COVID-19 related claims. We maintain our emphasis on portfolio quality and pricing discipline, while remaining focused on loss prevention and service excellence. • We continue to develop innovative products to address customer needs and pursue acquisitions to strengthen our capabilities and product suite.
UK&I Personal lines	• Premium growth in the UK and Ireland has been muted as insurers passed on benefits from COVID-19 related frequency declines, and position for regulator-led pricing reforms in the UK. • The Financial Conduct Authority's (FCA) pricing reforms came into effect January 1, 2022 and are expected to bring both volatility and opportunities to the UK home and motor markets. • In the UK, we expect property claims inflation and challenging weather to drive rate increases over time. In Ireland, property rates are experiencing low single-digit increases.	• We continue to prioritise risk selection and improvements to pricing sophistication, and ensure partner contracts reflect changing market conditions. • Our business is well positioned and in compliance with pricing reforms that came into effect in the UK on January 1, 2022. We are maintaining our pricing discipline and are tracking inflation closely to support pricing adequacy. • In UK Motor, we have moved to a tiered product offering to increase customer choice while improving pricing and segmentation. Our telematics offerings are also well positioned to grow, as new driver numbers increase as a result of COVID-19 driving test restrictions being lifted.
UK&I Commercial lines	• UK&I market conditions remain hard with rate increases driven by CAT losses (including COVID-19 and recent weather events), tightening capacity and inflationary pressures. • We expect UK commercial industry premiums to grow at an upper single-digit level over the next 12 months.	• We continue to increase rates to offset claims inflation, tighten terms and conditions, and increase standardisation of wordings to manage exposures. • We remain disciplined on new business, prioritizing quality and profitability.

<table>
<tr><th></th><th>P&C insurance industry 12-month outlook</th><th>Our response</th></tr>
<tr><td>US Commercial lines</td><td>The US commercial P&C industry continues to experience hard market conditions across lines, including sustained price increases and tightening terms and conditions.
We expect favourable market conditions to persist in the near term, supported by the still relatively low interest rate environment, rising reinsurance costs, elevated CAT losses, and industry concerns over emerging inflation pressures.
US commercial P&C industry posted low double-digit growth in the first three quarters of 2021, fueled by strong rate increases and robust economic growth. The industry combined ratio for the first three quarters of 2021 was estimated in the mid-to-upper 90's.
We expect industry premium growth at a upper single-digit level over the next 12 months.</td><td>Our objective remains to expand our US specialty business. Growth opportunities are being successfully pursued in the segments of the portfolio performing at or above expectations.
We continue to execute on pricing actions across the portfolio, achieving rate increases consistent with the broader industry while maintaining retention levels in line with expectations.
We believe the underlying fundamentals of our US commercial business remain strong and are well positioned to maintain a low 90's combined ratio in line with our objective.</td></tr>
<tr><td>Investments</td><td>Capital markets are expected to remain volatile due to inflation trends and the ongoing pandemic.
Central banks are expected to increase rates and decrease balance sheet size. As a result, reinvestment yields are improving from very low levels.
In the current interest rate environment, we expect the industry's pre-tax investment yield to remain stable over time as portfolios roll over.</td><td>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.</td></tr>
<tr><td>Overall</td><td>Industry profitability improved in the first three quarters of 2021, helped in part by favourable PYD and reduced driving activity during the pandemic. However, high pre-pandemic combined ratios, inflation trends, and the still relatively low interest rate environment support continuation of hard market conditions.
We expect our industry benchmark ROE[1] to be in the high single digit range over the next 12 months.</td><td>The RSA Acquisition expands our leadership position in Canada, creates a leading specialty lines platform with international expertise, and provides entry into the UK and Ireland markets at scale.
With our action plans and strategies, we expect to continue to achieve our 500-basis point industry ROE outperformance target, while remaining focused on a mid-teens OROE level.</td></tr>
</table>

[1] Our P&C industry benchmark ROE reflects a weighting based on the approximate amount of capital deployed by IFC in the markets in which we operate

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

Section 13 - Insurance industry at a glance

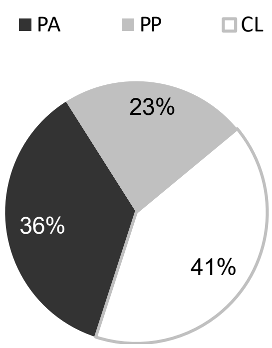
13.1 P&C insurance in Canada

Highly fragmented	• In 2020, the P&C market grew by 9%, driven by rate increases, to $64 billion in annual premiums, representing approximately 3% of gross domestic product (GDP). • The top five insurers represent 51% of the market, and the top 20 have a combined market share of 84%. • There has been consolidation over the past decade in which IFC has participated. We still expect 10 to 15 points of market share will change hands in the next three to five years.
Evolving and growing over time	• Over the last 30 years, the industry has grown at about a 5% CAGR and delivered a ROE of almost 10%. • Emerging technologies and innovations continue to transform the insurance landscape. IFC and other insurers are increasingly using artificial intelligence models, advanced analytics systems and digital platforms to differentiate themselves and improve risk selection.

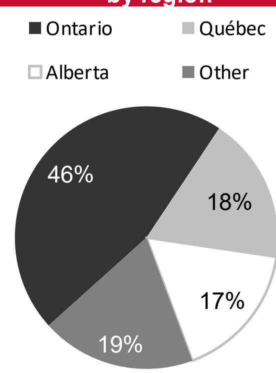
Broad distribution channel	• The P&C industry offers its products primarily through the broker and direct distribution channels. Brokers offer products from multiple insurance companies. The direct distribution channel includes direct writers and tied agents.
	• Close to two-thirds of the P&C industry premiums is distributed through brokers.
	    • In commercial lines, brokers are the primary distribution channel given the higher level of complexity and customization in business insurance.
	    • In personal lines, while brokers continue to be the main distribution channel, direct writers make up a significant portion of the market as consumers seek digital solutions for personal property and auto products.

Regulated market	• Insurance companies are licensed under insurance legislation in each of the provinces and territories in which they conduct business. • Personal property and commercial insurance products and rates are unregulated • Personal auto is regulated in all provinces. Insurers must file and receive approval for rate adjustments before they can be effective (file and approve rate setting mechanism), except for Québec, where no approval is required once rate adjustments are filed (use and file). • Capital for federal insurance companies is regulated by OSFI and by provincial authorities in the case of provincially incorporated insurance companies, while the holding companies are non-regulated *(see Section 28 – Capital management).*

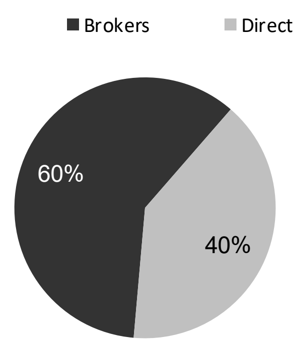
2020 Industry DPW by line of business



2020 Industry DPW by region



2020 Industry DPW by distribution channel



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

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

13.2 IFC's Canadian industry outperformance over time

Industry data below represents an IFC estimate based on MSA, a provider of Canadian insurance industry financial data. Industry benchmark consists of the 20 largest comparable companies in the P&C industry based on industry data.

Table 19 – Canadian P&C Industry – IFC outperformance (underperformance)

	YTD Q3-2021	Full year 2020	Full year 2019	Full year 2018
DPW growth				
IFC: P&C Canada[1]	**16.5%**	9.4%	9.7%	2.3%
Outperformance (underperformance) vs Industry benchmark	**9.2 pts**	2.0 pts	- pts	(4.4) pts
Combined ratio				
IFC: P&C Canada[1]	**86.6%**	91.5%	97.5%	95.0%
Outperformance (underperformance) vs Industry benchmark	**(2.1) pts**	5.0 pts	3.6 pts	8.3 pts

[1] For comparison purposes, IFC DPW growth and operating combined ratio are based on financial statements presentation.

Unless otherwise noted, market share and market related data for P&C Canada are based on the latest available annual market data (2021) from MSA Research Inc. ("MSA") and excludes Lloyd's Underwriters Canada, Insurance Corporation of British Columbia, Saskatchewan Government Insurance, Saskatchewan Auto Fund, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company. AMF (Québec) chartered insurance companies are not required to report on Q1 and Q3 results. As such, some adjustments are made to ensure comparability of data across periods.

YTD Q3-2021 relative performance	• **Our growth outperformance was 9.2 points,** mainly driven by the RSA Acquisition. Excluding this impact, IFC growth would be approximately 5.8%, underperforming the benchmark by 1.4 points, mainly due to the impact of customer relief measures provided in 2020. • **Our combined ratio underperformance was 2.1 points**, mainly due to industry reserve level generally decreasing in 2021, as well as different levels of customer premium relief measures provided.

13.3 P&C insurance in UK&I

Overall	• IFC underwrites automobile, home, pet and business insurance to individuals and businesses in the UK, Ireland, Europe and the Middle East, as well as internationally through our global network. • Roughly 75% of UK&I segment premiums are written in the UK domestically or through the Specialty London Market. Our Irish and European books experience broadly similar market conditions to the UK and London Market respectively. • In 2020, the P&C UK market grew by 7% to £48 billion in estimated annual premiums. • IFC's UK (RSA) portfolios held a 6% market share in the Total P&C UK industry in 2020. • RSA was the third largest UK home insurer, with market share of 10%, and the 2nd largest pet insurer, with a market share of 18%, but a smaller player in motor with 1% market share. • Property and Marine are RSA's most significant lines of business in UK and European Specialty Lines.
UK **Personal lines market**	• Mature and highly developed personal lines market. Motor is the largest segment, with premiums of £12 billion. The home insurance market is worth around £6 billion, while pet insurance adds another £1.3 billion. • New business is primarily distributed through price comparison websites and aggregators, which have grown substantially over the last two decades. • Technical excellence in pricing and claims is the key differentiator for the most successful players.

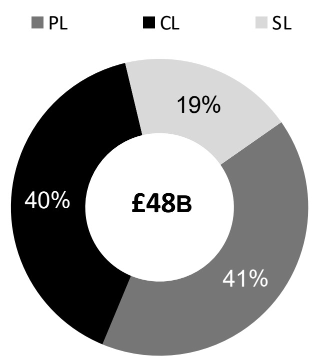
UK Commercial lines market	• The mid-market in UK domestic commercial lines is worth £19 billion. The market is primarily comprised of motor, liability and property risks, and competitive with most leading multinationals having a major presence. The UK SME segment worth an additional £6 billion. • There has been significant broker consolidation over the last twenty years, with the largest brokers controlling a significant proportion of the market although there remains a large tail of smaller brokers. • Winning in mid-market requires strong regional presence, underwriting expertise and specialization in chosen industries. • Brokers remain the primary distribution channel for SME. Over the last 15 years, there has been a shift from face-to-face to electronic placement of risks, though the growth of the direct market has been slow.
UK Specialty lines market	• The London Speciality Market is worth £9 billion. • Growth has been strong in the market, primarily driven by the hard market conditions over recent periods. • Profit opportunities continue to be driven by disciplined trading, a sustainable underwriting strategy, and the achievement of adequacy through positive rate movements.
Strong regulations	• The UK non-life insurance industry is regulated by two regulatory bodies, the PRA and the FCA. The PRA provides supervision to ensure the safety and soundness of financial institutions, including insurance companies. The FCA provides oversight on the way firms behave. • Recent regulations have focused on improving customer outcomes including 'price walking' regulations – equalizing new business and renewal quotation – and setting a higher level of consumer protection in retail Financial service.

Market data

Unless otherwise noted, market share and market related data for P&C UK are based on the latest available annual market data (2021) from the Association of British Insurers ("ABI"). ABI data excludes Lloyds of London.

The majority of UK insurers are members of the ABI, meaning Personal Lines and Commercial Lines figures are representative. For Specialty Lines, ABI market data is less representative as a lower proportion of Specialty Insurance firms are members due to the existence of dedicated membership organisations such as the International Underwriting Association ("IUA") or the Lloyds Marker Association ("LMA").

2020 estimated industry premiums



Performance against UK P&C Industry

The identification of an appropriate benchmarking methodology aligned with IFC benchmarking practices is currently in progress.

This comparison will be made available at a later time.

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

13.4 US specialty market

Highly fragmented with no clear leader	• The US specialty insurance market accounts for approximately 45%, or more than US$150 billion, of the total commercial P&C insurance market. • US commercial specialty insurance industry is fragmented, with the largest player capturing around 7% market share in 2020. • Outside of the top seven players, no single insurer contributes more than 3% to the total estimated specialty 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 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 4.4% CAGR. • The market has experienced elevated merger and acquisition activity in recent years and we expect further consolidation 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.

13.5 Performance against US 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 20 – US P&C Industry – IFC outperformance (underperformance) vs industry benchmark

	YTD Q3-2021	Full year 2020	Full year 2019	Full year 2018
DPW growth (in local currency)				
IFC: US Commercial	**16.1%**	9.6%	8.0%	2.2%
Outperformance (underperformance) vs Industry benchmark	**(1.9) pts**	1.7 pts	(1.2) pts	(6.7) pts
Combined ratio[1]				
IFC: US Commercial	**94.7%**	93.8%	92.8%	93.6%
Outperformance (underperformance) vs Industry benchmark	**(2.1) pts**	4.7 pts	2.3 pts	1.3 pts

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

YTD Q3-2021 relative performance	• **Our DPW growth lagged slightly** as we remained disciplined and took action on specific lines under profitability improvement plans. However, like our peers, we benefitted from a combination of hard market conditions and rebound in lines most impacted by the COVID-19 crisis in 2020. • **Our combined ratio underperformance was 2.1 points,** reflecting isolated adverse PYD from a single business unit operating under a profitability improvement plan. Overall, our underlying performance in most lines was quite strong, with a comparatively smaller impact from non-CAT weather losses.

Section 14 - COVID-19 pandemic update

14.1 Helping customers and supporting our communities

- The COVID-19 pandemic has had a significant impact on society, and it is important for us to support our communities through this difficult time.
- To recognize hardship, changing driving behaviours and lower business activity resulting from the COVID-19 crisis, we provided over $600 million of relief in 2020 and 2021 to more than 1.2 million customers. Customer premium relief measures included premium reductions and payment flexibility, as well as a $50 million targeted relief program, which provided an additional support to approximately 100,000 vulnerable small business customers.
- We have donated more than $1.9 million in 2021 to charities targeting the immediate needs of individuals and families who are most vulnerable to the effects of the pandemic.

14.2 Prioritizing employee well-being, while delivering superior customer service

- Since the onset of the COVID-19 crisis, the health and safety of our employees has been our priority and the vast majority of our employees are now working from home. We have also provided employees with a number of mental health and well-being resources to support them.
- Our robust technology infrastructure is performing very well and we are building on this strong foundation to further support our employees and accelerate digital engagement with customers and brokers.
- Customer needs changed as a result of the COVID-19 crisis and we responded accordingly with measures such as customer-driven rate strategies, accelerated deployment of UBI, product enhancements in personal property and continued support to the most vulnerable small businesses.
- We also evolved our product offerings and ramped up our digital efforts to deliver excellent customer service.
- Service levels to our customers and brokers remain high as our people and processes quickly adapted to the evolving COVID-19 situation.
- We are well positioned to continue to support our customers, invest in our people and create value for all stakeholders.

14.3 Claims impact

- There was a direct claims impact from the COVID-19 related losses, such as business interruption, event cancellation and production shutdowns. The magnitude of the impact varies across segments. We maintain strong reserves against these claims and expect these reserves to remain stable.
- Over the course of the pandemic, COVID-19 restrictions led to a notable drop in driving activity and a change in driving patterns that contributed to a decrease in auto claims frequency. We provided customer premium relief measures in 2020 and 2021 to reflect lower driving activity.

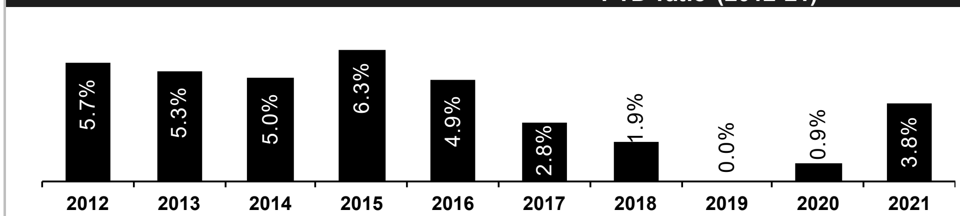
14.4 Gradual shift to a post-pandemic environment

- As economies continues to emerge from this crisis, we are closely monitoring auto claims development as driving activity gradually increases.
- Health and safety of our employees remains a top priority. We continue to monitor the COVID-19 crisis and governments' guidance, while remaining agile in our return-to-office plans and implementation of our hybrid work arrangements.
- Our balance sheet is strong, with $2.9 billion of total capital margin as at December 31, 2021, and our business is well positioned to sustain mid-teens operating ROE performance.

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

Section 15 - Prior year claims development

PYD ratio (2012-21)[1]



- PYD can fluctuate from quarter to quarter and year to year and, therefore, should be evaluated over longer periods of time.
- Favourable PYD ratio averaged 3.7% over the last 10-year period.

[1] As a % of NEP.

Table 21 – Net (favourable) unfavourable PYD by segment

	Q4-2021	Q4-2020	Change	2021	2020	Change
By segment						
P&C Canada						
Personal auto	**(53)**	(11)	(42)	**(189)**	(6)	(183)
Personal property	**(9)**	(15)	6	**(99)**	(46)	(53)
Commercial lines	**(67)**	(7)	(60)	**(210)**	(33)	(177)
	(129)	(33)	(96)	**(498)**	(85)	(413)
P&C UK&I						
Personal lines	**(15)**	n/a	nm	**(19)**	n/a	nm
Commercial lines	**(16)**	n/a	nm	**(44)**	n/a	nm
	(31)	n/a	Nm	**(63)**	n/a	nm
P&C US	**6**	5	1	**(25)**	(15)	(10)
Corporate[1]	**(6)**	n/a	nm	**(8)**	n/a	nm
Consolidated	**(160)**	(28)	(132)	**(594)**	(100)	(494)
(Favourable) unfavourable PYD ratio[2]						
P&C Canada	**(4.0)%**	(1.4)%	(2.6) pts	**(4.4)%**	(0.9)%	(3.5) pts
P&C UK&I	**(2.7)%**	n/a	nm	**(2.7)%**	n/a	nm
P&C US	**1.2%**	1.3%	(0.1) pts	**(1.5)%**	(0.9)%	(0.6) pts
Consolidated	**(3.3)%**	(1.0)%	(2.3) pts	**(3.8)%**	(0.9)%	(2.9) pts

[1] Includes the impact of Corporate reinsurance. *(see Section 9.2 – Corporate reinsurance for details).*
[2] As a % of NEP. *See Section 38 – Non-GAAP and other financial measures.*

Highlights

- **Favourable PYD ratio of 3.8% for 2021** was slightly above guidance and higher than last year, reflecting reduced uncertainty around claims patterns during the pandemic.

15.1 PYD guidance

- We expect average favourable PYD as a percentage of operating NEP to be in the 1-3% range over the long-term.
- In the short term we expect favourable PYD in the upper half of the range.
- The RSA Acquisition does not change our view over the long term.

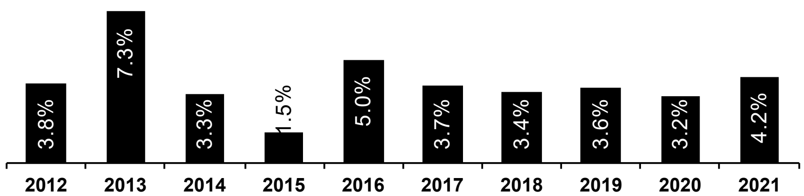
Section 16 - CAT losses and weather conditions

16.1 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).

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. *Refer to Section 33.6 – Top and emerging risks that may affect future results for details on Catastrophe risk.*

CAT loss ratio (2012-21)



- CAT loss ratio of 4.2% in 2021 was higher than 2020 and 10-year average (3.9%).
- It was particularly elevated in 2013 and 2016, due to the Alberta and Toronto floods (2013) and Fort MacMurray wildfires (2016), and especially low in 2015, due to benign weather.

16.2 CAT guidance

- We increased our expectations for annual CAT losses (net of reinsurance) to $600 million, from $570 million, reflecting the reinsurance program currently in place *(see Section 26.2 – Reinsurance for details)*.
- Our estimate reflects our view of longer-term trends, our growing premium base, concentration and management of risk, product mix and geographical mix.
- We generally expect approximately two-thirds to impact personal lines, and about one-third of the annual estimate in each of the second and third quarters.

Catastrophe claims are any one claim, or group of claims, equal to or greater than a predetermined CAT threshold, before reinsurance, related to a single event. Reported CAT losses can either be weather-related or not weather-related and exclude those from exited lines. Effective July 1, 2021, our CAT thresholds are as follows; P&C Canada: $10 million, P&C UK&I: £7.5 million and P&C U.S: US$5 million.

16.3 CAT disclosure policy

- Our exposure to CAT losses is mitigated in part by a robust reinsurance program and prudent risk selection. However, the incidence and severity of CAT losses can vary significantly by quarter and by line of business.
- We consider press releasing the estimated CAT losses ahead of the quarterly earnings release when:
  - our CAT loss estimate, net of reinsurance, is expected to have an impact greater than $0.65 on NOIPS and is materially above expectations for the quarter; or
  - if we perceive that there is material misinformation in the market with respect to the impact of certain CAT events on our results, which is subject to judgement.
- If we decide to press release, it is typically issued within the first two weeks following quarter end.

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

16.4 Net current year CAT losses

Table 22 – Net current year CAT losses by segment

	Q4-2021	Q4-2020	Change	2021	2020	Change
By segment						
P&C Canada						
Personal auto	**5**	6	(1)	**24**	43	(19)
Personal property	**57**	15	42	**207**	92	115
Commercial lines	**42**	44	(2)	**147**	164	(17)
	104	65	39	**378**	299	79
P&C UK&I						
Personal auto	**5**	n/a	5	**28**	n/a	28
Personal property	**36**	n/a	36	**134**	n/a	134
	41	n/a	41	**162**	n/a	162
P&C US	**11**	(4)	15	**54**	47	7
Corporate[1]	**30**	13	17	**82**	13	69
Consolidated	**186**	74	112	**676**	359	317
CAT loss ratio[2]						
P&C Canada	**3.2%**	2.7%	0.5 pts	**3.3%**	3.1%	0.2 pts
P&C UK&I	**3.5%**	n/a	nm	**7.0%**	n/a	nm
P&C US	**2.3%**	(0.9)%	3.2 pts	**3.3%**	3.0%	0.3 pts
Consolidated	**3.8%**	2.6%	1.2 pts	**4.2%**	3.2%	1.0 pts

[1] Includes the impact of Corporate reinsurance, as well as $25 million of CAT losses related to RSA Canada in June 2021 *(see Section 9.2 – Corporate reinsurance for details).*

[2] *See Section 38 – Non-GAAP and other financial measures.*

Q4-2021 vs Q4-2020	2021 vs 2020
• **Overall, net CAT losses of $186 million (CAT loss ratio of 3.8%)**, mainly reflecting the impact of flooding in British Columbia, as well and non-weather events in the UK&I and US.	• **Overall, net CAT losses of $676 million (CAT loss ratio of 4.2%)**, mainly reflecting the impact of severe weather events across Canada, flooding in the UK and Hurricane Ida.

16.5 Weather conditions

CANADA

- **In Q1-2021, the winter in Canada was particularly mild and dry**, with temperatures warmer than average, especially in January. The high temperatures and low precipitation contributed to an early snowmelt. In Western Canada, a polar vortex hit in February, drastically decreasing temperatures. Overall, weather-related losses were lower than expected for a first quarter.
- **In Q2-2021, the weather was generally mild.** Quebec and Ontario were impacted by some tornadoes causing localized damage in the region. In the West, temperatures in Southern BC were abnormally warm, contributing to the Lytton wildfire. CAT losses in Canada of $74 million (including $25 million from RSA) included $38 million related to the BC wildfires.
- **In Q3-2021, the summer was hot and generally dry,** leading to a busy wildfire season in B.C. and Ontario**.** Parts of Eastern Canada were impacted by strong storms and the Maritimes had above average precipitation. CAT losses of $204 million were mostly weather driven and reflected the impact of severe weather events, including rain and hailstorms in Alberta, Ontario, and Atlantic Canada.
- **In Q4-2021,** the region of BC was impacted by floods in November 2021, with some areas receiving over 250 mm of rain in a few days. In the East, an intense windstorm caused property damage in mid-December, the same that spawned several tornadoes in the US in the days before. In the West, we saw record-breaking cold temperatures towards the end of the year. CAT losses of $104 million reflected the impact of the BC floods and Ontario and Quebec windstorms

UK&I

- **In Q3-2021, the UK&I region experienced significant weather-related losses,** mainly driven by extreme flooding in Western Europe in mid July, with industry losses in the region of £11 billion. Whilst the floods mainly affected Germany and Benelux nations, significant impacts were experienced in the UK.
- **In Q4-2021, weather activity was relatively benign in UK&I.** Notable impacts included Cyclone Shaheen in Oman at £2 million and Storm Arwen in the UK at £5 million. These impacts were more than offset by favourable underlying experience in Ireland and UK Commercial businesses.

US

- **In Q1-2021, weather-related losses were elevated**, driven by significant winter storms, particularly a cold snap that hit several southern states, including Texas, during February 2021, with power outages compounding the impact. The severe weather resulted in extensive insurance industry losses estimated between $10 billion to $20 billion (comparable to Category 4 Hurricane Harvey in 2017).
- Severe winter events led to higher than usual CAT and non-CAT weather-related losses, mainly related to flooding resulting from frozen pipes in the Specialty Property, Technology and Financial Services businesses.
- **In Q2-2021, weather-related losses were muted** as fairly benign weather across most of the country resulted in lower losses across the industry.
- **In Q3-2021, CAT losses of $16 million were well above expectations and mostly driven by Hurricane Ida.** Ida made landfall in Louisiana as a Category 4 Hurricane on August 29, 2021 and continued to cause major damage, including catastrophic flooding, as it moved up through the Northeastern US over the next several days. Total industry losses for Hurricane Ida are estimated at over US$60 billion, making it one of the top 5 costliest hurricanes of modern times.
- **In Q4-2021, weather-related losses were closer to historical average.** Some of the weather events include multiple winter storms and severe wind events, including US$3 billion from Midwest tornados, as well as the most destructive wildfire in Colorado history, with estimated US$1 billion in industry losses.
- 2021 is one of the top most costly years in terms of disaster events, with estimated industry losses close to $150 billion.

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

Section 17 - Seasonality of our P&C insurance business

The P&C insurance business is seasonal in nature. While NEP are generally stable from quarter to quarter, underwriting results are driven by weather conditions which may vary significantly between quarters.

The tables hereafter present the seasonality indicators of each of our geographical P&C segments. A **higher seasonality indicator indicates a relatively less profitable** underwriting result.

P&C Canada

Q1 usually sees a higher combined ratio (including and excluding CAT losses) than the other quarters, driven by harsh winter weather conditions.

Table 23 – Unfavourable (favourable) seasonal indicators - in points of combined ratio

P&C Canada	2021	2020	2019	2018	3-yr average	5-yr average	10-yr average
Excluding CAT losses							
Q1	4.4 pts	5.2 pts	5.2 pts	7.0 pts	**5.0 pts**	**5.1 pts**	**3.8 pts**
Q2	(0.8) pts	(1.0) pts	2.5 pts	(2.0) pts	**0.2 pts**	**(0.3) pts**	**(0.4) pts**
Q3	(0.8) pts	0.1 pts	(2.6) pts	(2.4) pts	**(1.1) pts**	**(1.8) pts**	**(2.1) pts**
Q4	(2.9) pts	(4.3) pts	(5.1) pts	(2.6) pts	**(4.1) pts**	**(3.0) pts**	**(1.3) pts**

P&C UK&I

The seasonality impact is less pronounced than in Canada, given that the UK&I has a higher concentration in commercial lines and relatively milder winter weather. Historical data is shown below, though it is difficult to identify strong seasonality trends. Weather in the second quarter tends to be more benign, although 2021 included the impact of the Texas storms and the Australian floods.

Table 24 – Unfavourable (favourable) seasonal indicators - in points of combined ratio

P&C UK&I	2021	2020	2019	2018
Excluding CAT losses				
Q1	5.0 pts	(0.7) pts	1.8 pts	1.7 pts
Q2	3.5 pts	(6.4) pts	(6.3) pts	(14.4) pts
Q3	(8.0) pts	5.2 pts	2.6 pts	6.5 pts
Q4	(0.5) pts	1.9 pts	1.9 pts	6.2 pts

P&C US

The impact of seasonality is relatively limited when excluding CATs, which tend to fluctuate in specialty lines.

Table 25 – Unfavourable (favourable) seasonal indicators - in points of combined ratio

P&C US	2021	2020	2019	2018
Excluding CAT losses				
Q1	(1.0) pts	(3.7) pts	0.9 pts	2.1 pts
Q2	0.9 pts	(0.3) pts	1.7 pts	0.4 pts
Q3	(0.8) pts	2.9 pts	3.0 pts	0.1 pts
Q4	0.9 pts	1.1 pts	(5.6) pts	(2.6) pts

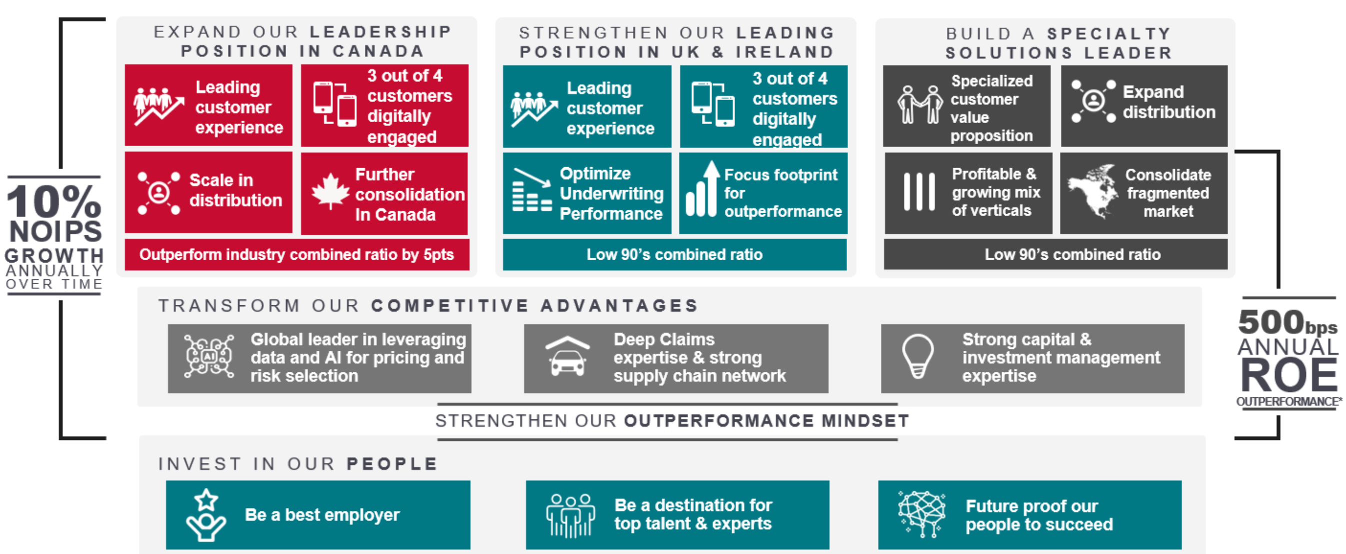
STRATEGY

Section 18 - What we are aiming to achieve

As we continue our journey to becoming a Speciality Solutions leader, we recognize the importance expertise plays in providing our customers a specialized value proposition from product design to claims know-how. Our brokers are an essential partner who bring that expertise to customers, so we've added a new strategic objective that underscores how important it is that our **brokers value our specialized expertise**.

As a purpose-driven business, we are here to help people, businesses and society prosper in good times and be resilient in bad times. Being a most respected company requires performance across all aspects of what we do – including our impact on society. Climate change is an existential risk and will require our focus in doing our part by **achieving Net Zero by 2050**. We're building a framework that will concretely measure our effectiveness in transitioning to Net Zero and intend to use our strengths as a leader to accomplish this.

Section 19 - Our strategic roadmap for the next 10 years



Section 20 - Progress on our strategic roadmap

With the RSA Acquisition, we are taking a significant step to accelerate our strategy. Please refer to our website at www.intactfc.com for further information related to this acquisition. In addition, we are making significant progress on our key strategic initiatives, as outlined below.

Expand our leadership position in Canada

- **Digital engagement continues to be strong in Canada.** In 2021, we achieved a 30% increase in mobile app log-ins and 23% growth in Client Centre account registrations demonstrating a growing level of digital engagement with customers.
- **Updated versions of both the belairdirect and Intact Insurance mobile apps were launched** to improve the customer experience, introduce new value-added features, and to enable further adoption of our telematics program.
- **BrokerLink had another record year, closing more than 20 transactions** expanding their reach coast to coast and doubling their size in Atlantic Canada to become one of the largest brokerages on the East Coast. They also achieved all-time highs in customer satisfaction.

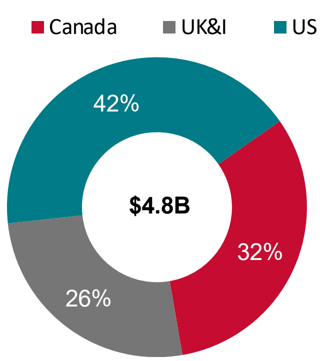
Strengthen our leading position in the UK & Ireland

- In the UK, a strategic review continues to develop a **mid-term roadmap that will position the business for outperformance.**
- **Top priorities for the business:** strengthen pricing sophistication, capitalize on opportunities in the mid-market and regions, and invest in technology to increase the business’ agility.

Build a Specialty Solutions leader

- **The addition of RSA’s London Market and European operations to Intact’s Global Specialty Lines** marked another key milestone in our transition from a North American to a truly global platform. This step will broaden our distribution footprint and product set, provide existing specialty franchises access to new regions, and ensure that customers and brokers can benefit from the full breadth of specialized expertise across the organization.
- **The global specialty lines market is estimated at close to $500 billion in annual premiums**. Through platforms in the US, Canada, London Market, and Europe, our Global Specialty Lines organization has the ability to access roughly 70% of that volume. In addition, the Global Network allows us to service multi-national customers with exposures extending beyond those four platforms.

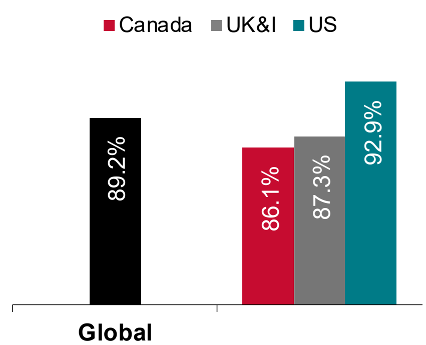
Operating DPW[1]



Global specialty lines

In 2021, we generated close to $5 billion in operating DPW (proforma) and delivered a solid combined ratio of 89.2%.

Operating combined ratio[1]



Operating DPW (proforma) include the impact of the RSA Acquisition for a full year, which is a better indication of our annual premiums and profitability. Figures above have been aggregated, using management reports from each segment, and are based on the current definition of specialty lines, which may change over time.

Transform our competitive advantages

- The **Data Lab continued to rapidly develop and deploy data and AI applications** throughout our business with over 200 models in production. Key deliveries were in claims to accelerate cycle times, in sales to reduce time required for call quality control, and in improvements to existing tools used for pricing and Investment Management. Additionally, a newly formed Data Lab team is now dedicated to pricing sophistication for our UK&I business.
- Throughout the year, **OnSide continued to expand its footprint in Canada and played a critical role during an active natural CAT year**, helping Intact reach record NPS scores for claims services provided during catastrophes.
- In November, **Intact Ventures participated in the Series C funding round of Resilience Insurance.** As Resilience Insurance continues to gain scale in the cyber market, our strategic partnership supports growth and profitability within our specialty lines cyber vertical.

Invest in our people

- Intact has been named a **Kincentric Best Employer in Canada, the US, and North America for 2021.** Kincentric awards employers based on employee engagement, agility, engaging leadership, and talent focus. This is the sixth consecutive year for Canada, and the third consecutive year for the US.
- In addition to the appointment of a new CEO of UK&I, **changes were made in the UK&I structure in commercial lines, specialty lines and underwriting teams** to ensure that the right talent and structure are in place to execute and deliver on our strategic roadmap.

Governance

- For the second year in a row, we tied as a top-ranking company in the **2021 Globe and 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 diversity in management**, in line with our commitments to the 30% Club and the Catalyst Accord. Our Board of Directors had 38.5% female representation in 2021.
- Received over **97% approval on the advisory resolution on executive compensation** (say-on-pay) at the 2021 annual and special meeting of shareholders.

See Section 23 – Climate change for more details. More information on IFC's Social Impact & ESG performance will be available in our 2021 Social Impact Report.

Section 21 - Acquisition of RSA's Canadian, UK and International operations

21.1 Highly strategic, with significant shareholder value creation

On June 1, 2021, together with the Scandinavian P&C leader Tryg A/S, we completed the acquisition of RSA Insurance Group plc., following all required approvals. 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, Europe and the Middle East. Pursuant to the RSA Acquisition, we will retain RSA's Canadian, UK and International operations and Tryg will retain RSA's Swedish and Norwegian businesses. On June 11, 2021 we announced the sale of Codan DK to Alm. Brand A/S Group, representing proceeds of DKK 6.3 billion ($1.3 billion) for our 50% stake. We expect the transaction to close in H1-2022.

With the RSA Acquisition, we took a significant step to accelerate our strategy. The acquisition expands our leadership position in Canada, creates a leading specialty lines platform with international expertise, and provides entry into the UK and Ireland markets at scale. The acquisition also strengthens our ability to outperform with increased investment in our core capabilities of data, risk selection, claims and supply chain management. The RSA Acquisition will create significant value for our shareholders. *See Section 21.2 – Integration and transition.*

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

Expands our leadership position in Canada	Creates a leading specialty lines platform	Entry into the UK & Ireland at scale	Financially compelling

21.2 Integration and transition

Integration and transition are progressing very well across all geographies.

Q4-2021 update	
Key updates	• RSA contributed close to 16% accretion to Q4-2021 NOIPS and 12% for the seven-month period since closing. The NOIPS accretion takes into account the RSA earnings contribution, net of financing expenses, and the offset from share dilution due to the equity financing. Given the overall strength of Intact's results, this is evidence of the quality of the acquired portfolio. We have increased confidence in achieving our target of high single-digit accretion in the first 12 months and upper teens within 36 months. • Ken Norgrove was appointed to the role of CEO of UK&I, effective January 10, 2022, subject to regulatory approval. He was formerly CEO of RSA Scandinavia from 2019 until deal completion, and led the very successful turnaround of the Irish business as CEO of RSA Ireland from 2014 to 2019. Ken brings more than 35 years of experience in the insurance industry, with 30 years at RSA. • On October 6, 2021, we entered into a reinsurance agreement to provide protection for adverse development in UK&I claims liabilities for 2020 and prior years. The net cost of $71 million was included in Acquisition, integration and restructuring costs in Q4-2021.
Value creation	• We remain on track to realize at least $250 million of pre-tax annual run-rate synergies (before loss ratio improvements) over the next three years. As at December 31, 2021 we have delivered $85 million in run-rate synergies, ahead of our initial schedule. While actions taken in the next 12 to 24 months remain critical to exceeding our initial target, we are optimistic that the timing of synergies might be earlier than anticipated. • We continue to expect approximately 75% of total synergies to be generated in Canadian operations with the remainder in UK&I and specialty lines. o In Canada, claims internalization, shared services integration and associated system shutdowns will drive the majority of the expense savings. o In UK&I, we are generating expense synergies from prior RSA group costs, publicly listed related costs as well as capital, reinsurance and tax optimization. o In specialty lines, we are identifying opportunities to strengthen the combined international platform and introduce our proven governance and profitability model. • In addition to expense synergies, we expect to generate additional value by applying our core competencies in pricing and risk selection, digital, as well as data and AI. This additional value is not included in our disclosed financial metrics.
Integration progress	• In Canada, policy conversion in the broker channel is well underway as planned for personal lines for almost all provinces, as well as commercial lines small business insurance with effective dates of October 1st onward. Over 40% of Personal Lines broker policies, and nearly 40% of Commercial Lines small business and fleet policies, have converted to Intact systems to date. Early views on retention are aligned with or better than historical RSA experience. We will continue to monitor this. • The complex Canada commercial and specialty lines conversions will be staggered throughout 2022 by line of business and segment, with good progress on product and vertical plan development. • In direct distribution, the Johnson integration is targeted to begin in early 2022, with a focus on the customer journey and digital capabilities. Engagement with affinity partners similarly remains strong. • In claims, there is continued work on internalizing and integrating claims back-office and after-hours operations, leveraging On Side as well as refining the conversion roadmap. • In UK&I, we have identified the top priorities to be strengthening pricing sophistication, capitalizing on opportunities in the mid-market and regions, and investing in technology to increase the business' agility.

For more details, see Section 7 – UK&I, Section 26 – Claims liabilities and reinsurance, and Sections 30-35 – Risk Management.

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

Section 22 - Progress on our two financial objectives

22.1 Exceed industry ROE by 5 points

Outperforming the industry ROE by 500 basis points annually is one of IFC's key financial objectives *(see Section 18 – What we are aiming to achieve)*. This is measured by comparing IFC's AROE to the weighted average of the industry ROEs for each country. The industry weighted average is calculated by applying the relevant country weights based on the amount of capital deployed by IFC in each country.

The P&C industry performance comparison below is for North America only, as it reflects time periods prior to the RSA Acquisition. The Canada industry data is based on MSA and assigned an 80% weighting. The US industry data is based on NAIC statutory filings for the top 200 US P&C insurance entities and assigned a 20% weighting. Effective in 2021, the P&C industry performance comparison will be expanded to include the UK&I segment.

Table 26 – P&C industry (North America) – IFC outperformance (underperformance)

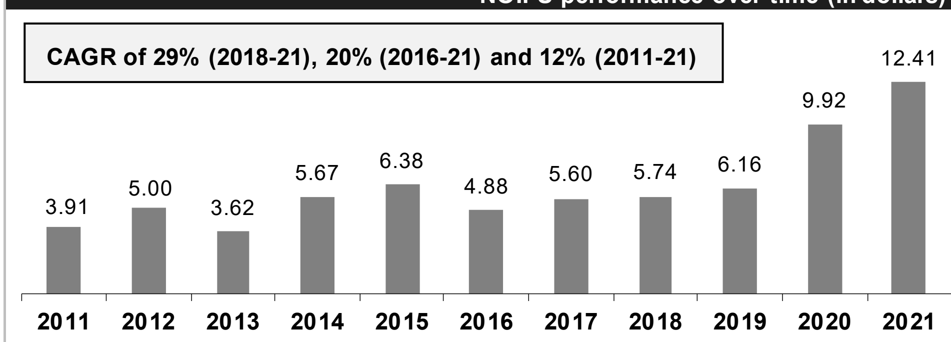
North America	Weighting	Full year 2020	Full year 2019	Full year 2018
ROE (for the last 12 months)				
IFC		**15.0%**	11.4%	11.8%
Canada Industry	**80%**	**9.3%**	5.6%	2.8%
US Industry	**20%**	**5.6%**	8.2%	6.1%
North American industry	**100%**	**8.6%**	6.1%	3.5%
Outperformance		**6.5 pts**	5.3 pts	8.3 pts

2020 full year relative performance

- **Compared to the North American P&C industry, our ROE outperformed by 650 basis points,** above our target of 500 basis points. Our ROE outperformance was driven by a combination of strong underwriting results, efficient capital and investment management and healthy distribution income.

22.2 Grow NOIPS by 10% yearly over time

NOIPS performance over time (in dollars)



- Growing NOIPS by 10% yearly over time is one of IFC's key financial objectives *(see Section 18 – What we are aiming to achieve).*
- During the past decade, we grew our NOIPS at a CAGR of 12%, better than our target.

10% NOIPS GROWTH ANNUALLY OVER TIME

- The RSA Acquisition is expected to create significant value for our shareholders.
- We have increased confidence in achieving our target of high single-digit accretion in the first 12 months and upper teens within 36 months.

Section 23 - Climate change

Over the past decade, we have made significant progress in preparing Intact and helping society anticipate the consequences of climate change. As natural disasters have increased by a factor of four in the past 30 years this effort was – and still is – existential. Despite the inherit challenges, there are also tailwinds. Climate change presents an opportunity to both help society manage the impacts and for IFC to win in the marketplace with innovative products and services.

In the months following COP26, there is momentum and urgency on the world stage to address climate change and its impacts. Many countries, including Canada, the US and UK, have committed to achieve net zero emissions in the next 30 years to keep average temperature increases to less than 2°C. To reach these targets, we need an all-of-society approach including governments, businesses and individuals.

Until we reach net zero emissions, we will continue to face more extreme weather; building resilient communities is therefore essential. We have invested heavily to help society be better prepared. We created the Intact Centre on Climate Adaptation in 2015 and have renewed its mandate through to 2025. To back our research with concrete actions, we have supported more than 90 projects through climate adaptation grants across Canada. Beyond our expertise and resources, we have committed more than $16 million to support these ideas since 2010.

Our response to climate change is an opportunity for us to leverage our strengths and platform to shape behaviour through the products we offer, how we price and select risk, and by supporting the transformation of existing and new industries. We have a proven track record of helping our communities while building sustainable performance. We see a unique opportunity for Intact to use our expertise, scale, data, and financial resources to accelerate solutions to help us both win in the marketplace and help build a climate resilient society.

23.1 Governance

The Enterprise Risk Management Committee identified climate change as one of our 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. This framework includes the identification, assessment, response, monitoring and reporting of risks. Climate risks are regularly discussed with the leadership of commercial, personal and specialty lines of business to ensure proper risk assessment and mitigation plans are in place. *See Section 33.6 – 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 Board is fully engaged in shaping the approach to Enterprise Risk Management, including setting our risk appetite where appropriate and ensuring governance structure and policies are effective.

Our Senior Management team, including our CEO, provides direct leadership on our climate change initiatives and advocates publicly for climate adaptation with business associations, government officials, regulators and globally in his recent role as the Board Chair of The Geneva Association. A newly created role of Chief People, Strategy and Climate Officer was created in 2021 to ensure ongoing integration of climate change and climate risk management into our central strategy.

23.2 Climate Strategy

Our strategy to manage climate change risks focuses on our expertise, scale and resources to address all aspects of climate change including the transition to net zero. The transition to a low-carbon economy cannot be an all-or-nothing approach. We play an integral role in enabling innovation and the transition to a sustainable future continues to be an opportunity for us to help facilitate a prosperous and climate resilient economy.

Our plan for the transition to a low-carbon economy focuses on the following principles:

- We will help people, businesses, and society de-risk the transition to a sustainable future, by leveraging our strengths.
- We will take an inclusionary approach to supporting our stakeholders, not an exclusionary one.
- We will focus our actions on areas that maximize the overlap between helping and winning.

We will leverage our strengths and help society by:

- Committing to Net-Zero emissions by 2050 and halving operations emissions by 2030.
- Doubling down on helping people and society adapt to climate change.
- Leveraging our platform to shape behaviour.
- Helping to catalyze the transition by enabling the transformation and creation of industries.
- Collaborate with governments and industry to help accelerate climate action.

More details will be available in our 2021 Social Impact Report.

23.3 Approach to managing physical impact

Physical risks have an impact on 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.

For the **Company**, our response to climate change has long been embedded in our strategy and our approach to risk management. We use our expertise to keep pace with an evolving climate. To accomplish this, we:

Risk selection & pricing	• Maintain an adequate capital margin to ensure that we are sufficiently capitalized to withstand an acceptable level of insurance and/or market shocks. • 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. • Review current personal and commercial line products, underwriting and pricing practices related to severe weather. • Continuously redefine how we select and price risk with data and predictive analysis, leveraging the expertise of 300 AI and Machine Learning 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 33.6 – Top and emerging risks that may affect future results.*
Product	• Continually evolve our products to account for new climate realities, such as unbundling our enhanced water damage product to make protection more accessible. • Transform our business to adapt to evolving climate risks. For example, we redesigned our personal property business to account for an increased risk of flood.
Supply chain & claims support enhancements	• Capitalize on opportunity in climate change by expanding our supply chain capacity through the acquisition of On Side, one of the largest players in restoration in Canada. • Use actuarial tools and have actuaries in claims support operations to quickly assess CATs (including the number of claims, nature of claims, geo-coded maps & supply-chain requirements).
Intact Investment Management (IIM)	• Engage with investees on climate change resiliency and the integration of climate change into strategy and governance measures. • Discuss the impacts of extreme weather events on financial performance and ensure management is accounting for climate change as a key risk. • Voted on 253 shareholder proposals related to ESG matters in 2021, of which 12% were focused on climate change disclosure and GHG emissions.

Helping our **customers** get back on track after a severe weather event and become resilient to the impacts of climate change is imperative to our success in managing physical risks effectively. To do this, we:

Prevention	• Invest a global loss prevention team 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. • Increase our customer and distribution partner education and awareness efforts, including providing climate-related tips featured in our BrokerLobby. • 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. • 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.
Products and claims	• Invest in addressing supply chain shortages during extreme weather events and enhancing our excellent customer service through the acquiring of On Side Restoration. On Side has the capacity to mobilize employees quickly between regions and to add capacity in impacted areas. • Advance our products to account for new climate realities and increase the flexibility of protection for our customers. • Employ nearly 5,000 claims professionals in Canada, dedicated helping customers get back on track – we manage at least 95% of customers' claims in house. • Have designated catastrophe response teams across the country to deal efficiently with CAT events. We have connected our claims teams from coast-to-coast to ensure service reliability for our customers.
Canadian Federal Government Flood Task Force	• Work with Industry and the Canadian Federal government as a member of the Task Force on Flood Insurance and Relocation. • The task force's mandate is to examine viability of a low-cost national flood insurance program as well as options for potential relocation for residents in areas at the high risk of recurrent flooding.
Bank of England Climate Biennial Exploratory Scenario (CBES)	• RSA joined 18 financial service firms to participate in the Bank of England's Climate Biennial Exploratory Scenario ("CBES"), which explored risks posed by climate change and tested the resilience of the financial services sector. • Insurance sector participants focused on physical and transition risk impacts on assets and insurance liabilities, with aggregated results available in May 2022. • RSA completed detailed scenario analysis to determine the material financial impact of climate risk. • The process of completing the CBES submission helped validate and update RSA's climate change action plan.

23.4 Approach to managing transition impact

The transition to a Net Zero economy requires all of society to rethink how is operates – it's critical we take a thoughtful approach to support people and protect the economy. With our risk management and climate resilience expertise, we have a role to play to help de-risk the transition and help accelerate behavioural change.

Intact Investment Management (IIM)	• Joined Climate Engagement Canada as a founding member, to drive dialogue with Canadian issuers about climate risks and opportunities. • Adopted and implemented positions on coal in 2020 and oil and gas in 2021, focused on supporting the energy sector transition to a low-carbon economy. • Will assess the climate disclosure and transition plans for all companies in our investment universe that: o generate more than 25% of revenue from thermal coal mining; o derive more than 25% of energy generation, revenue or net income from thermal coal; and o are included in the top GHG emitters from the oil and gas sector. • Will engage with investee companies who do not have satisfactory transition plans and expect tangible improvements. • Will remove companies who are non-responsive or do not provide evidence of progress on their transition plan from our investment universe within a communicated timeline.
Bank of Canada/OSFI Transition Risk Pilot	• In 2021, Intact was one of four insurance companies selected to participate in a pilot project to use climate change scenarios to understand transition risks related to a low-carbon economy. • The pilot enhanced our internal analysis and understanding of potential impacts of transition risk on specific industries within our asset portfolio. • It confirms the benefits of our diversified, high-quality portfolio as well as our investment policy to invest in companies with strong transition plans. • Furthermore, the short-term nature of our business allows us to quickly take actions with limited impact and adjust accordingly our security selection, sector/segment allocation and asset mix when we see evolving climate risk trend. • The pilot reinforces the need to favor companies that will address the climate transition with urgency. • It shed light on the risks of significant macroeconomic impacts, in particular for commodity-exporting countries like Canada. The economic impacts for Canada are driven mostly by declines in global prices of commodities rather than by domestic policy decisions.
Underwriting	• To support the transformation of industries that are key to the transition, we developed a climate risk assessment survey for the underwriting process across commercial, personal and global specialty lines of business. • This annual survey works with leaders to identify, assess, measure and monitor on climate risks and identify opportunities in our insurance business.

23.5 Climate Change Adaptation

Our support of initiatives in climate adaptation continued to accelerate in 2021, with increased investments in applied research and community level projects to demonstrate the concrete benefits of resilience.

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.

- In 2021, the Intact Centre released two critical reports, including:
  - Rising Seas and Shifting Sands: Combining Natural and Grey Infrastructure to protect Canada's Eastern and Western Coastal Communities, which outlines measures that can be used to protect coastal communities; and
  - Climate Change and the Preparedness of 16 Major Canadian Cities to Limit Flood Risk, which examined the preparedness of 16 major Canadian cities to mitigate flood risk.

- We continue to bring our expertise to support a number of Canadian Federal Government roundtables and committees, including:
  - CEO Charles Brindamour, joining the Canadian Government delegation to COP26;
  - CFO Louis Marcotte, as Lead of the Data Technical Experts Group on the Federal government Sustainable Finance Action Council, which aims to build a sustainable financial system in Canada; and
  - Executive Advisor Alain Lessard, joining the Federal government Disaster Resilience Advisory Table, which will contribute to the development of a National Adaptation Strategy.

- RSA donated £295,000 to 43 organizations across the UK through its Climate and Risk Education Grant Programme, focused on reducing carbon emissions, supporting risk education and behaviour change.

- We launched a new $1 million Municipal Climate Resilience Program to build the resilience of the front lines of our communities across Canada. *More information on these partnerships is available in our 2021 Social Impact Report.*

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 2021 Social Impact Report.

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

FINANCIAL CONDITION

Section 24 - Financial position

2021

Total assets	Investment portfolio	BVPS growth for the last 12 months	Adjusted debt-to-total capital ratio
$66.3 billion	$36.7 billion	+40%	23.0%

24.1 Balance sheets

On June 1, 2021, we, together with the Scandinavian P&C leader Tryg A/S, completed the RSA Acquisition. Subsequently, on June 11, 2021, we announced that together with Tryg we had entered into a definitive agreement to sell RSA's Danish business to Alm. Brand A/S Group. As a result, our investment in RSA's Danish operations is presented as held for sale in our Consolidated balance sheets. *See Note 5 – Business combination to the Consolidated financial statements for further details.*

Table 27 – Balance sheets

As at	Section	December 31, 2021	September 30, 2021	December 31, 2020
Assets				
Investments	*25*	**36,680**	36,625	20,630
Premiums receivable		**7,838**	7,916	3,822
Reinsurance assets	*26.2*	**5,616**	5,736	1,533
Deferred acquisition costs		**2,024**	2,060	1,089
Intangible assets and goodwill		**7,702**	7,645	5,327
Other assets		**5,647**	5,332	2,718
Assets held for sale		**842**	859	-
Total assets		**66,349**	66,173	35,119
Liabilities				
Claims liabilities	*26.1*	**25,116**	25,006	12,780
Unearned premiums		**11,703**	12,006	6,256
Debt outstanding	*28.3*	**5,229**	5,324	3,041
Other liabilities		**7,518**	7,592	3,459
Total liabilities		**49,566**	49,928	25,536
Equity				
Common shares		**7,576**	7,576	3,265
Preferred shares		**1,175**	1,175	1,175
Contributed surplus		**211**	197	187
Retained earnings		**6,183**	5,600	4,547
AOCI		**529**	575	409
Equity attributable to shareholders		**15,674**	15,123	9,583
Equity attributable to NCI		**1,109**	1,122	-
Total equity		**16,783**	16,245	9,583

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

Section 25 - Investments and capital markets

25.1 Strategic objectives

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.

Our investment management team has established the optimal mix of our consolidated investment portfolio to account for the RSA Acquisition, taking into account factors such as risk, return, capital, regulations and tax. Board-approved risk appetite statement remained unchanged following the RSA Acquisition.

Execution on the roadmap started in H2-2021, with the transition of RSA's Canadian investment portfolio to our Canadian investment strategy, introduction of a common shares strategy in UK&I and the addition of private credit investments that offer attractive yields and lower volatility. Changes to the asset mix will continue to occur gradually. Pace may vary based on market conditions and opportunities.

The fixed-income portfolio yield of RSA has been reset at the closing date. Over time, we expect to see opportunities to increase our investment income via higher reinvestment yield.

25.2 $36.7 billion of diversified investments

Table 28 – Investment portfolio

As at	December 31, 2021	September 30, 2021	December 31, 2020
Cash, cash equivalents	**2,276**	3,014	917
Short-term notes	**516**	520	684
Fixed-income securities	**24,791**	24,436	13,414
Preferred shares	**1,847**	1,923	1,552
Common equities	**5,686**	5,194	3,779
Investment property	**634**	552	-
Loans	**930**	986	284
Total investment portfolio	**36,680**	36,625	20,630
By geography (country of incorporation)			
Canada	**55%**	54%	72%
US	**19%**	19%	27%
UK	**11%**	12%	-
Other	**15%**	15%	1%
	100%	100%	100%

- The increase of $16.1 billion in 2021 reflected the addition of RSA's investment portfolio, as well as mark-to-market gains, driven by favourable equity markets *(see Section 25.5 – Capital market update)*.

  REMINDER: At closing (June 1, 2021), the RSA acquisition added $14.3 billion to our investment portfolio distributed across various geographical locations. As a result, our investment portfolio benefits from further diversification. *Refer to Section 14.1 - RSA's investment portfolio at a glance of our Q2-2021 MD&A for more details.*

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

25.3 Investment portfolio 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, 2021 (after reflecting the impact of hedging strategies related to investments and foreign subsidiaries) is outlined below.

Table 29 – Investment mix (net exposure)

As at	December 31, 2021	September 30, 2021	December 31, 2020
By asset class			
Cash, cash equivalents, and short-term notes	**9%**	11%	10%
Fixed-income strategies	**72%**	71%	72%
Preferred shares	**5%**	5%	7%
Common equity strategies	**9%**	8%	10%
Investment property	**2%**	2%	-
Loans	**3%**	3%	1%
By currency			
CAD	**68%**	68%	85%
USD	**14%**	14%	15%
GBP	**14%**	13%	-
Other currencies	**4%**	5%	-

- Changes in asset mix reflects the execution of the roadmap in 2nd half of 2021 with deployment of cash and cash equivalents in the Canadian fixed income portfolio (including additional private credit investments) and common shares in UK&I.
- Exposure to GBP and other currencies (mainly EUR) is related to our newly acquired business.

Net sectoral exposure

Table 30 – 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, 2021	Total Sept. 30, 2021	Total Dec. 31, 2020
Government	**36%**	**-**	**-**	**28%**	28%	32%
Financials	**28%**	**71%**	**27%**	**34%**	36%	32%
ABS and MBS[1]	**15%**	**-**	**-**	**12%**	11%	11%
Industrials	**4%**	**-**	**8%**	**4%**	3%	3%
Consumer staples	**2%**	**-**	**8%**	**3%**	3%	3%
Communication Services	**2%**	**5%**	**8%**	**3%**	3%	3%
Utilities	**4%**	**12%**	**11%**	**5%**	5%	5%
Consumer discretionary	**2%**	**-**	**8%**	**2%**	2%	1%
Energy	**1%**	**12%**	**12%**	**3%**	3%	3%
Materials	**1%**	**-**	**9%**	**1%**	1%	1%
Information technology	**2%**	**-**	**4%**	**2%**	2%	3%
Health care	**3%**	**-**	**5%**	**3%**	3%	3%
	100%	**100%**	**100%**	**100%**	100%	100%

[1] Our structured debt securities comprised $1,302 million of ABS and $2,354 million of MBS as at December 31, 2021. Residential MBS and Commercial MBS make up respectively 50% and 50% of our MBS portfolio. Approximately 99% of these structured debt securities are rated 'A' or better. We continue to have no exposure to leveraged securities.

- RSA's investment property portfolio is unlevered, diversified in terms of sectors (office, commercial and industrial) and geography within UK.

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

25.4 Our portfolio remains of high quality

The addition of RSA investments did not affect high credit quality of the portfolio and only impacted marginally duration.

Our fixed-income portfolio includes high quality Government and corporate bonds. Approximately 83% of our fixed-income portfolio was rated ‘A-’ or better as at December 31, 2021 (89% as at December 31, 2020). On a consolidated basis, the weighted-average rating of our fixed-income portfolio was ‘AA’ as at December 31, 2021 and 2020. The average duration of our fixed-income portfolio was 3.52 years as at December 31, 2021 (3.74 years as at December 31, 2020).

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, 2021 and 2020.

25.5 Capital market update

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

Table 31 – Selected market indicators

Selected market Indicators	Q4-2021	Q4-2020	2021	2020
Common shares				
S&P/TSX Composite	**6%**	8%	**22%**	2%
S&P/TSX Financials	**8%**	15%	**32%**	(3)%
DJ Dividend 100 Composite (US)	**9%**	16%	**26%**	11%
Preferred shares				
S&P/TSX Preferred Share Index	**-%**	6%	**14%**	-
Fixed-income securities (estimated variance in bps)				
5Y Canada Sovereign Index	**25 bps**	3 bps	**83 bps**	(136) bps
5Y US Sovereign Index	**30 bps**	8 bps	**90 bps**	(133) bps
5Y UK Sovereign Index[1]	**17 bps**	n/a	**47 bps**	n/a
5Y AA Corporate spread	**9 bps**	(14) bps	**19 bps**	(12) bps
Strengthening (weakening) of:				
USD vs CAD	**-%**	(4)%	**(1)%**	(2)%
GBP vs CAD[1]	**(0.5)%**	n/a	**(0.4)%**	n/a

[1] 2021 represented the change from the closing of the RSA Acquisition (June 1, 2021) to December 31, 2021.

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

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

Table 32 – Net pre-tax unrealized gain (loss) on AFS securities

As at	Dec. 31, 2021	Sept. 30, 2021	June 30, 2021	March 31, 2021	Dec. 31, 2020
Fixed-income securities	**30**	129	190	159	297
Preferred shares	**171**	179	151	96	(8)
Common shares	**421**	395	342	251	224
Net pre-tax unrealized gain (loss) position	**622**	703	683	506	513

Quarter

Unrealized gain position decreased by $81 million, mainly driven by:

- mark-to-market losses on fixed-income securities, due to the increase in interest rates; and
- realized gains on equity securities;

partially offset by:

- mark-to-market gains on equity securities, due to favourable equity markets in Q4-2021.

Full year

Unrealized gain position increased by $109 million, driven by:

- mark-to-market gains on equity securities, due to favourable equity markets in 2021;

partially offset by:

- mark-to-market losses on fixed-income securities, due to the increase in interest rates and widening spreads; and
- realized gains on equity securities.

25.7 Aging of unrealized losses on AFS common shares

Table 33 – Aging of unrealized losses on AFS common shares

As at	Dec. 31, 2021	Sept. 30, 2021	June 30, 2021	Mar. 31, 2021	Dec. 31, 2020
Less than 25% below book value	**52**	38	23	25	66
More than 25% below book value for less than 6 consecutive months	**2**	4	117	102	-
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	**-**	3	-	-	-
Unrealized losses on AFS common shares	**54**	45	140	127	66

Highlights

- In Q4-2021, we recorded $4 million of impairment on AFS common shares, compared to $22 million in Q4-2020.
- In Q4-2021, we recorded $7 million of impairment on AFS debt securities (none in Q4-2020).
- In 2021, we recorded $85 million of impairment losses on AFS common shares, mostly related to a venture investment, compared to $121 million in 2020 (of which $96 million in Q1-2020). In addition, we recorded $7 million of impairment on AFS debt securities (none in 2020). *See Table 15 – Net gains (losses) excluding FVTPL bonds.*
- Since AFS investments are measured at fair value on our balance sheet, impairment losses have no impact on our BVPS and capital position.

Section 26 - Claims liabilities and reinsurance

26.1 Claims liabilities

Assumptions

Claims liabilities stood at $25.1 billion as at December 31, 2021, following the RSA Acquisition.

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;
- inflation, including social inflation;
- other factors such as 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:

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

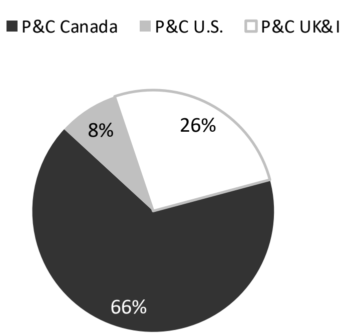
IBNR reserves supplement the case reserves by taking into account:

- 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.

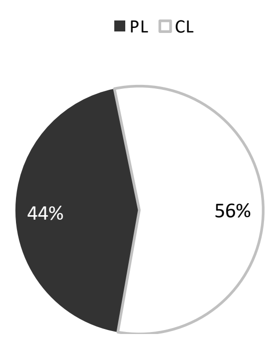
Case reserves and IBNR should be sufficient to cover all expected claims liabilities for events that have already occurred, whether reported or not, taking into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. 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. MYA is excluded from the calculation of NOI and the related non-GAAP financial measures as it not representative of our operating performance. *See Section 37 – Non-operating results for more details on the impact of MYA on underwriting.*

Net claims liabilities by business segment	December 31, 2021	Net claims liabilities by line of business



Diversification reduces the uncertainty associated with the unfavourable development of claims liabilities for our Canadian, UK&I and US operations.



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

26.2 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 mainly on an excess-of-loss basis (per event or per risk), but some proportional cessions are made for specific portfolios. Ceded reinsurance complies with regulatory guidelines, including with respect to coverage limits for Canadian earthquake risk.

Annually, we review and adjust our reinsurance coverage to reflect our current exposures and our capital base. The most material component of our reinsurance program is the catastrophe treaty, for which we provide more detail below. *See Note 14 – Reinsurance to the Consolidated financial statements for further details on our reinsurance net retention and coverage limits by nature of risk.*

Corporate reinsurance program for multi-risk events and catastrophes

Effective January 1, 2022, the catastrophe reinsurance program covers the global operations of IFC, including RSA's Canadian and UK&I operations, which were covered by their own reinsurance program in 2021. The Company's approach for setting limits in each country is consistent with prior years.

The following table summarises the net retention and coverage limits for multi-risk events and catastrophes, including the new IFC program effective January 1, 2022.

Table 34 – Corporate reinsurance program for multi-risk events and catastrophes

As of January 1,	2022 IFC	2021[1] Aggregate	2021[2] IFC	2021 RSA
Canadian events (in million of CAD)				
Retention[3]	**200**	**225**	**150**	**75**
Coverage limits[4]	**7,200**	**8,500**	**5,300**	**3,200**
US events (in million of CAD)				
Retention[3]	**125**	**225**	**150**	**75**
Coverage limits[4]	**1,225**	**1,055**	**445**[5]	**610**
UK events (in million of GBP)				
Retention[3]	**75**	**75**	**n/a**	**75**
Coverage limits[4]	**1,350**	**1,350**	**n/a**	**1,350**

[1] Reflects the aggregate of Intact and RSA retention and coverage limits in 2021.
[2] Reflects Intact's retention and coverage limit, excluding RSA.
[3] Excludes reinstatement premium, tax impacts and co-participations between the retention level and coverage limit.
[4] Represents the ground up limit before co-participations and retention level.
[5] Includes IFC's main catastrophe program plus the limit provided by a specific protection for the US Specialty Property portfolio.

January 1, 2022

- For Canadian events, the coverage limit before co-participations is $7.2 billion for 2022, which is smaller than the aggregate of $8.5 billion for 2021. The lower coverage limit reflects reductions in earthquake exposure in British Columbia.
- As an illustration of the capacity of our 2022 reinsurance program, the retained cost of a 1 in 500-year earthquake event in British Columbia would represent around 3 points of combined ratio, based on latest exposures. The retained cost includes our $200 million retention plus reinstatement premiums and co-participations.
- For US events, we have increased our coverage limit for 2022 to reflect the combined Intact and RSA UK&I exposures.
- For UK&I events, while we have maintained the same retention and coverage limit for 2022, we have introduced a small amount of co-participation in the program.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers 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.

We ensure our placement of reinsurance is diversified to avoid excessive concentration to a specific reinsurance group. We are selective with respect to our choice of reinsurers, placing reinsurance with only those reinsurers having a strong financial condition.

Adverse development cover

On July 27, 2021, we entered into a reinsurance contract pursuant to which a third-party reinsurer assumed 50% of negative reserve development in excess of an agreed retention with respect to certain of RSA's UK&I and other claims liabilities for accident years 2020 and prior. The maximum amount recoverable from the third-party reinsurer under the reinsurance contract is 50% of £400 million and is subject to certain exclusions and limitations including in relation to first party COVID-19 related claims. The transaction closed on October 6, 2021, following regulatory approval and satisfaction of various closing conditions. The purchase of this ADC has reduced the potential volatility in our claims liabilities and resulted in a release of risk margin in Q4-2021. The net impact of the adverse development coverage, amounting to $71 million was reported in Acquisition, integration and restructuring costs in Q4-2021.

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

Section 27 - Employee future benefit programs

We currently offer defined benefit ("DB") pension plans, defined contribution ("DC") pension plans, as well as other pension-related savings plans to our employees. As a Best Employer, these pension offerings are valuable components of our total employee rewards package and are designed to be competitive to attract and retain talent.

In Canada, we provide flexible pension plan benefits to current employees, including former RSA employees effective August 30, 2021. Employees have the choice between three DB options and one DC option, and this choice can be modified every five years. To protect the long-term financial sustainability of the DB plans, the employee contribution level has been adjusted in recent years to maintain cost-sharing aligned with the interest rate environment.

In the UK&I, as a result of the RSA Acquisition, we have acquired DB pension plans, which are closed to future accruals, and we provide DC pension plans to current employees.

In the US, we provide a 401(k) plan to our employees.

Across all jurisdictions, we also sponsor legacy DB pension plans, which are closed to future accruals for existing members, post-retirement benefit plans to a limited number of active employees and retirees, post-employment benefit plans to employees on disability, as well as end-of-service indemnities to certain employees.

Overall, our DB pension plans are well funded. The DB pension obligation and accounting funding ratio by country are summarized below.

Table 35 – DB pension obligation and accounting funding status

As at December 31,	DB pension obligation	2021 Accounting funding ratio (funded plans)	DB pension obligation	2020 Accounting funding ratio (funded plans)
UK[1]	**14,665**	**108%**	n/a	n/a
Canada	**3,739**	**106%**	3,151	97%
Other	**165**	**118%**	n/a	n/a
	18,569	**108%**	3,151	97%

[1] Based on the latest actuarial valuations, there is a continuation of current funding arrangements of approximately £75 million per year plus expenses and regulatory levies for the UK DB pension plans.

We continuously manage the risks related to our DB obligation to reduce volatility that stems from both the pension liabilities and assets by considering and executing strategies such as:

- asset diversification;
- asset-liability matching to hedge against interest rate, inflation and credit risks;
- longevity swaps; and
- opportunistic buy-in and buy-out annuity purchases.

In 2021, as part of our de-risking strategy in Canada, we purchased buy-in annuities with reputable life insurance companies for over $800 million, representing two thirds of the retiree exposure and almost a quarter of the total pension liability in Canada.

In the UK, the DB pension plans went through a significant de-risking exercise over time, including asset-liability matching and longevity swaps, and we continue to work with pension trustees to manage pension risks.

See Note 30 – Employee future benefits to the Consolidated financial statements and Section 33 – Enterprise Risk Management for further details.

Section 28 - Capital management

28.1 Our capital management framework

Capital management objectives

Capital management is a vital part of the financial management of the Company and is aligned with its strategy and business plan. Capital is managed on a group basis as well as individually for each operating subsidiary.

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 and the probability of breaching regulatory minimum requirements is very low.

Group capital position

Capital management at a group level focuses on optimizing overall capital within the various subsidiaries and ensuring there are sufficient liquid resources to support regulatory capital requirements, debt obligations, the payment of shareholder dividends, acquisitions and other business purposes.

The capital strength of the group is measured by the Total Capital Margin. Total capital margin includes capital in excess of the internal CALs for insurance entities in Canadian, US, UK and other internationally regulated jurisdictions and the funds held in non-regulated entities, less any ancillary own funds committed by the Company. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels. These thresholds are reviewed annually as part of risk management practices.

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 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.
Manage leverage	• Prudent debt leverage is an important component of our capital structure. We target a 20% adjusted 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.
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.

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.
UK&I	• RSA's UK&I operations are subject to regulation and supervision by the Prudential Regulation Authority ("PRA"). as well as other regulators at a subsidiary level. • UK&I operations use an internal model compliant with the Solvency II regime enacted in the UK and approved by the PRA to calculate the SCR. • The coverage ratio represents total Eligible Own Funds over the SCR as determined by the internal model.
US	• Our US insurance operations are subject to regulation and supervision in each of the states where they are domiciled and licensed to conduct business. • State insurance departments have established the insurer solvency laws and regulatory infrastructure to maintain accredited status with the National Association of Insurance Commissioners ("NAIC"). • A key solvency-driven NAIC accreditation requirement is a state's adoption of RBC requirements.

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

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

28.2 Maintaining a strong capital position

Capital position

All our regulated P&C insurance subsidiaries are well capitalized on an individual basis.

Table 36 – Estimated aggregated capital position

As at	Regulatory capital ratios	CAL	December 31, 2021	Sept. 30, 2021	December 31, 2020
Total capital margin			**2,891**	2,693	2,729
Regulatory capital ratios					
Canadian regulated entities	MCT	173%[1]	**206%**	204%	224%
UK & International regulated entities[2]	SCR	120%	**180%**	176%	n/a
US regulated entities	RBC	200%	**448%**	441%	469%
Adjusted debt-to-total capital[3] *(Table 60)*			**23.0%**	23.9%	24.1%
Total leverage ratio[3,4] *(Table 60)*			**33.2%**	34.3%	33.4%

[1] The average CAL for all regulated Canadian insurance entities is 173% MCT. The CAL varies by legal Canadian entity.
[2] Indicated CAL and coverage figures shown are for Royal & Sun Alliance Insurance Limited which includes all UK & International insurance subsidiaries.
[3] *See Section 38 – Non-GAAP and other financial measures for more details.*
[4] Including debt, preferred shares and hybrids.

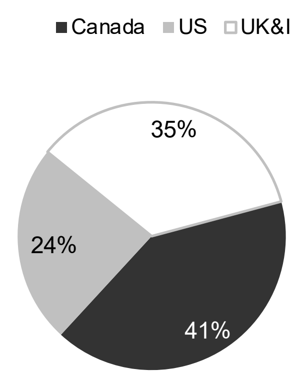
Total capital margin Highlights

Total capital margin stood at a strong $2.9 billion as at December 31, 2021, reflecting solid capital generation, the payment of shareholder dividends, as well as broker investments.

- During Q4-2021, it improved by $198 million, driven by strong underwriting performance, favourable equity markets, and the payment of shareholder dividends.
- Since December 31, 2020, the improvement reflected the financing and completion of the RSA Acquisition, strong operating and investment returns, as well as the payment of shareholder dividends.

Regulatory capital ratios for all jurisdictions are above operating targets, and well above minimum regulatory targets. The SCR ratio for UK&I will close above the minimum targets agreed with the PRA at the time of acquisition, which is well ahead of the original plans.

Total capital margin by geography



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

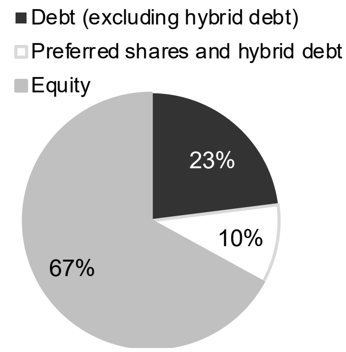
28.3 Managing leverage

We believe that our optimal financing structure is one where:

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

We classify hybrids with preferred shares since they are convertible to preferred shares pari passu to our existing preferred shares in case of default or bankruptcy.

Capital structure December 31, 2021



Our financing is composed of a well diversified array of funding instruments. From short-term commercial paper, bank debt, Medium term notes, Subordinated notes, preferred shares and common shares. These are spread across the maturity ladder to allow for deleveraging opportunities, and mitigate against refinancing and interest rate risk.

- The weighted-average debt maturity is 11 years. This excludes commercial paper, which has no maturity, and hybrid debt, which are classified with preferred shares.
- The weighted-average debt coupon is 2.17% (after-tax). This includes commercial paper and term loans.
- The weighted-average preferred share coupon is 4.50% (after-tax). This includes hybrid debt and RSA Tier 1 notes.

For acquisition purposes, we allow for temporary increases in the adjusted debt-to-total capital ratio above our targeted level when we have good visibility on our ability to return to 20% in the short to medium term. Given the anticipated proceeds from the sale of Codan Denmark, we expect the adjusted debt-to-total-capital ratio to return to 20% ahead of our objective.

Financing activity in 2021

The table below represents an overview of the financing activity in 2021 and their impact on the adjusted debt-to-total capital ratio.

Table 37 – Financing activity

Financing	Debt outstanding (excluding hybrid debt)[1, 2]	Adjusted total capital[2]	Adjusted debt-to-total capital ratio[2]
As at December 31, 2020	**3,041**	**12,624**	**24.1%**
RSA acquisition financing	573	5,131	(3.7)%
RSA acquired liabilities	1,421	2,216	4.9%
Unsecured medium-term note issuances	995	995	3.5%
Commercial paper	439	439	1.5%
Repayment of debt	(1,429)	(1,429)	(5.0)%
Other movements	(58)	1,722	(2.3)%
	4,982	**21,698**	**23.0%**
Reconciliation to the most comparable GAAP measures			
Hybrid subordinated notes[1]	247		
Equity attributable to NCI (Middle East)[3] *(Note 22.1)*		314	
Debt outstanding[1]	**5,229**		
Total capital[4]		**22,012**	

[1] Debt is presented at carrying value. *See Note 13.4- Summary of debt outstanding to the Consolidated financial statements for more details.*
[2] *See Section 38 – Non-GAAP and other financial measures for more details.*
[3] Excluded from Adjusted total capital to reflect capital attributable to common shareholders.
[4] Total capital represents the sum of Debt outstanding and Total equity, as reported under IFRS.

Medium-term notes refinancing

- On May 18, 2021, we completed a three-tranche unsecured medium-term notes offering of:
  - Series 11 : $375 million, 1.207% maturing on May 21, 2024.
  - Series 12 : $375 million, 2.179% maturing on May 18, 2028.
  - Series 13 : $250 million, 3.765% maturing on May 20, 2053.
- The net proceeds from this offering was used to fund the early redemption of:
  - RSA's £350 million senior notes; and
  - IFC's $300 million Series 4 unsecured MTN.

Partial redemption of RSA's Tier 2 subordinated notes

- To enhance Tier 1 capital composition in the UK and continue to optimize the efficiency of the capital structure going forward, we have decided to proceed with the partial redemption of RSA's £400 million Tier 2 subordinated notes.
- On September 20, 2021, £240 million Tier 2 subordinated notes were redeemed at a purchase price of 114.531%, for a total redemption amount of approximately £275 million ($469 million).
- The Tier 2 partial redemption was funded using the credit facility prior to the launch of our commercial paper program.

New $500-million commercial paper program

- On October 7, 2021, we launched a Canadian commercial paper program, whereby we may issue short-term promissory notes ("commercial paper") up to an aggregate principal amount of $500 million.
- This program, which is backed by the credit facility, represents an effective short-term funding vehicule that is expected to be partially repaid following the receipt of the proceeds from the sale of the Denmark operations, in Q2-2022.
- We expect to continue using commercial paper to manage short-term liquidity needs.
- As of December 31, 2021, we had $439 million outstanding, with weighted-average maturity of 78 days and weighted average annual rate of 0.28%.

Series 3 Preferred shares and Series 4 Preferred shares

- On August 31, 2021, we opted to renew our Series 3 Preferred Shares and Series 4 Preferred Shares and proceed with their rate reset. Investors had the option to move between the 2 series.
- Given the lack of participation in the Series 4 Preferred Shares, they were delisted. As a result, effective September 30, 2021, all remaining Series 4 Preferred Shares were converted to Series 3 Preferred Shares, which now yield 3.457% annually.

$1.5 billion credit facility

- On June 1, 2021, in order to provide incremental liquidity following the RSA Acquisition, the credit facility was increased from $750 million to $1.5 billion.

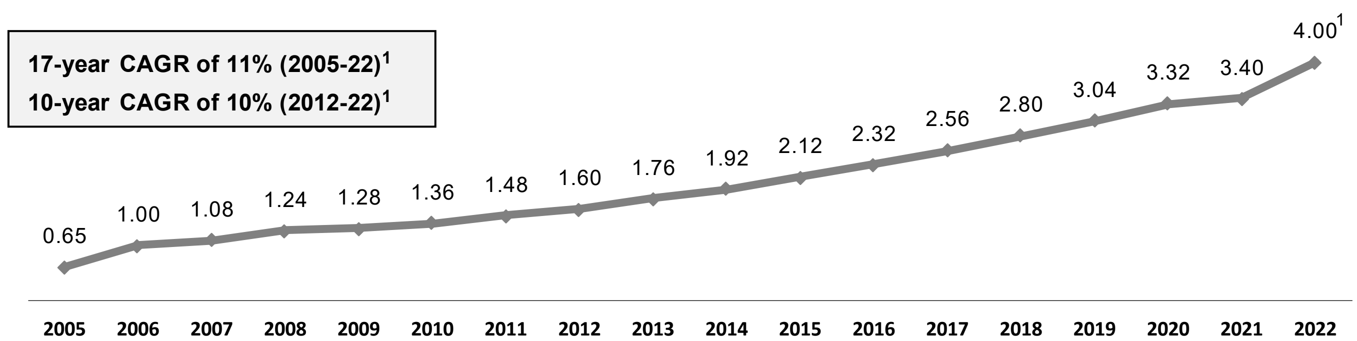
See Note 20 – Debt outstanding and Note 21 – Common shares and preferred shares of Consolidated financial statements for more details. For information on the RSA Acquisition financing and H1-2021 treasury activities, please refer to our Q2-2021 MD&A.

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

28.4 Common shareholder dividends

2022: our 17th consecutive dividend increase

- We strive to maintain our dividend track record through sustainable annual dividend increases. We have increased our common share dividends each year since going public.
- We increased our dividends by 10% in Q4-2021 to $0.91, following OSFI's lifting of the restrictions on capital distributions.
- The decision to increase our dividends by another 10% to $1.00 per quarter in 2022 reflects the strength of our financial position and confidence in our ongoing operating earnings and capital generation This represents the 17th increases in dividend since initial public offering (IPO).



[1]Annual dividend for 2022 is projected

28.5 Share buybacks

There was no share buyback during 2021 and 2020. Since 2009, $627 million has been returned to shareholders, with an average buyback share price of $50.91. As part of our capital deployment strategy and in expectation of the reception of the proceeds from the sale of RSA's Danish operations, we intend to reinstate our share buyback program (NCIB) in 2022, subject to TSX approval.

28.6 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, and accessing capital markets at competitive pricing levels.

Table 38 – Ratings

	A. M. Best	DBRS	Moody's	Fitch
Financial strength ratings				
IFC's principal Canadian P&C insurance subsidiaries	**A+**	**AA(low)**	**A1**	**AA-**
RSA Canadian entities	**not rated**	**AA(low)**	**A1**	**AA-**
Intact US (OneBeacon) US regulated entities	**A+**	**AA(low)**	**A2**	**AA-**
RSA Insurance Group UK&I	**A**	**AA(low)**	**A2**	**AA-**
Senior unsecured debt ratings				
IFC	**a-**	**A**	**Baa1**	**A-**
Intact US (OneBeacon)	**a-**	**A**	**Baa2**	**A-**
RSA Insurance Group plc.	**not rated**	**A**	**Baa1**	**A-**

In Q4-2021, DBRS assigned ratings for RSA Canadian and UK entities of AA(low) for financial strength – outlook stable. A.M.Best assigned first time ratings to Royal & Sun Alliance Insurance (RSAI) of A for financial strength - outlook stable.

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

28.7 Book value per share

Book value per share increase over time

- Our operating performance and financial strength have translated into close to $2.3 billion in capital returned to common shareholders through dividends and share repurchases over the past five years.
- Our BVPS was up 40% to $82.34 in 2021, mainly driven by our strong earnings, net of common share dividends, and the RSA financing.
- We remained committed to our financial objectives in terms of ROE outperformance and NOIPS growth to enhance value to shareholders.

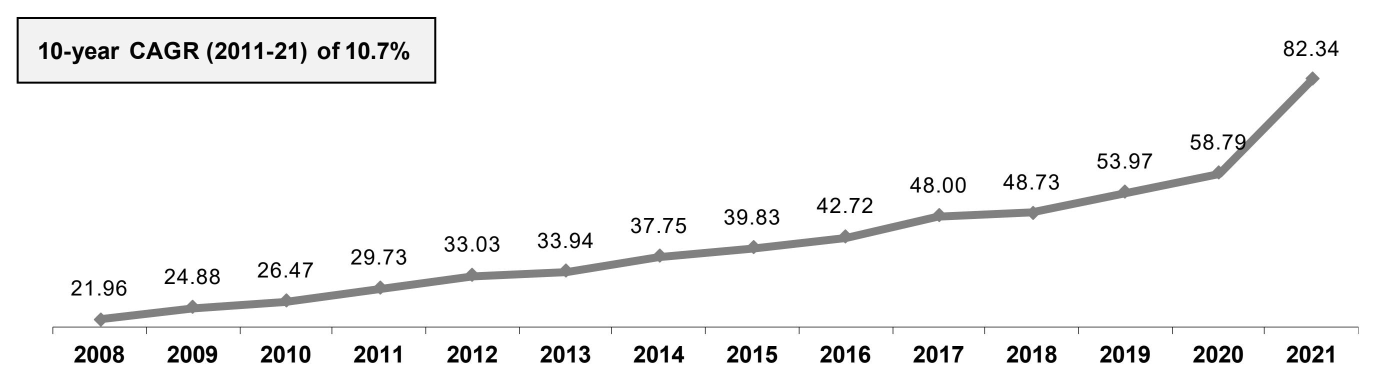


Table 39 – Evolution of BVPS (in dollars)

As at December 31,	Q4-2021	2021	2020
BVPS, beginning of period	**79.21**	**58.79**	53.97
Net income			
NOIPS, basic and diluted	**3.78**	**12.41**	9.92
After-tax non-operating gains (losses)	**0.07**	**(0.01)**	(2.72)
Net income attributable to common shareholders (EPS)	**3.85**	**12.40**	7.20
Other comprehensive income (loss)			
Impact of market movements on AFS securities	**(0.35)**	**0.62**	0.96
Foreign exchange impact	**-**	**0.02**	(0.34)
Net actuarial gains (losses) on employee future benefits	**0.37**	**1.67**	0.31
Net impact from issuance of common shares	**-**	**12.13**	0.04
Dividends on common shares	**(0.91)**	**(3.40)**	(3.32)
Other[1]	**0.17**	**0.11**	(0.03)
BVPS, end of period	**82.34**	**82.34**	58.79
Period-over-period increase	**4%**	**40%**	9%

[1] Includes share-based payments.

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

28.8 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 40 – Cash flows

	Q4-2021	Q4-2020	Change	2021	2020	Change
Net cash flows provided by operating activities	**894**	680	214	**3,129**	2,352	777
Cash flows generated from (deployed on):						
Business combination, net of cash acquired[1]	**-**	-	-	**(11,076)**	-	(11,076)
Proceeds from the disposal of certain RSA assets[1]	**-**	-	-	**7,209**	-	7,209
Proceeds from issuance of debt, net of issuance costs[2]	**1**	596	(595)	**1,815**	894	921
Repayment of debt	**(73)**	-	(73)	**(1,429)**	(47)	(1,382)
Borrowing (repayment) on the credit facility and commercial paper, net	**(33)**	(2)	(31)	**439**	(165)	604
Proceeds from issuance of common shares and preferred shares, net of issuance costs[2]	**-**	-	-	**4,263**	146	4,117
Repurchase of common shares for share-based payments	**(5)**	(4)	(1)	**(64)**	(49)	(15)
Dividends on common shares and preferred shares	**(173)**	(132)	(41)	**(679)**	(527)	(152)
Dividends to non-controlling interests	**(13)**	-	(13)	**(27)**	-	(27)
Equity investments in brokerages and other, net	**(23)**	(59)	36	**(102)**	(187)	85
Purchases of intangibles and P&E, net	**(106)**	(55)	(51)	**(327)**	(163)	(164)
Payments of lease liabilities	**(27)**	(15)	(12)	**(97)**	(59)	(38)
Payment of contingent consideration related to a business combination	**-**	(94)	94	**(15)**	(94)	79
Proceeds from (repayment of) securities sold under repurchase agreements	**-**	-	-	**-**	(20)	20
Net cash inflows (outflows) before the following:	**442**	915	(473)	**3,039**	2,081	958
Proceeds from investment sales (purchases), net	**(1,168)**	(818)	(350)	**(1,676)**	(2,092)	416
Net increase (decrease) in cash and cash equivalents	**(726)**	97	(823)	**1,363**	(11)	1,374
Cash and cash equivalents at the beginning of the period	**3,014**	837	2,177	**917**	936	(19)
Exchange rate difference on cash and cash equivalents	**(12)**	(17)	5	**(4)**	(8)	4
Cash and cash equivalents at end of the period[3]	**2,276**	917	1,359	**2,276**	917	1,359

[1] See Note 5 – *Business combination to the Consolidated financial Statements for details.*

[2] See Section 28 – Capital management.

[3] Net of bank overdraft.

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)

28.9 Contractual obligations

Table 41 – Contractual obligations

As at December 31, 2021		Payments due by period		
	Total	Less than 1 year	1 - 5 years	Thereafter
Principal repayment on notes outstanding	**5,229**	892	1,952	2,385
Interest payments on notes outstanding	**2,571**	144	480	1,947
Claims liabilities[1,2]	**24,108**	9,904	11,700	2,504
Leases[3]	**547**	87	241	219
Investments[4]	**1,087**	1,087	n/a	n/a
Pension obligations[5]	**906**	139	555	212
Other financial liabilities[2]	**5,225**	3,622	572	1,031
Total contractual obligations	**39,673**	15,875	15,500	8,298

[1] Undiscounted value, including incurred but not reported reserves. Excludes periodic payment orders.

[2] *Refer to Note 10.5b) – Financial liabilities by contractual maturity to the Consolidated financial statements for details.*

[3] Includes variable lease payments not based on an index or rate, such as property taxes.

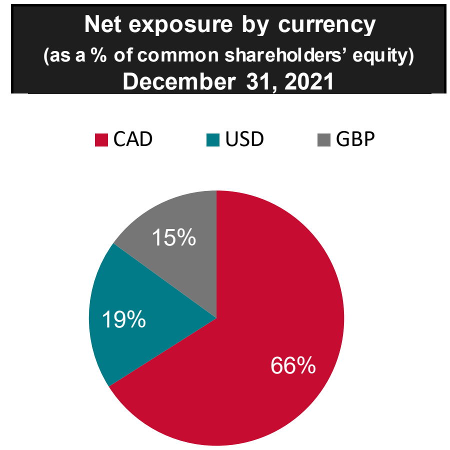
[4] Represents property funds, collateralized debt obligations and other classes of investments which are callable on demand over the life of the funds.

[5] Represent the expected benefit payments for funded and unfunded plans. *See Section 27 – Employee future benefits program and Note 30 – Employee future benefits to the Consolidated financial statements for details.*

Refer to Note 34 – Commitments and contingencies to the Consolidated financial statements for details.

Section 29 - Foreign currency management

29.1 Currency hedging



RSA Acquisition hedging

- In November 2020, we entered into foreign currency forward contracts to fully hedge the net currency exposure related to the RSA purchase price of £3.0 billion ($5.1 billion).
- On closing of the RSA Acquisition, these forward contracts were all executed.

Denmark sale hedging

- Expected proceeds from the sale of the Danish operations in DKK have been fully hedged through a combination of USD denominated bank term loan, cross-currency swaps, as well as foreign currency forwards. These hedges also protect our balance sheets DKK/Euro exposure.

Book value hedges

- We protect our book value from currency risk arising from our ownership of non-Canadian entities by hedging foreign currency. The hedging is done using foreign currency forward contracts and cross-currency swap agreements as per our internal risk appetite.
- In November 2020, we entered into foreign currency forward contracts for a notional amount of £700 million ($1.2 billion), whereby we sell GBP for CAD, in order to reduce our book value exposure to the GBP.
- In September 2021, we increased our book value hedge by £275 million ($470 million) to £975 million to reflect the impact of the Tier 2 notes redemption on our GBP exposure. On a consolidated basis, our hedged GBP exposure was £780 million, given the £195 million EURO/GBP hedge in place in the UK legal entities.
- In September 2021, we eliminated our USD book value hedge by US$200 million. Considering the total level of foreign currency exposure, we believe that an acceptable amount of USD exposure can help mitigate risk in the overall portfolio.
- As of December 31, 2021, the book value hedges in place were as follows:
  - £975 million GBP/CAD
  - £195 million EURO/GBP
  - €988 million EURO/CAD and DKK/CAD. Of the €988 million, €760 million is used to hedge the proceeds from the sale of the Denmark business

Operational/ cash flow hedging

- As part of regular operations, we can from time to time enter into derivative contracts to hedge expected future cash flows in different currencies to protect against exchange rate volatility.

See Note 8 – Derivative financial instruments and Note 10.1 b) – Exposure to currency risk to the Consolidated financial statements for more details.

RISK MANAGEMENT

Section 30 - 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.

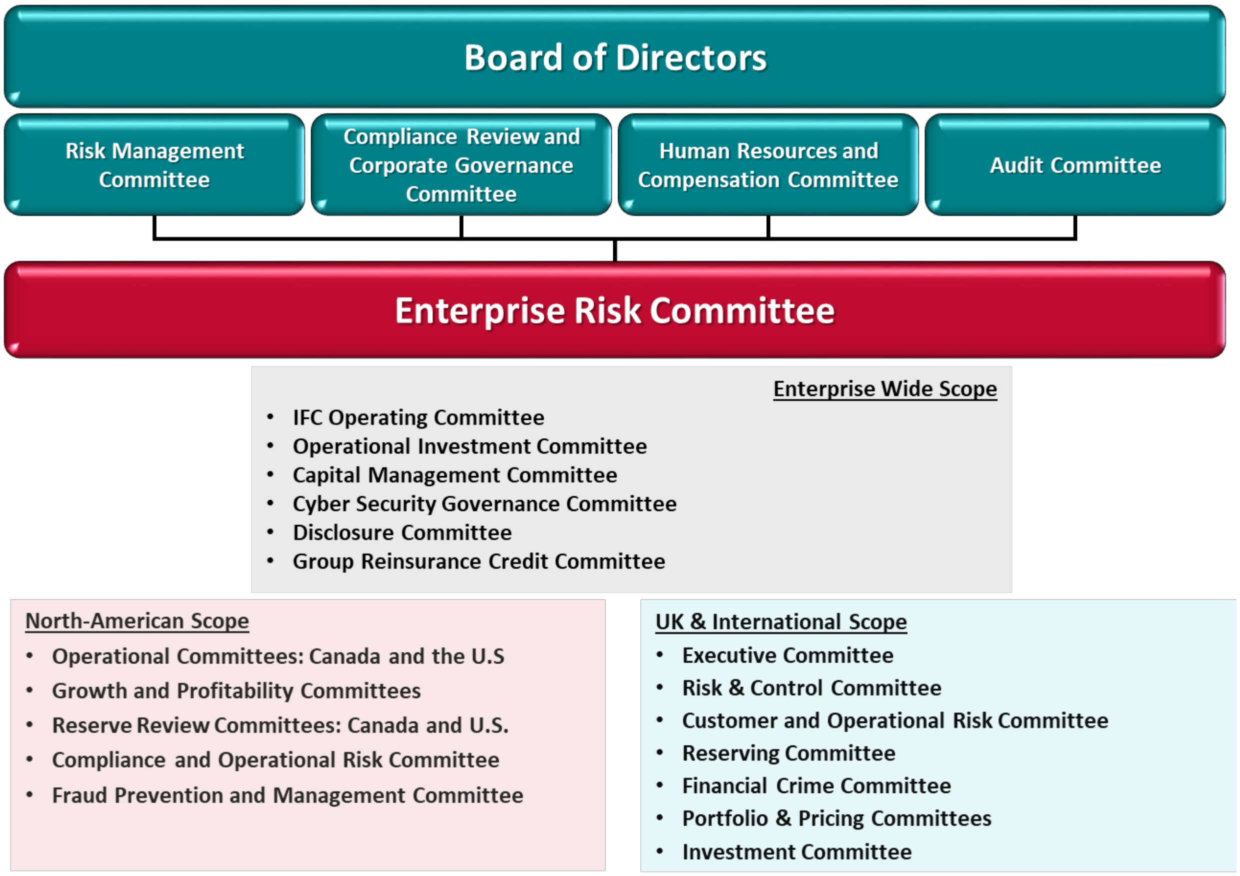
Effective risk management rests on identifying, understanding and communicating all material risks we are exposed to in the course of our operations. In order to make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate 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.

Following the RSA Acquisition, the Company has harmonized its risk management practices globally. While some processes differ based on local regulatory requirements, the general risk management principles and risk appetite are aligned across the Company. This enables consistent identification, assessment and management of top and emerging risks.

Section 31 - 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, which 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 align 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 organizational 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 in terms of the impact on both 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 32 - 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-fulfillment 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:

32.1 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, including compliance in accordance with requirements of Canadian Securities Administration National Instrument 52-109.	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 33 - Enterprise Risk Management

33.1 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.

33.2 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.

33.3 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 are paramount to fostering alignment and optimal risk management.

33.4 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:

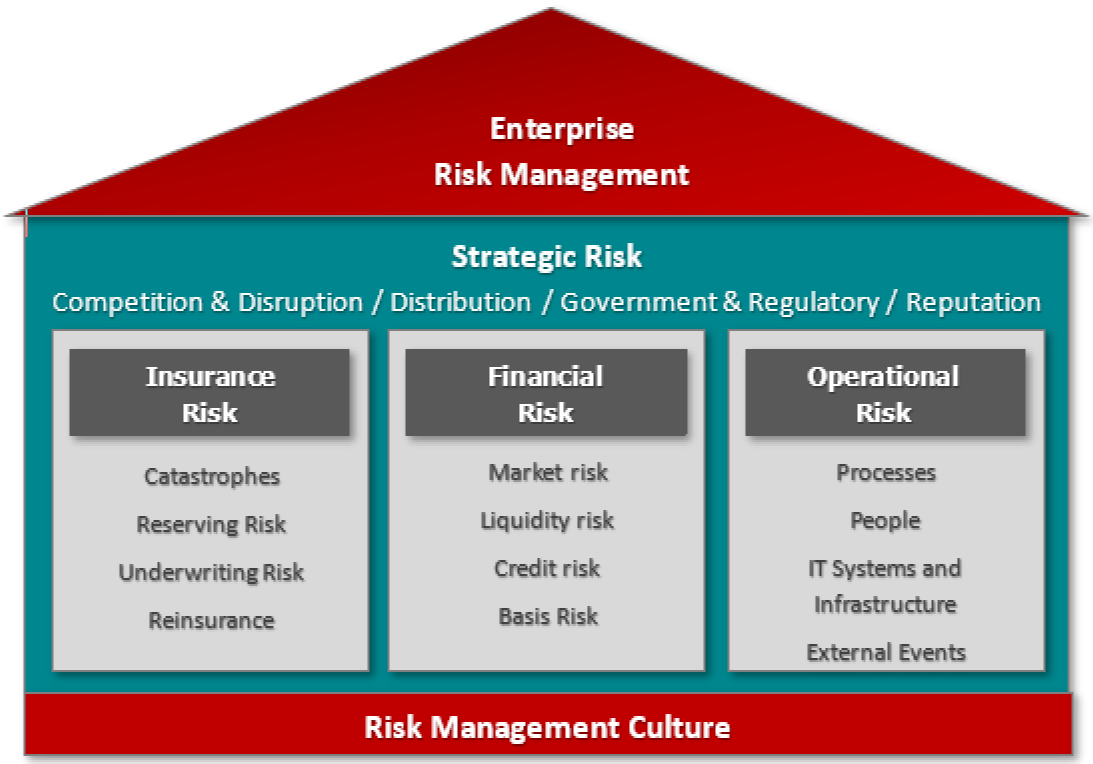
- we focus on our core competencies;
- we keep our overall risk profile in check;
- we protect ourselves against extreme events;
- we promote a strong risk management culture; and
- we maintain our ability to access capital markets at reasonable costs.

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

33.5 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.



33.6 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.

Following the RSA Acquisition, the Company has added exposure to new geographies and expanded the range of products it offers. This results in enhanced diversification across segments and geographies.

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 the extent of the damage, the losses could be substantial even after significant reinsurance recoveries of IFC and RSA treaties. 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 26.2 – Reinsurance for more details on our reinsurance program.*

During 2020 and 2021, we implemented a robust action plan resulting in a material reduction in our Western Canada earthquake exposure. Both our personal and commercial lines enacted a series of pricing and product measures. We are regularly evaluating potential additional measures to further reduce our combined Western Canada exposure.

We combined IFC and RSA catastrophe reinsurance treaties effective January 1, 2022 and optimized retentions based on market conditions and our risk tolerance.

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 decades. The risk is constantly evolving and has increased in importance as many global industries and societies tackle the 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 have resulted in hotter, drier weather in some areas and more humid, wetter weather in other areas. The result has been more unpredictability in weather and increasingly severe storms

Transition risk is the risk inherent in the transition to a low-carbon and more climate-resilient economy, involving changes in government policies, the legal environment, technologies and financial markets. Awareness of the potential risk continued to increase this year with several examples of large institutional investors shifting away from carbon-intensive sectors.

Liability risk is the risk of climate-related claims under liability policies. Compensation could be sought for losses resulting from the physical or transition risks outlined above. Although in its very early stages globally, climate-related litigation could increase with implications for certain liability coverages.

Potential impact

Physical risk

Underwriting: Weather patterns could continue to change and impact on the likelihood and severity of natural catastrophes, such as wildfires and flooding in the west and heavy precipitation and hurricanes in the east. The impact of climate change may result in increased earnings volatility and negatively affect our property and automobile insurance results, which collectively contribute to a majority of our total annual premiums.

Operations: Could disrupt our operations, should severe weather events affect our premises or the premises of any outsourced business functions.

Transition risk

Underwriting: Every sector contributes to the transition and the financial impact on some sectors might be significantly negative while other sectors may benefit. To take advantage of the transition, it is important to fully understand the impact of this changing environment.

It could lead to a contraction of market demand in certain sectors and an increase in losses for certain lines of business such as surety.

Investments: The risk could lead to a decline in the valuation of assets we hold in certain sectors that are vulnerable to transition risk. Furthermore, the exposure to carbon-intensive sectors or companies could result in the perception of disregard towards a greener economy and increase reputational risk for insurers who underwrite these risks.

During 2021, we participated in the Bank of Canada and OSFI's Climate Scenario Analysis Pilot Project. The results of the Pilot were released on January 14, 2022. The initiative further enhanced the understanding of the potential exposure to transition risk in our investment portfolio. The analysis shows that our exposures projected on the next 30 years would be manageable. We are well positioned to mitigate this risk further due to the short-term nature of our corporate bond portfolio and our focus on companies with strong transition plans.

How we manage this risk

Physical risk

Underwriting: To address this risk, 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, the introduction of depreciation schedules in personal property insurance across Canada, and the supply chain enhancement with the acquisition of On Side Restoration. 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 risks from weather patterns. We input weather, climate and topographic data into machine learning models to develop and adapt risk maps used to assess weather perils such as flood and wildfire. *See Section 23 – 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 unexpected weather-related catastrophe events, *See Section 26.2 – Reinsurance for details on our reinsurance program.*

Transition risk

Underwriting: We are assessing underwriting risks and opportunities that can emerge in the transition to a low-carbon economy and acting accordingly, such as providing electric vehicle discounts.

Investments: Intact Investment Management developed a Coal Policy and engaged portfolio companies on climate change. Existing holdings that exceed thresholds stated in our Policy are evaluated based on their energy transition plan. We will divest from companies that do not have a satisfactory plan which helps mitigate transition risk in our investment portfolio.

Catastrophe risk (excluding earthquake risk) — Insurance risk

Risk we are facing

Catastrophe events include natural disasters and non-natural events.

- There is 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.
- Non-natural 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 non-natural catastrophe events could cause substantial volatility in our financial results and could materially reduce our profitability or harm our financial condition.

Non-natural catastrophe risk
We offer cyber risk insurance to our commercial customers. We may be adversely affected by large-scale cyber-attacks that simultaneously compromise the systems of many of our insureds.

In addition, we have exposure to terrorism risk through our 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

- Following RSA Acquisition, our risk appetite to catastrophe exposure was completely reviewed.
- Greater country diversification through uncorrelated catastrophe events helps mitigate our overall exposure.
- Our exposure data is being recorded and provides effective control over geographic risk accumulation.

Natural catastrophe risk
Some of the risk mitigations referred to in the section above on climate change risk also mitigate the catastrophe risk.

Non-natural catastrophe risk
To help mitigate the risks associated with our cyber risk insurance product, we generally focus on small to medium-size companies with relatively modest policy limits, while also providing limited affirmative coverage for first and third party privacy breaches and related expenses We are leveraging both external and internal cyber catastrophe modelling scenarios to assess our exposure. 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 US federal government terrorism insurance backstop (TRIPRA), which mitigates our exposure under certain circumstances as outlined in US federal legislation and we also participate in the UK government-backed pool reinsurance facility, which limits our retention to terrorism-related risks.

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 sell 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 that are 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.

Following the RSA Acquisition we now operate in the UK market where aggregators have a strong presence, leading to increased competition in the personal insurance market. Aggregators are a common feature of the UK auto environment which increases competition on products and pricing.

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 or disruptor in the market could shift methods for purchasing 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 are 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. US activities now operate under the North American Intact Insurance Specialty Solution name.
- 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 and customer experience perspective. With the acquisition of On Side Restoration, we have now vertically integrated an important supply chain vendor. We have 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 enhance communication with our customers.
- We are investing in our Data Lab and 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 and sustained inflation could materially impact both our assets and liabilities, including our employee defined benefit pension plans. There was a resurgence of inflation rates during 2021 which could lead to an extended period of high inflation or stagflation. *See Section 25.5 – Capital markets update.*

Continued emergence of COVID-19 variants poses further challenges as the lag time between their identification and confirmation of vaccine efficacy adds to the uncertainty around further re-opening plans and the economic environment.

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 would 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, COVID-19 variants 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 rates, credit or liquidity markets.

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

How we manage this risk

While our strategy is long-term in nature, it is regularly reviewed to adapt to the investment environment when necessary, especially in times of turbulence and increased volatility, 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 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 number of actions were taken to solidify our capital and liquidity positions. Our investment portfolio remains defensive as we are gradually increasing our equity exposure closer to 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 considering the most plausible stress scenarios triggered by the pandemic, stagflation scenarios were developed and mitigation actions closely monitored since Q2020.

The Company's exposure to financial risk arising from its financial instruments together with the Company's risk management policies and practices used to mitigate it are explained in our Consolidated financial statements. Consult the following sections for more information.

Reference to our Consolidated financial statements

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

Reserving 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 pandemic brings an additional level of uncertainty to these factors when estimating reserve level.

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 effects of the COVID-19 pandemic 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 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 earnings before 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. *See Section 26.1 – Claims liabilities for more details.*

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 broader international exposure enhances diversification and reduces the potential impact of reserve inadequacy.

Our reserve committees scrutinize reserves by business segment, analyze trends and variations in losses to ensure that we maintain a sufficient level of claims reserves and recommends adjustments when necessary. Claims and Reserving teams also closely monitor severity trends for inflation, particularly on short tail lines.

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 since direct physical damage is required to trigger this coverage. COVID-19 business interruption case law continues to evolve in our favour, strengthening our position on reserving by providing additional confidence in our policy language.

RSA claims reserves were recorded at fair value at closing, at a level that is consistent with our standards. In Q4-2021, we purchased an adverse development cover on UK&I reserves from the years 2020 and prior to mitigate some of the risk associated with these reserves. *See Section 26.2 – Reinsurance for more details.*

Underwriting Inadequacy — Insurance risk

Risk we are facing

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 lead to higher than expected insured losses.

Potential impact

Pricing inadequacy may lead to material declines in underwriting results and/or deficient reserves. In addition, the increase in frequency and/or severity of claims could also create pressure on profitability. The following factors could deviate claims from expected levels:

- deterioration of the economy;
- unexpected cost inflation;
- inadequate segmentation;
- misestimation of replacement costs;
- unclear wording;
- deviation from underwriting guidelines.

COVID-19 brings uncertainty related to potential exposure to the 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 of the economy, which may result in client bankruptcies.

How we manage this risk

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 indications to ensure ongoing rate adequacy. We have ongoing monitoring and action to mitigate inflation. OnSide Restoration's size and scale helps mitigate the impacts of inflation on our Canadian insurance results. The inflation impact was also tempered by the increase in salvage value in auto claims.

We don't write multi-year policies and the short-term nature of our business allows us to implement timely action to mitigate inflation that impacts our claim costs. Supply chain agreements also help mitigate this risk.

We adopted policies that 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.

We maintain a strong underwriting discipline in the hard market environment and increase our rates while maintaining a good retention. We are also positioning ourselves for rate adjustment in auto once driving habits and claim frequency return to normal.

In light of the FCA rule changes and the implications for personal lines in the UK, a review of pricing and segmentation occurred with the objective of maintaining the most profitable segment of homeowner's business and improving motor performance.

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, state, 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.

Expectations from Canadian regulators are increasing due to our larger size, multinational operations and gain of share in the insurance market. We are also exposed to new jurisdictions and regulators such as the Prudential Regulation Authority in the UK, with new sets of laws and requirements. The regulatory environment in Europe can be stricter with large fines and penalties.

On February 2, 2022, OSFI published its Register of OSFI-Regulated Internationally Active Insurance Groups (“IAIG”), which included the Company. Following the RSA acquisition, the Company met the criteria as an IAIG and will continue to document its practices, policies and procedures to align with core outcomes of the International Association of Insurance Supervisors Framework for the Supervision of the IAIGs.

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

Potential impact

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

We could be subject to regulatory actions, sanctions and fines if a regulatory authority believes we have 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.

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.

In 2021, the Federal Government of Canada announced its intention to raise taxes on banks and insurers, which could materially impact the Company. Additional taxes may be in the form of either a one-time assessment or a permanent increase in taxes.

In May 2021, the Financial Conduct Authority (FCA) published its revised rules on certain general insurance pricing practices. The changes are designed to address market practices that can result in the progressive charging higher premiums to existing customers than new customers and discourage customers from switching insurers. The rules will also require firms to provide accessible and easy options to enable customers to cancel auto-renewing policies. The new rules that relate to systems and controls and product governance came into effect in September 2021 and the new rules relating to pricing and auto-renewing come into effect on January 1, 2022, with a transitional period. There remains uncertainty on how this could impact customer premiums and switching of customers into or out of RSA insurance products which, taken as a whole, may adversely affect RSA's financial prospects.

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 with 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 in regard to people and businesses 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. Several sectors are facing challenges from the 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 operate. 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 areas for possible 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 33.8 – 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.

We have received all required approvals and the RSA Acquisition has closed on June 1, 2021. On June 11, 2021 Intact announced that it had entered into a definitive agreement to sell Codan DK to Danish financial services firm Alm.Brand A/S Group. Pursuant to the sale, Intact retains RSA's Canadian and UK&I entities.

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 to manage the integration could have a significant adverse effect on our business, results of operations and financial condition.

Potential impact

With respect to the RSA Acquisition, we are faced with a number of risks including, but not limited to:

- new competitive environments could impact our ability to improve combined ratio, retain business and achieve synergies and maintain market position arising from integration plans;
- cultural issues and poorly aligned values, particularly in international jurisdictions, may hinder our ability to effectively integrate the acquired company;
- challenges in harmonizing global structures, teams, systems and processes could erode operational efficiency;
- the Company's dependence on key employees and potential failure to attract and retain key employees in connection with the acquisition; and
- inability to complete the integration of the business acquired within anticipated time periods and at expected cost levels.

The closing of the DK sale is subject to the successful separation and transfer of the businesses in Sweden and Norway from the Danish operation, receipt of all required regulatory approvals, the completion of Alm. Brand's financing and the satisfaction of certain closing conditions. We could face additional costs and/or receive lower consideration in a sale if the Codan sale is not completed. However, the recently successful shareholder vote provides further confidence and reduces this risk.

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 18 successful P&C acquisitions since 1988, including the RSA Acquisition, Intact's largest acquisition to date, which closed on June 1, 2021. We have a proven process of operational integration that will be deployed for the RSA Acquisition. We assign dedicated and experienced task forces to ensure a swift and effective integration with seamless impact on our customers. There is also strong oversight by the Board of Directors regarding acquisitions.

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 pandemic. Cyber criminals often exploit fear and uncertainty around the pandemic and the practice of working remotely from home brings an additional vector for potential attacks.

These attacks may include targeted attacks on systems and applications, introduction of malicious software, denial of service attacks, and phishing attacks that 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 targets of successful cyber-attacks leading to a material impact on our systems or the theft of confidential information.

Following the RSA Acquisition, our expanded technological footprint increases the likelihood of being targeted by attackers.

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.

The working-from-home environment during the pandemic also increases the level of some risks. As such, we may be 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 safeguarding 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. 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. We closely monitor external cyber-attacks and strive to continually learn from them to improve our defences. A cyber breach simulation exercise was conducted in 2021 to strengthen preparedness related to cyber security incidents.

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 2021, cyber security awareness was continually provided to our employees, with reminders about information security and privacy best practices in a work-from-home context.

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 are 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. The RSA Acquisition adds incrementally to this risk given the presence of legacy systems.

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.

Quality and timelines related to IFRS 17 implementation could be impacted as a result of complexity and added integration activities.

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.

A series of successful deliverables for our major personal lines policy administration system offer proofs of our ability to deliver on this project and mitigates the risk of failure.

We are actively working ahead of IFRS 17 implementation to support the modernization of our financial reporting systems.

In 2021 we launched strategic projects to modernize and replace RSA's legacy systems. Processes are being enhanced and mitigating options considered for key dependencies.

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 could increase pressure on individuals and result in increased fraud and abuse. The work-from-home context brings additional 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 that 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.

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. In 2021 we became one of the founding members of Équité Association.Through Équité, members have access to an advanced network dedicated to detecting and preventing insurance fraud and crime, including: advanced analytics and countermeasures, investigative services, intelligence education and engagement, and reporting on emerging threats and trends

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 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 around insurance and related businesses may negatively impact our financial results and financial condition.

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

How we manage this risk

To mitigate these risks, we have established escalation procedures to help ensure that our customers have multiple channels to express any dissatisfaction. These include a National Customer Experience Team in Canada and an Ombudsman's Office which 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 regional risk committees regularly monitor our operations to identify situations that can negatively affect customer satisfaction.

We also invest in digital tools and artificial intelligence to enhance the customer experience and reduce the possibility of negative publicity arising from interactions with our customers. We are closely monitoring our Net Promoter Scores from Claims and Underwriting to ensure that we continue to deliver an experience to our customers that is second to none.

Social unrest risk — Insurance risk

Risk we are facing

Potential catalysts for social unrest includes, but is not limited to, public health measure related to the pandemic, movements for social justice, climate change inaction, economic downturn, labor shortage and supply chain issues could all spark social unrest. Geo-political tension, including the use of political warfare, could exacerbate the risk of social unrest. The speed of communication and social media could amplify this risk or facilitate the spread across jurisdictions. The ensuing physical conflict and violence could result in property damage impacting our underwriting results and operations.

Potential impact	***How we manage this risk***
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.	In 2020, we stress tested our exposures against a severe social unrest scenario. It concluded that Intact has sufficient capital and reinsurance to absorb losses despite a material decline in underwriting results and lower regulatory capital levels prior to management actions. A playbook has been developed to manage our operations in a social unrest environment and a number of actions were identified to help mitigate the impact of this risk on our personal and commercial lines.

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. The work-from-home context has increased our reliance on critical utilities/communications infrastructures. Moreover, the economic downturn increases supplier failure risk and adds pressure on supply chain quality of service and capacity.

Potential impact	***How we manage this risk***
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, significant opportunity costs could also be incurred.	We manage third party risk along the life cycle of our arrangements, from planning, due diligence, contractual commitment, and ongoing management to termination. We have deployed tools to help in 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. 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 the pandemic, we have increased the level of monitoring of our most critical third parties and our supply chain providers. We are also 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.

Employee defined benefit pension plan risk	**Insurance risk**
Risk we are facing IFC is exposed to RSA UK&I's large defined benefit pension plans with a total of £9 billion in pension liabilities. The plans are frozen and closed to new entrants and future accruals. There are currently annual deficit removal payments of £75 million to be made until the deficit is eliminated. There is a longevity risk that employees covered in the defined benefit pension plans live longer than expected resulting in higher than expected pension costs. IFC's pension plans in Canada are adequately funded and smaller in size with a total of $3.7 billion in pension liabilities. The plans are open to new entrants and future accruals.	
Potential impact	***How we manage this risk***
Should the pension plan funding level deteriorate, additional contributions may need to be made to restore the plan position. Longevity risk could also add variability to the balance sheet and income statements from periodic re-valuation.	RSA has implemented a long-term de-risking program for its pension plans. RSA's pension plans are largely hedged against interest rate movements and inflation, while longevity risk remains a key risk driver. We are working closely with RSA's Pension Trustees as we consider measures to mitigate longevity risk and further de-risk the plans. We recently took further action to partially hedge the Canadian pension fund exposure and purchased annuities to reduce longevity and investment risk.

The occurrence of a solar storm	**Emerging risk**
Risk we are facing A solar storm is caused by eruptions of mass and energy from the solar surface, resulting in the emittance of radiation at different wavelengths. The sun is constantly releasing streams of x-ray and extreme ultra-violet radiation that travel outward at the speed of light. Large areas of such activity can bundle to create a more powerful collection of matter called Coronal Mass Ejections (CME). These large masses of gas and magnetic field energy can be directed at Earth producing strong electrical currents. These types of events are expected to occur in approximately an 11-year cycle. The next cycle is expected to peak in 2024 or 2025.	
Potential impact	***How we manage this risk***
The resulting disturbed magnetic activity can impact the electrical grid system, radio communications, GPS and satellites orbiting the Earth. Electrical service disruptions could lead to business interruption losses and other covered losses, such as property damage.	In 2021, we conducted a solar storm risk assessment exercise to better understand our exposure. The exercise confirmed the adequacy of our catastrophe reinsurance capacity. We plan to continue researching new studies related to solar storms and monitoring the evolution of insurance loss modelling.

33.7 Other risk factors that may affect future results

Legal risk

In addition to 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. Worldwide catastrophe losses have an impact on the reinsurance market. 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 are an example of protection that has 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.

COVID-19 pandemic has accelerated labour shortages, competition for labour is increasing and candidates' expectations are changing. In addition to the above, a number of actions have been implemented to mitigate these trends: human resource restructurings, compensation reviews and a deep dive to identify sectors experiencing challenges and issues and better understand the underlying rationale.

Employee development, onboarding and 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, robust human resource programs to support our employees and our return-to-office strategy helps mitigate this risk.

The risk of business interruption to our operations

We may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophe events, an example being a global pandemic 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 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 number of lessons learned were integrated.

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 29.6 – Ratings 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; 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 US and UK 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 in Canada) have increased scrutiny on upstream dividend payments. 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.

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.

33.8 Own Risk and Solvency Assessment

Since 2014, we have conducted an Own Risk and Solvency Assessments ("ORSA") for Intact Financial Corporation 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 Policy. 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. *See Section 28 – Capital management for details*.

In early 2021, an Ad Hoc ORSA Process was performed in the context of the potential acquisition of RSA. The process concluded that our financial condition remained robust and sufficient to pay our obligations, including planned dividends, considering our risk exposures and the level of available financial resources post-close of the transaction.

In Q2-2021, our annual ORSA Process 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. Following the acquisition, the results indicate improved diversification across segments and geographies, a lower financial risk and a temporary increase in operational risk related to the large-scale integration.

Section 34 - Off-balance sheet arrangements

34.1 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 $3,036 million as at December 31, 2021 ($1,054 million as at December 31, 2020).

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 104% of the fair value of the loaned as at December 31, 2021 (105% as at December 31, 2020).

34.2 Structured settlements

We also enter into annuity agreements with various Canadian life insurance companies. We have obligations to pay certain fixed amounts to claimants on a recurring basis and thus have purchased annuities from life insurers to provide for those payments. These annuity agreements are reported as financial liabilities in the Consolidated financial statements, with a fair value of $1,859 million as at December 31, 2021 ($1,552 million as at December 31, 2020).

When these annuity agreements are non-commutable, non-assignable and non-transferable, we are released by the claimant for the settlement of the claim amount and can therefore derecognized that financial liability from the Consolidated balance sheets. It should be noted that we remain exposed to the risk that life insurers may fail to fulfill their obligations. However, this credit risk is reduced since we deal with registered life insurers, which is mitigated by an industry compensation scheme. In addition, the credit risk is further mitigated by an industry compensation scheme which would assume a significant majority of the remaining outstanding obligations in case of a life insurer defaults.

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

Section 35 - Sensitivity analysis to market risk

Sensitivity analysis is a risk management technique that assists management in ensuring that risks assumed remain within our risk tolerance level. Sensitivity analysis involves varying a single factor to assess the impact that this would have on our results and financial condition, excluding any management action. Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 42 – Sensitivity analysis to market risk (after tax)

For the years ended December 31,			2021			2020
	Net income	OCI	BVPS	Net income	OCI	BVPS
Equity price risk						
Common share prices (10% decrease)[1]	**27**	**(446)**	**(2.38)**	11	(221)	(1.47)
Preferred share prices (5% decrease)[2]	**19**	**(88)**	**(0.39)**	12	(68)	(0.39)
Property price risk (10% decrease)	**(51)**	**(40)**	**(0.52)**	-	-	-
Interest rate risk (100 basis point increase)						
Debt securities[3,4]	**(237)**	**(445)**	**(3.87)**	(198)	(197)	(2.76)
Net claims liabilities	**378**	**-**	**2.15**	200	-	1.40
Defined benefit pension plan obligation, net of related debt securities	**-**	**11**	**0.06**	-	130	0.91
Currency risk[5]						
Strengthening of CAD by 10% vs all currencies						
Net assets of foreign operations in:						
USD	**10**	**(305)**	**(1.68)**	6	(196)	(1.33)
GBP	**8**	**(411)**	**(2.29)**	-	-	-
Currency derivatives related to RSA Acquisition	**-**	**-**	**-**	-	(283)	(1.98)
Strengthening of GBP by 10% vs EUR						
Currency derivatives related to RSA Acquisition	**-**	**-**	**-**	(52)	-	(0.36)

[1] Including the impact of common shares (net of any equity hedges, including the impact of any impairment) or investment property related to the defined benefit pension plan.
[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 45% of government-related securities and 55% of corporate-related securities.
[5] After giving effect to forward-exchange contracts.

The sensitivity analysis was prepared using the following assumptions:
- shifts in the yield curve are parallel;
- interest rates, equity prices, property 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 36 - Financial KPIs and definitions

36.1 Our financial KPIs

Our most relevant key performance indicators are outlined in the table below. *See Section 38 – Non-GAAP and other financial measures for the definition and reconciliation to the most comparable IFRS measures.*

		2021	2020	2019	2018	2017
Growth	Operating DPW growth	**43.6%**	9.1%	9.5%	15.6%	5.5%
	Growth in constant currency	**45.0%**	8.7%	9.1%	15.4%	5.5%
Underwriting performance	Claims ratio	**55.9%**	57.8%	66.0%	65.3%	65.4%
	Expense ratio	**32.9%**	31.3%	29.4%	29.8%	28.9%
	Combined ratio	**88.8%**	89.1%	95.4%	95.1%	94.3%
Consolidated performance	Underwriting income	**1,787**	1,227	465	474	486
	Net investment income	**706**	577	576	541	448
	Distribution income	**362**	275	209	175	158
	NOI	**2,070**	1,471	905	839	771
	NOIPS (in dollars)	**12.41**	9.92	6.16	5.74	5.60
	OROE	**17.8%**	18.4%	12.5%	12.1%	12.9%
	ROE	**17.0%**	12.8%	10.0%	9.9%	12.8%
	AROE	**21.0%**	15.0%	11.4%	11.8%	13.0%
	EPS (in dollars)	**12.40**	7.20	5.08	4.79	5.75
	AEPS (in dollars)	**15.32**	8.48	5.75	5.70	5.82
Financial strength	BVPS (in dollars)	**82.34**	58.79	53.97	48.73	48.00
	MCT (Canada)	**206%**	224%	198%	201%	205%
	SCR (UK&I)	**180%**	n/a	n/a	n/a	n/a
	RBC (US)	**448%**	469%	457%	377%	459%
	Total capital margin	**2,891**	2,729	1,222	1,333	1,135
	Adjusted debt-to-total capital ratio	**23.0%**	24.1%	21.3%	22.0%	23.1%

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

Section 37 - 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 financial measures.

Table 43 – Non-operating results

	Q4-2021	Q4-2020	Change	2021	2020	Change
Net gains (losses)						
Gains (losses) excluding FVTPL bonds *(Table 15)*	**262**	53	209	**516**	(55)	571
Realized and unrealized gains (losses) on FVTPL bonds	**(68)**	(7)	(61)	**(267)**	237	(504)
Positive (negative) impact of MYA on underwriting	**72**	(23)	95	**226**	(315)	541
Amortization of intangible assets recognized in business combinations	**(63)**	(40)	(23)	**(199)**	(154)	(45)
Acquisition, integration and restructuring costs						
Acquisition costs	**(5)**	(42)	37	**(90)**	(42)	(48)
Net ADC cost	**(71)**	-	(71)	**(71)**	-	(71)
Other integration costs	**(41)**	(6)	(35)	**(214)**	(55)	(159)
Restructuring and other costs	**(16)**	(5)	(11)	**(54)**	(18)	(36)
Acquisition, integration and restructuring costs	**(133)**	(53)	(80)	**(429)**	(115)	(314)
Non-operating pension expense	**(16)**	(13)	(3)	**(64)**	(53)	(11)
Gain on the RSA Acquisition[1]	**-**	-	-	**204**	-	204
Underwriting results from exited lines	**(35)**	(39)	4	**(53)**	(62)	9
Other	**(2)**	(3)	1	**(4)**	(18)	14
Non-operating gains (losses)	**17**	(125)	142	**(70)**	(535)	465

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

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

Section 38 - Non-GAAP and other financial measures

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

Non-GAAP financial measures and Non-GAAP ratios used in this MD&A and other Company's financial reports include measures related to our consolidated performance *(see Section 38.1 to Section 38.3)*, our underwriting performance *(see Section 38.4 and Section 38.5)* and our financial strength *(see Section 38.6)*.

38.1 Operating performance

NOIPS, OROE, NOI and PTOI

- **Our operating performance** is measured based on NOIPS and OROE, which are non-GAAP ratios. These ratios are calculated using Non-GAAP financial measures that exclude elements that are not representative of our operating performance (referred to as "Non-operating results"). Non-operating results include elements that arise mostly from changes in market conditions, relate to acquisition-related items or special items, or that are not part of our normal activities *(see Non-operating results hereafter)*. We believe that analyzing our consolidated performance excluding these elements reflects more accurately our underlying business performance over time.
- We note that investors, financial analysts, rating agencies and media organizations use NOIPS, OROE and other components of operating income (such as underwriting income, net investment income and distribution income) to evaluate and report our financial performance, and make investment decisions and recommendations. These measures are widely used as they represent a reliable, representative and consistent measure of our financial performance over time.
- NOIPS is also used in incentive compensation as one of our financial objectives is to grow NOIPS by 10% yearly over time. *See Section 22.2 – Growth NOIPS by 10% yearly over time.*

NOIPS and OROE are calculated as follows, using the following non-GAAP financial measures (marked with an asterix*).

NOIPS for a specific period	NOI* attributable to common shareholders ――――― WANSO[1]	**OROE** for a 12-month period	NOI* attributable to common shareholders ――――― Adjusted average common shareholders' equity (excluding AOCI)* *(Section 38.6)*

[1] Weighted-average number of common shares outstanding on a daily basis during the period.

- **Net operating income (NOI)*** represents the Net income attributable to shareholders (most directly comparable GAAP measure), excluding the after-tax impact of Non-operating results. NOI is net of net income (loss) attributable to non-controlling interests. *See Table 44 – Reconciliation of NOI, NOIPS and OROE to Net income attributable to shareholders, as reported under IFRS.*
- **Pre-tax operating income (PTOI)***, which is used in the calculation of NOI, represents the Income before income taxes (most directly comparable GAAP measure), including the Share of income tax expense (benefit) of broker associates (accounted for using the equity method – net of tax – under IFRS), and excluding the pre-tax impact of Non-operating results. *See Table 45 – Reconciliation of PTOI to Income before income taxes, as reported under IFRS.* PTOI is comprised of the following items:
  - **Underwriting income (loss)*** is an operating measure calculated as Operating NEP* less Operating net claims*, less Operating net underwriting expenses* *(as described in Section 38.5 – Underwriting profitability)*. Underwriting income (loss) represents Net earned premiums, Other underwriting revenues, Net claims incurred and Underwriting expenses, all of which are reported under IFRS, excluding the impact of MYA on underwriting results, non-operating pension expense and underwriting results from exited lines
  - **Net investment income** – calculated as Investment income less Investment expenses, as reported under IFRS. *See Table 14 – Net investment income for details.*
  - Distribution income* is the measure used to report the performance of our distribution channel, which includes operating income before interest and taxes from our consolidated brokers, broker associates, Intact Public Entities, On Side, Coast Underwriters and Johnson Group Benefits. Distribution income is calculated using components of Other income and Other expenses (for our consolidated entities) and Share of profit from investments in associates and joint ventures (for those that we do not consolidate) under IFRS.

- **Total finance costs*** are comprised of Finance costs (most directly comparable GAAP measure), adjusted to include finance costs from our broker associates, which are accounted for using the equity method under IFRS (included in Share of profit from investments in associates and joint ventures under IFRS).
- **Other operating income (expense)*** includes general corporate expenses related to the operation of the group and our public company status, consolidation adjustments, and other operating items. Other operating income (expense) is calculated using components of Other income and Other expenses under IFRS.

  See Table 46 – Reconciliation of Distribution income, Total finance costs, Other operating income (expense), Total income taxes and Underwriting income with the Consolidated financial statements

- PTOI on a segment basis, which is determined in the same manner as PTOI, increases transparency and clarity of the core results of the business. *See Table 3 – Operating performance by segment for the details of PTOI by component and segment.*

Non-operating results

- **Non-operating results*** include elements that arise mostly from changes in market conditions, relate to acquisition-related items or special items, or that are not part of our normal activities. They are comprised of the following items:
  - **Net gains (losses)**, as reported under IFRS, arise mostly from changes in market conditions and investment decisions, which can be volatile to earnings. *See Section 10.3 – Net gains (losses) excluding FVTPL bonds.*
  - **Positive (negative) impact of MYA on underwriting** arise mostly from movements in interest rates, 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 under IFRS.
  - 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 on Intact's Canadian pension plan assets. The expected return better reflects our operating performance given our internal investment management expertise and the composition of our pension asset portfolio. The non-operating pension expense is included in Net claims incurred and Underwriting expenses under IFRS.
  - **Acquisition, integration and restructuring costs**, as reported under IFRS. Acquisition and integration costs incurred in connection with an acquired business do not represent an ongoing operating expense of the business. *See Section 37 – Non-operating results for details.*
    - **Acquisition costs** include professional fees and stamp duties related to the closing of an acquisition.
    - **Integration costs** include restructuring costs related to an acquisition such as severances, retention bonuses and system integration, the initial net impact of a reinsurance coverage for the purpose of an acquisition, as well as changes in the fair value of the contingent considerations. With respect to the RSA Acquisition, ADC costs represent the net impact of a reinsurance coverage pursuant to which a third-party reinsurer will assume 50% of negative reserve development in excess of an agreed retention with respect to certain of RSA's UK&I and other claims liabilities for accident years 2020 and prior.
    - **Restructuring and other costs** include restructuring costs not related to an acquisition and expenses related to the implementation of significant new accounting standards.
  - **Gain on the RSA Acquisition** (gain on bargain purchase), as reported under IFRS, is non-taxable and represents the difference between the purchase price paid for RSA and the fair value of the identifiable net assets acquired less the amount of NCI. It is reported in non-operating results, consistent with other gains and losses, and given its special nature. *See Note 5 – Business combination to the Consolidated financial statements for details.*
  - **Underwriting results from exited lines** included the underwriting results of the US Commercial's business Programs, Architects and Engineers, Healthcare (effective July 1, 2019), BC auto exit (effective in Q4-2020), as well as UK&I exited lines as of the closing date. Underwriting results from exited lines are included in NEP, Net claims incurred and Underwriting expenses under IFRS. We believe that such results could obscure the ability to compare period over period results for our ongoing businesses.

Table 44 - Reconciliation of NOI, NOIPS and OROE to Net income attributable to shareholders, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
Net income attributable to shareholders, as reported under IFRS	**692**	378	**2,067**	1,082
Remove: Pre-tax non-operating losses (gains) *(Table 43)*	**(17)**	125	**70**	535
Remove: Non-operating tax expense (benefit)[1]	**4**	(36)	**(67)**	(146)
NOI *(Table 45)*	**679**	467	**2,070**	1,471
Remove: preferred share dividends	**(13)**	(13)	**(53)**	(52)
NOI attributable to common shareholders	**666**	454	**2,017**	1,419
Divided by weighted-average number of common shares (in millions)	**176.1**	143.0	**162.4**	143.0
NOIPS, basic and diluted (in dollars)	**3.78**	3.18	**12.41**	9.92
NOI to common shareholders for the last 12 months	**2,017**	1,419		
Adjusted average common shareholders' equity, excluding AOCI *(Table 59)*	**11,357**	7,697		
OROE for the last 12 months	**17.8%**	18.4%		

[1] *See Table 48 - Acquisition-related gains (losses) and other non-operating gains (losses) for more details.*

Table 45 - Reconciliation of PTOI to Income before income taxes, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
Income before income taxes, as reported under IFRS	**871**	470	**2,568**	1,359
Add: share of income tax expense of broker associates	**4**	5	**30**	22
Remove: Pre-tax non-operating losses (gains) *(Table 43)*	**(17)**	125	**70**	535
PTOI	**858**	600	**2,668**	1,916
PTOI	**858**	600	**2,668**	1,916
Add: operating income tax expense	**(170)**	(133)	**(577)**	(445)
Netted with: net income (loss) attributable to NCI	**(9)**	-	**(21)**	-
NOI *(Table 44)*	**679**	467	**2,070**	1,471

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

Table 46 – Reconciliation of Distribution income, Total finance costs, Other operating income (expense), Total income taxes and Underwriting income with the Consolidated financial statements

	MD&A captions				Pre-tax		
As presented in the Financial statements	Distribution income	Total finance costs	Other operating income (expense)[1]	Total income taxes	Non-operating losses	Underwriting income	Total F/S caption
For the quarter ended December 31, 2021							
Underwriting income[1] *(Table 55)*	**-**	**-**	**-**	**-**	**21**	**600**	**621**
Other revenues	**98**	**-**	**10**	**-**	**-**	**-**	**108**
Net gains (losses)	**-**	**-**	**-**	**-**	**194**	**-**	**194**
Gain on bargain purchase	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share of profits from invest. in ass. & JV	**27**	**(1)**	**-**	**(4)**	**(6)**	**-**	**16**
Finance costs	**-**	**(42)**	**-**	**-**	**-**	**-**	**(42)**
Acquisition, integration and restructuring costs	**-**	**-**	**-**	**-**	**(133)**	**-**	**(133)**
Other expenses	**(48)**	**-**	**(6)**	**-**	**(59)**	**-**	**(113)**
Income tax benefit (expense)	**-**	**-**	**-**	**(170)**	**-**	**-**	**(170)**
Total, as reported in MD&A	**77**	**(43)**	**4**	**(174)**	**17**	**600**	
For the quarter ended December 31, 2020							
Underwriting income[1] *(Table 55)*	-	-	-	-	(75)	415	340
Other revenues	82	-	9	-	-	-	91
Net gains (losses)	-	-	-	-	46	-	46
Share of profits from invest. in ass. & JV	32	(3)	-	(5)	(7)	-	17
Finance costs	-	(29)	-	-	-	-	(29)
Acquisition, integration and restructuring costs	-	-	-	-	(53)	-	(53)
Other expenses	(42)	-	(7)	-	(36)	-	(85)
Income tax benefit (expense)	-	-	-	(92)	-	-	(92)
Total, as reported in MD&A	72	(32)	2	(97)	(125)	415	
For the year ended December 31, 2021							
Underwriting income[1] *(Table 55)*	**-**	**-**	**-**	**-**	**109**	**1,787**	**1,896**
Other revenues	**389**	**-**	**32**	**-**	**-**	**-**	**421**
Net gains (losses)	**-**	**-**	**-**	**-**	**249**	**-**	**249**
Gain on bargain purchase	**-**	**-**	**-**	**-**	**204**	**-**	**204**
Share of profits from invest. in ass. & JV	**146**	**(9)**	**-**	**(30)**	**(20)**	**-**	**87**
Finance costs	**-**	**(153)**	**-**	**-**	**-**	**-**	**(153)**
Acquisition, integration and restructuring costs	**-**	**-**	**-**	**-**	**(429)**	**-**	**(429)**
Other expenses	**(173)**	**-**	**(57)**	**-**	**(183)**	**-**	**(413)**
Income tax benefit (expense)	**-**	**-**	**-**	**(480)**	**-**	**-**	**(480)**
Total, as reported in MD&A	**362**	**(162)**	**(25)**	**(510)**	**(70)**	**1,787**	
For the year ended December 31, 2020							
Underwriting income[1] *(Table 55)*	-	-	-	-	(430)	1,227	797
Other revenues	309	-	18	-	-	-	327
Net gains (losses)	-	-	-	-	182	-	182
Share of profits from invest. in ass. & JV	121	(11)	-	(22)	(36)	-	52
Finance costs	-	(115)	-	-	-	-	(115)
Acquisition, integration and restructuring costs	-	-	-	-	(115)	-	(115)
Other expenses	(155)	-	(55)	-	(136)	-	(346)
Income tax benefit (expense)	-	-	-	(277)	-	-	(277)
Total, as reported in MD&A	275	(126)	(37)	(299)	(535)	1,227	

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

38.2 Relative performance

Adjusted net income, AEPS and AROE

- Our **relative performance** is measured based on AEPS and AROE, which are Non-GAAP ratios. These ratios are calculated using Non-GAAP financial measures that exclude the impact of acquisition-related items *(as detailed hereafter)*. We believe that analyzing our consolidated performance excluding these items reflect more accurately our financial performance compared to our peers over time.
- One of our key financial objectives is to exceed industry ROE by 500 basis points annually *(refer to Section 22.1 – Exceed industry ROE by 5 points for more details)*. For industry comparison and incentive compensation purposes, IFC's ROE corresponds to IFC's AROE, which we believe is the most comparable to the industry.

AEPS and AROE are calculated using the following non-GAAP financial measures (marked with an asterix*).

AEPS for a specific period	Adjusted net income* attributable to common shareholders ——— WANSO	**AROE** for a 12-month period	Adjusted net income* attributable to common shareholders ——— Adjusted average common shareholders' equity* *(Section 38.6)*

- **Adjusted net income* attributable to shareholders** represents the Net income attributable to shareholders (most directly comparable GAAP measure), excluding the after-tax impact of Acquisition-related items. Adjusted net income attributable to shareholders is net of net income (loss) attributable to non-controlling interests. *See Table 47 – Reconciliation of AEPS and AROE to Net income attributable to shareholders, as reported under IFRS.*

Table 47 – Reconciliation of AEPS and AROE to Net income attributable to shareholders, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
Net income attributable to shareholders, as reported under IFRS	**692**	378	**2,067**	1,082
Adjustments, after tax *(see Table 48 for details)*				
Remove: amortization of intangibles recognized in business combinations	**48**	30	**151**	117
Remove: acquisition and integration costs	**93**	41	**297**	79
Remove: net gain on currency derivative hedges (acquisitions)	**25**	(16)	**23**	(16)
Remove: tax adjustments on acquisition-related items	**(13)**	-	**1**	3
Adjusted net income attributable to shareholders	**845**	433	**2,539**	1,265
Remove: preferred share dividends	**(13)**	(13)	**(53)**	(52)
Adjusted net income attributable to common shareholders	**832**	420	**2,486**	1,213
Divided by weighted-average number of common shares (in millions)	**176.1**	143.0	**162.4**	143.0
AEPS, basic and diluted (in dollars)	**4.72**	2.94	**15.32**	8.48
Adjusted net income attributable to common shareholders for the last 12 months	**2,486**	1,213		
Adjusted average common shareholders' equity *(Table 59)*	**11,826**	8,064		
AROE for the last 12 months	**21.0%**	15.0%		

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

Acquisition-related items

- **Acquisition-related items, which are reported in Non-operating gains (losses)*,** include amortization of intangible assets recognized in business combinations, as well as acquisition and integration costs. *See Table 48 below and Section 38.1 – Operating performance for details.*

The following table provides the breakdown of non-operating results between acquisition-related items and other non-operating results, showing the pre-tax and after-tax amount by line item.

Table 48 – Acquisition-related gains (losses) and other non-operating gains (losses)

	Q4-2021		Q4-2020		2021		2020	
	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax	After-tax
Amortization of intangible assets recognized in business combinations	**(63)**	**(48)**	(40)	(30)	**(199)**	**(151)**	(154)	(117)
Acquisition and integration costs	**(117)**	**(93)**	(48)	(41)	**(375)**	**(297)**	(97)	(79)
Net gain (loss) on currency derivative hedges (acquisitions)	**(34)**	**(25)**	19	16	**(31)**	**(23)**	19	16
Tax adjustment on acquisition-related items	**-**	**13**	-	-	**-**	**(1)**	-	(3)
Acquisition-related gains (losses)	**(214)**	**(153)**	(69)	(55)	**(605)**	**(472)**	(232)	(183)
Other net gains (losses)	**228**	**164**	27	31	**280**	**232**	163	148
Positive (negative) impact of MYA on underwriting	**72**	**55**	(23)	(18)	**226**	**169**	(315)	(235)
Non-operating pension expense	**(16)**	**(12)**	(13)	(10)	**(64)**	**(47)**	(53)	(39)
Gain on the RSA Acquisition	**-**	**-**	-	-	**204**	**204**	-	-
Underwriting income (loss) from exited lines	**(35)**	**(28)**	(39)	(30)	**(53)**	**(43)**	(62)	(49)
Restructuring and other non-operating costs	**(18)**	**(13)**	(8)	(7)	**(58)**	**(46)**	(36)	(31)
Other non-operating gains (losses)	**231**	**166**	(56)	(34)	**535**	**469**	(303)	(206)
Non-operating gains (losses)	**17**	**13**	(125)	(89)	**(70)**	**(3)**	(535)	(389)

38.3 Consolidated performance

ROE and Adjusted average common shareholder's equity

- Our **consolidated performance** is measured based on EPS (GAAP) and ROE, a Non-GAAP ratio. ROE is based on Net income attributable to common shareholders. However, the denominator is adjusted to reflect the weighted-impact of significant capital transactions.
- EPS and ROE are calculated as follows. Non-GAAP financial measures are marked with an asterix*.

EPS for a specific period	**As reported in the accompanying Consolidated statements of income** Net income attributable to common shareholders ——— WANSO	**ROE** for a 12-month period	Net income attributable to common shareholders ——— Adjusted average common shareholders' equity* *(Section 38.6)*

- **Net income attributable to common shareholders** is determined in accordance with IFRS excludes the dividends declared on preferred shares.

Table 49 – Reconciliation of ROE to Net income attributable to shareholders, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
Net income attributable to shareholders	**692**	378	**2,067**	1,082
Remove: preferred share dividends	**(13)**	(13)	**(53)**	(52)
Net income attributable to common shareholders	**679**	365	**2,014**	1,030
Divided by weighted-average number of common shares (in millions)	**176.1**	143.0	**162.4**	143.0
EPS, basic and diluted (in dollars)	**3.85**	2.55	**12.40**	7.20
Net income attributable to common shareholders for the last 12 months	**2,014**	1,030		
Adjusted average common shareholders' equity *(Table 59)*	**11,826**	8,064		
ROE for the last 12 months	**17.0%**	12.8%		

Table 50 – Reconciliation of AEPS and NOIPS to EPS, as reported under IFRS

	Q4-2021		Q4-2020		2021		2020	
	After-tax	Per share	After-tax	Per share	After-tax	Per share	After-tax	Per share
Net income attributable to common shareholders (EPS)	**679**	**3.85**	365	2.55	**2,014**	**12.40**	1,030	7.20
Add back: acquisition-related losses (gains) *(Table 48)*	**153**	**0.87**	55	0.39	**472**	**2.92**	183	1.28
Adjusted net income attributable to common shareholders (AEPS)	**832**	**4.72**	420	2.94	**2,486**	**15.32**	1,213	8.48
Add back: Other non-operating losses (gains) *(Table 48)*	**(166)**	**(0.94)**	34	0.24	**(469)**	**(2.91)**	206	1.44
NOI attributable to common shareholders (NOIPS)	**666**	**3.78**	454	3.18	**2,017**	**12.41**	1,419	9.92

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

Effective income tax rates

- Our **effective income tax rates** are measured based on **Total effective income tax rate** and **Operating effective income tax rate**, which are Non-GAAP ratios. These ratios take into account the impact of income taxes from our broker associates, which are accounted for using the equity method (net of tax) under IFRS.

Total effective income tax rate and Operating effective income tax rate are calculated using the following non-GAAP financial measures (marked with an asterix*).

Total effective income tax rate for a specific period	Total income tax expense (benefit)* / Pre-tax income*	**Operating effective income tax rate** for a specific period	Operating income tax expense (benefit)* / PTOI* *(Section 38.1)*

- **Total income tax expense (benefit)** and **Operating income tax expense (benefit)** include the impact of income taxes from our broker associates, which are accounted for using the equity method (net of tax) under IFRS. *See table 46 – Reconciliation of Distribution income, Total finance costs, Other operating income (expense), Total income taxes and Underwriting income with the Consolidated financial statements.* **Pre-tax income and PTOI** are presented on a consistent basis. These Non-GAAP financial measures are aligned with how management analyzes the operating performance of our broker associates (recorded in Distribution income), which is on a pre-tax basis.

Table 51 – Reconciliation of effective income tax rates

	Q4-2021	Q4-2020	2021	2020
Income before income taxes, as reported under IFRS	**871**	470	**2,568**	1,359
Add: share of income tax expense of broker associates	**4**	5	**30**	22
Pre-tax income	**875**	475	**2,598**	1,381
Total income tax benefit (expense) *(Table 46)*	**(174)**	(97)	**(510)**	(299)
Total effective income tax rate, as reported in the MD&A	**20.1%**	20.4%	**19.6%**	21.7%
Pre-tax operating income (PTOI) *(Table 45)*	**858**	600	**2,668**	1,916
Operating income tax benefit (expense)	**(170)**	(133)	**(577)**	(445)
Operating effective income tax rate, as reported in the MD&A	**19.8%**	22.1%	**21.6%**	23.2%

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

38.4 Premiums volume

Change in operating DPW and Change in operating DPW in constant currency

- Our **top line consolidated performance (in terms of premiums written)** is measured based on **Change in operating DPW in constant currency**, which is a non-GAAP ratio. This ratio represents the growth (or decline) in Operating DPW *(as defined below)* calculated by applying the exchange rate in effect for the current year to the Operating DPW of the previous year.
- With the RSA Acquisition, approximately 65% of our operating DPW are denominated in CAD, 19% in GBP, 10% in USD, and the remaining, mainly in Euro. *See Section 39.4 – Foreign currency rates.* Constant currency is widely used by multinational companies to highlight the economic performance. Like our peers, we believe that this measure enhances the analysis of our top line performance with comparative periods as it excludes the impact of foreign exchange fluctuations.
- The **top line segmented performance** of our non-canadian operating segments, as applicable, is also measured based on the Change in operating DPW in constant currency**,** which reflects the Operating DPW growth, as reported and managed at the segment level (in the functional currency).
- In our MD&A or other financial reports, we also present **Change in operating DPW,** which is a Non-GAAP ratio. This ratio represents the growth or decline in Operating DPW *(as defined below)* calculated by applying the respective exchange rates in effect for the current year and previous year. When relevant, we disclose both ratios to highlight the impact of foreign currency fluctuations on our top line performance.

Change in operating DPW	$\frac{\text{Operating DPW for a specified period} - \text{Operating DPW for the previous year}}{\text{Operating DPW for the previous year}}$	**Change in operating DPW** in constant currency	$\frac{\text{Operating DPW (in CAD) for a specified period} - \text{Operating DPW (in CAD) for the previous year, using the current foreign exchange rate}}{\text{Operating DPW (in CAD) for the previous year, using the current foreign exchange rate}}$

Change in operating DPW in constant currency and Change in operating DPW are calculated using **Operating DPW**, a non-GAAP financial measure.

- **Operating 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. 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. DPW is the most comparable GAAP measure to Operating DPW.
- 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 and volume of business.
- To calculate the Company’s performance relative to the Canadian industry for incentive compensation purposes, our DPW growth is based on financial statements presentation.

Table 52 – Reconciliation of Operating DPW to DPW

	Q4-2021	Q4-2020	2021	2020
DPW, as reported under IFRS	**5,318**	2,930	**17,994**	12,143
Remove: impact of industry pools and fronting	**(260)**	(41)	**(605)**	(119)
Remove: DPW from exited lines	**(70)**	(17)	**(161)**	(21)
Add: impact of the normalization for multi-year policies	**29**	-	**55**	36
Operating DPW, as reported in the MD&A	**5,017**	2,872	**17,283**	12,039
Operating DPW growth	**75%**	8%	**44%**	9%
Operating DPW growth (in constant currency)	**75%**	8%	**45%**	9%

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

Operating NPW

- We note that several peers in the industry use Net premiums written (NPW) to report their top line performance. NPW reflect the risk assumed and ceded on premiums written.
- To enhance the analysis of our top line performance with peers in the industry, we provide Operating NPW, a non-GAAP financial measure, in our Supplementary Financial Information available in the "Investors" section of our web site at ***www.intactfc.com***. Operating NPW is calculated as NPW (most directly comparable GAAP measure) normalized for the effect of multi-year policies, excluding NPW from exited lines. *See Table 53 below.*

Table 53 – Reconciliation of Operating NPW to NPW, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
NPW, as reported under IFRS	**4,828**	2,803	**16,672**	11,616
Remove: NPW from exited lines	**(63)**	(21)	**(156)**	(24)
Add: impact of normalization for multi-year policies	**2**	2	**7**	42
Operating NPW	**4,767**	2,784	**16,523**	11,634

Change in operating NEP and Change in operating NEP in constant currency

- Our **consolidated operating NEP growth** is measured based on **Change in operating NEP**, which is a non-GAAP ratio.
- The **segmented operating NEP growth** of our non-canadian operating segments, as applicable, is measured based on **Change in operating NEP in constant currency,** which is a non-GAAP ratio, that reflect the Operating NEP growth, as reported and managed at the segment level (in the functional currency). We believe that this ratio enhances the analysis of our financial performance with comparative periods as it excludes the impact of foreign currency fluctuations. When relevant, as we do for Operating DPW, we disclose both ratios to highlight the impact of foreign currency fluctuations on our Operating NEP growth.
- Change in operating NEP and Change in operating NEP in constant currency are calculated using the same methodology as for Change in operating DPW and Change in operating DPW (in constant currency) but using Operating NEP, a non-GAAP financial measure.
- **Operating NEP** represents NEP (most directly comparable GAAP measure), excluding those from exited lines. We believe that this measure better reflects the operating performance of our core operations. *See Table 54 below.*

Table 54 – Reconciliation of Operating NEP to NEP, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
NEP, as reported under IFRS	**5,003**	2,899	**16,238**	11,241
Remove: NEP from exited lines	**(72)**	(20)	**(195)**	(21)
Operating NEP, as reported in the MD&A	**4,931**	2,879	**16,043**	11,220
Operating NEP growth	**71%**	7%	**43%**	10%

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

38.5 Underwriting profitability

Underwriting income (loss) and Operating combined ratio

- **Our underwriting performance** is measured based on Operating combined ratio, Claims ratio (including underlying current year loss ratio, CAT loss ratio and PYD ratio) and Expense ratio (including commissions ratio, general expenses ratio and premium taxes ratio), which are non-GAAP ratios *(as defined below)*.
- Our underwriting performance is consistently managed and measured on an **operating basis**, in line with how we report NOI and NOIPS**.** Non-operating items excluded from our underwriting performance comprised the underwriting results from exited lines, the non-operating pension expense and the impact of MYA on underwriting results *(see 38.1 – Operating performance for details).* We believe that this basis provides investors and financial analysts with a valuable measure of our ongoing underwriting performance in terms of underwriting discipline and profitability.
- While operating combined ratio and components of underwriting performance are commonly used across the industry, they do not have standardized meanings prescribed by IFRS (or GAAP) and may not be comparable to similar measures used by other companies in our industry.
- Our underwriting ratios are calculated are calculated using the following Non-GAAP financial measures (marked with an asterix*).

Operating combined ratio			
An operating combined ratio below 100% indicates a profitable underwriting result. An operating combined ratio over 100% indicates an unprofitable underwriting result.			
Claims ratio *(see below)* **+ Expense ratio** *(see below)*			
Claims ratio		**Expense ratio**	
Operating net claims* *(defined hereafter)* / Operating NEP* *(Section 38.4)*		Operating net underwriting expenses* *(defined hereafter)* / Operating NEP* *(Section 38.4)*	
Underlying current year loss ratio	Operating net claims excluding current year CAT losses and PYD[1] *(Section 38.5)* / Operating NEP* before the impact of reinstatement premiums *(Section 38.4)*	**Commissions ratio**	Commissions[1] *(Section 38.5)* / Operating NEP* *(Section 38.4)*
CAT loss ratio	Net current year CAT losses[1] plus net reinstatement premiums *(Section 38.5)* / Operating NEP* before the impact of reinstatement premiums *(Section 38.4)*	**General expenses ratio**	General expenses[1] *(Section 38.5)* / Operating NEP* *(Section 38.4)*
PYD ratio	PYD[1] *(Section 38.5)* / Operating NEP* *(Section 38.4)*	**Premium taxes ratio**	Premium taxes[1] *(Section 38.5)* / Operating NEP* *(Section 38.4)*

[1] These supplementary measures, which are defined hereafter, are disclosed on a quarterly basis in our MD&A and other financial reports to provide more details on claims ratio and expense ratio.

- **Underwriting income (loss)***, which is used in the calculation of the Operating combined ratio, is an operating measure calculated as Operating NEP, less Operating net claims and Operating net underwriting expenses. The most directly comparable GAAP measure is Underwriting income comprised of the following captions in the Consolidated statements of income: Net earned premiums, Other underwriting revenues, Net claims incurred and Underwriting expenses. *See Table 55 – Reconciliation of Underwriting income to Underwriting income, as reported under IFRS*

- **Operating net claims** are used in the calculation of the Claims ratio. Operating net claims represent Net claims incurred (most comparable GAAP measure), excluding the impact of MYA on underwriting results, an adjustment for Non-operating pension expense and Net claims from exited lines. *See Table 56 – Reconciliation of Operating net claims to Net claims incurred, as reported under IFRS.*
    - To provide more insight into our underlying current year performance, the impact of CAT losses (which can be volatile), and PYD, we further analyse Operating net claims as follows in our MD&A and other financial reports.
        - **Operating net claims excluding current year CAT losses and PYD** are used in the calculation of the Underlying current year loss ratio. CAT losses and PYD are not predictable and subject to volatility, and as such, excluding them provides clearer insight into our analysis of underlying current year performance.
        - **Net current year CAT losses** are used in the calculation of the CAT loss ratio. A CAT loss represents any one claim, or group of claims, equal to or greater than a predetermined CAT threshold, before reinsurance, related to a single event for the current accident year. Effective July 1, 2021, our CAT threshold is as follows by segment: P&C Canada: $10 million, P&C UK&I: £7.5 million and P&C US: US$5 million. Reported CAT losses can either be weather-related or not weather-related and exclude those from exited lines.
        - **Prior year claims development (PYD)** is used in the calculation of the PYD ratio. PYD represents the change in total prior year claims liabilities during the period, net of reinsurance, excluding the PYD related to exited lines. 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.
- **Operating net underwriting expenses** are comprised of commissions (including regular and variable commissions), premium taxes and general expenses related to underwriting activities, net of other underwriting revenues. Operating net underwriting expenses are used in the calculation of the Expense ratio (including commissions ratio, general expenses ratio and premium taxes ratio).
    - Operating net underwriting expenses represent Underwriting expenses (most comparable GAAP measure), net of other underwriting revenues and excluding an adjustment for non-operating pension expense and underwriting expenses from exited lines.
    - Other underwriting revenues include fees collected from policyholders in connection with the costs incurred for the Company's yearly billing plans, as well as fees received for the administration of a portion of the Facility Association and other policies.

  See Table 57 – Reconciliation of Operating net underwriting expenses to Underwriting expenses, as reported under IFRS.

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

Table 55 – Reconciliation of Underwriting income to Underwriting income, as calculated under IFRS

	Q4-2021	Q4-2020	2021	2020
Net earned premiums, as reported under IFRS	**5,003**	2,899	**16,238**	11,241
Other underwriting revenues, as reported under IFRS	**79**	36	**236**	135
Net claims incurred, as reported under IFRS	**(2,796)**	(1,663)	**(8,967)**	(6,883)
Underwriting expenses, as reported under IFRS	**(1,665)**	(932)	**(5,611)**	(3,696)
Underwriting income (loss), as calculated under IFRS	**621**	340	**1,896**	797
Remove: impact of MYA on underwriting results *(Table 43)*	**(72)**	23	**(226)**	315
Remove: non-operating pension expense *(Table 43)*	**16**	13	**64**	53
Remove: underwriting loss (income) from exited lines *(Table 43)*	**35**	39	**53**	62
Underwriting income (loss), as reported in the MD&A	**600**	415	**1,787**	1,227
Operating NEP *(Table 54)*	**4,931**	2,879	**16,043**	11,220
Operating combined ratio	**87.8%**	85.6%	**88.8%**	89.1%

Table 56 – Reconciliation of Operating net claims to Net claims incurred, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
Net claims incurred, as reported under IFRS	**2,796**	1,664	**8,967**	6,883
Remove: positive (negative) impact of MYA on underwriting results	**72**	(23)	**226**	(315)
Remove: adjustment for non-operating pension expense	**(6)**	(5)	**(24)**	(20)
Remove: net claims from exited lines	**(83)**	(51)	**(172)**	(71)
Net with: other underwriting revenues	**(6)**	-	**(24)**	-
Operating net claims, as reported in the MD&A	**2,773**	1,585	**8,973**	6,477
Remove: net current year CAT losses *(Table 22)*	**(186)**	(74)	**(676)**	(359)
Remove: favourable (unfavourable) PYD *(Table 21)*	**160**	28	**594**	100
Operating net claims excluding current year CAT losses and PYD	**2,747**	1,539	**8,891**	6,218
Operating NEP *(Table 54)*	**4,931**	2,879	**16,043**	11,220
Remove: reinstatement premiums ceded (recovered)	**-**	-	**1**	1
Operating NEP before reinstatement premiums	**4,931**	2,879	**16,044**	11,221
Underlying current year loss ratio[1]	**55.7%**	53.5%	**55.5%**	55.5%
CAT loss ratio (including reinstatement premiums)[1] *(Table 22)*	**3.8%**	2.6%	**4.2%**	3.2%
(Favourable) unfavourable PYD ratio[2] *(Table 21)*	**(3.3)%**	(1.0)%	**(3.8)%**	(0.9)%
Claims ratio[2]	**56.2%**	55.1%	**55.9%**	57.8%

[1] Calculated using Operating NEP before reinstatement premiums.
[2] Calculated using Operating NEP.

Table 57 – Reconciliation of Operating net underwriting expenses to Underwriting expenses, as reported under IFRS

	Q4-2021	Q4-2020	2021	2020
Underwriting expenses, as reported under IFRS	**1,665**	932	**5,611**	3,696
Net with: other underwriting revenues	**(73)**	(36)	**(212)**	(135)
Remove: adjustment for non-operating pension expense	**(10)**	(8)	**(40)**	(33)
Remove: underwriting expenses from exited lines	**(24)**	(9)	**(76)**	(12)
Operating net underwriting expenses, as reported in the MD&A	**1,558**	879	**5,283**	3,516
Commissions	**829**	461	**2,885**	1,842
General expenses	**591**	330	**1,914**	1,289
Premium taxes	**138**	88	**484**	385
Operating NEP *(Table 54)*	**4,931**	2,879	**16,043**	11,220
Commissions ratio	**16.8%**	16.0%	**18.0%**	16.4%
General expenses ratio	**12.0%**	11.4%	**11.9%**	11.5%
Premium taxes ratio	**2.8%**	3.1%	**3.0%**	3.4%
Expense ratio	**31.6%**	30.5%	**32.9%**	31.3%

38.6 Financial strength

Total capital margin and regulatory capital ratios

- The **capital strength of the group is measured by the Total capital margin**.
- Each regulated insurance jurisdiction has its own supervisory capital ratio that is used to evaluate the ability of insurance companies to meet all policyholder liabilities. *See Section 28 – Capital management for more details.*

Total capital margin as at the end of a specific period	Total capital margin includes capital in excess of the internal CALs[1] for regulated insurance entities in Canadian, US, UK and other internationally regulated jurisdictions and the funds held in non-regulated entities, less any ancillary own funds committed by the Company.	**Regulatory capital ratios** as at the end of a specific period	Minimum capital test (as defined by OSFI and the AMF in Canada), Risk-based capital (as defined by the NAIC in the US) and Solvency Capital Requirement (as defined by the PRA in the UK&I)

[1] The average CAL for all regulated Canadian insurance entities is 173% MCT. The CAL varies by legal Canadian entity. The CAL is 200% RBC for regulated insurance entities in the US and 120% SCR for those in the UK.

Book value per share (BVPS) and BVPS (excluding AOCI)

- The evolution of our book value is measured using BVPS *(as defined below)*, which is calculated using GAAP measures. BVPS is an important valuation measure used by investors and is consistently disclosed in our MD&A and other financial reports.
- In line with a number of peers in the industry, we also disclose BVPS (excluding AOCI), a non-GAAP financial ratio, in our Supplementary Financial Information available in the "Investors" section of our web site at ***www.intactfc.com***. We believe that excluding AOCI from the numerator is useful to investors because it eliminates volatility that arises mostly from changes in market conditions, such as changes in interest and foreign exchange rates.

BVPS as at the end of a specific period	Common shareholders' equity / Number of common shares outstanding at the same date	**BVPS (excluding AOCI)** as at the end of a specific period	Common shareholders' equity (excluding AOCI) / Number of common shares outstanding at the same date

Table 58 – Calculation of BVPS and BVPS (excluding AOCI)

As at December 31,	2021	2020
Equity attributable to shareholders, as reported under IFRS	**15,674**	9,583
Remove: Preferred shares, as reported under IFRS	**(1,175)**	(1,175)
Common shareholders' equity	**14,499**	8,408
Remove: AOCI, as reported under IFRS	**(529)**	(409)
Common shareholders' equity (excluding AOCI)	**13,970**	7,999
Number of common shares outstanding at the same date (in millions)	**176.082**	143.018
BVPS	**82.34**	58.79
BVPS (excluding AOCI)	**79.34**	55.93

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

Adjusted average common shareholders’ equity

- **Adjusted average common shareholders’ equity** is a Non-GAAP financial measure used in the calculation of ROE and AROE. It is the mean of the shareholders’ equity at the beginning and the end of the period, adjusted on a prorata basis (number of days) for significant capital transactions. Equity attributable to shareholders and Preferred shares are determined in accordance with IFRS. *See Table 59 below.*

- **Adjusted average common shareholders’ equity, excluding AOCI** is a Non-GAAP financial measure used in the calculation of OROE. It is the mean of the shareholders’ equity, excluding AOCI at the beginning and the end of the period, adjusted on a prorata basis (number of days) for significant capital transactions. Equity attributable to shareholders, Preferred shares and AOCI are determined in accordance with IFRS. *See Table 59 below.*

- We believe that adjusting for common share issuance on prorata basis based on the number of days is a better reflection of our average common shareholders’ equity base used to calculate ROE, AROE and OROE.

Table 59 – Adjusted average common shareholders’ equity and Adjusted average common shareholders’ equity (excluding AOCI)

As at December 31,	2021	2020
Ending common shareholders' equity *(Table 58)*	**14,499**	8,408
Remove: common shares issued during the year	**(4,311)**	-
Ending common shareholders' equity, excluding common shares issued during the year	**10,188**	8,408
Beginning common shareholders' equity	**8,408**	7,719
Average common shareholders’ equity, excluding common shares issued during the year	**9,298**	8,064
Weighted impact of June 1, 2021 common shares issuance	**2,528**	-
Adjusted average common shareholders’ equity	**11,826**	8,064
Ending common shareholders’ equity (excluding AOCI) *(Table 58)*	**13,970**	7,999
Remove: common shares issued during the year	**(4,311)**	-
Ending common shareholders' equity, excluding AOCI and common shares issued during the year	**9,659**	7,999
Beginning common shareholders' equity, excluding AOCI	**7,999**	7,394
Average common shareholders’ equity, excluding AOCI and common shares issued during the year	**8,829**	7,697
Weighted impact of June 1, 2021 common shares issuance	**2,528**	-
Adjusted average common shareholders’ equity, excluding AOCI	**11,357**	7,697

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

Adjusted total capital and Adjusted debt-to-total capital ratio

Adjusted debt-to-capital ratio and Total leverage ratio, which are Non-GAAP ratios, are calculated using the following non-GAAP financial measures (marked with an asterix*).

Adjusted debt-to-capital ratio as at the end of a specific period	Debt outstanding (excluding hybrid debt)* *(see Table 60)* ――― Adjusted total capital*	**Total leverage ratio** as at the end of a specific period	Debt outstanding and preferred shares (including NCI)* *(see Table 60)* ――― Adjusted total capital*

- **Debt outstanding (excluding hybrid debt)** represents the debt outstanding (most comparable GAAP measure), excluding hybrid subordinated notes**.** We classify hybrids with the preferred shares since they are convertible to preferred shares pari passu to our existing preferred shares in case of default or bankruptcy.
- **Adjusted total capital*** represents the sum of Debt outstanding, Equity attributable to shareholders, Restricted Tier 1 notes and preferred shares instruments held by subsidiaries, at the same date *(see Table 60 below)*. The restricted Tier 1 notes and preferred shares instruments held by subsidiaries are included in Equity attributable to NCI.

Table 60 – Reconciliation of Debt outstanding (excluding hybrid debt) and Adjusted total capital to Debt outstanding, Equity attributable to shareholders and Equity attributable to NCI, as reported under IFRS

As at	Dec. 31 2021	Sept. 30 2021	Dec. 31 2020
Debt outstanding, as reported under IFRS	**5,229**	5,323	3,041
Remove: hybrid subordinated notes *(see Note 20.4)*	**(247)**	(247)	-
Debt outstanding (excluding hybrid debt)	**4,982**	5,076	3,041
Debt outstanding, as reported under IFRS	**5,229**	5,323	3,041
Equity attributable to shareholders, as reported under IFRS	**15,674**	15,122	9,583
Equity attributable to NCI, as reported under IFRS			
Include: RSA Insurance Group plc, as reported under IFRS			
Tier 1 notes *(Note 22.1)*	**510**	510	-
Preferred shares *(Note 22.1)*	**285**	285	-
Adjusted total capital	**21,698**	21,240	12,624
Debt outstanding (excluding hybrid debt)	**4,982**	5,076	3,041
Adjusted total capital	**21,698**	21,240	12,624
Adjusted debt-to-total capital ratio	**23.0%**	23.9%	24.1%
Debt outstanding, as reported under IFRS	**5,229**	5,323	3,041
Preferred shares, as reported under IFRS	**1,175**	1,175	1,175
Equity attributable to NCI: RSA Insurance Group plc, as reported under IFRS			
Tier 1 notes *(Note 22.1)*	**510**	510	-
Preferred shares *(Note 22.1)*	**285**	285	-
Debt outstanding and preferred shares (including NCI)	**7,199**	7,293	4,216
Adjusted total capital *(see above)*	**21,698**	21,240	12,624
Total leverage ratio	**33.2%**	34.3%	33.4%
Adjusted debt-to-total capital ratio	**23.0%**	23.9%	24.1%
Preferred shares and hybrids	**10.2%**	10.4%	9.3%

Refer to Note 20 – Debt outstanding and Note 22 – Non-controlling interests to the Consolidated financial statements for more details on the composition of items presented in the above table.

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

Section 39 - 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 33*	*Note 36*

39.1 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 are as follows:

Reference to our Consolidated financial statements			
COVID-19 pandemic	*Note 3.2*	Impairment of financial assets	*Note 25.2*
Business combinations	*Note 5.2*	Measurement of income taxes	*Note 27.3*
Valuation of claims liabilities	*Note 11.3*	Valuation of DB obligation	*Note 30.6*
Impairment of goodwill and intangible assets	*Note 15.2*		

39.2 Related-party transactions

We enter into transactions with associates and joint ventures, including those classified as held for sale, 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, interest and principal payments on loans, as well as reinsurance agreements. 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 are those that have the authority and responsibility for planning, directing and controlling the activities of the Company. Following the RSA Acquisition, the Company has refined its definition of key management personnel which now includes the entirety of the Executive Officers of the Company, as well as the Board of Directors. 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.

39.3 Financial instruments

An important portion of our Consolidated balance sheets is composed of financial instruments.

Reference to our Consolidated financial statements		
Summary of significant accounting policies	**Derivative financial instruments**	**Fair value measurement**
Note 2	*Note 8*	*Note 9*

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

39.4 Foreign currency rates

Table 61 – Foreign currency rates

	As at		Average rates for the periods			
	Dec. 31, 2021	Dec. 31, 2020	Q4-2021	Q4-2020	2021	2020
Foreign currency vs CAD						
USD	**1.26450**	1.27210	**1.26056**	1.33228	**1.25359**	1.34104
GBP	**1.71017**	1.73972	**1.69913**	n/a	**1.72431**	1.72588
EUR	**1.43850**	1.55412	**1.44019**	n/a	**1.48257**	1.55619

39.5 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, 2021. 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.

39.6 Internal controls over financial reporting

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

Management has limited the scope of effectiveness of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of RSA, which was acquired by IFC on June 1, 2021. RSA's total assets and total liabilities represented approximately 43% of total consolidated assets and 42% of total consolidated liabilities, respectively, as at December 31, 2021. *Refer to Note 5 – Business combination to the Consolidated financial statements for the impact on income before income taxes*. Management is committed to removing this limitation within the timeframe permitted by regulation.

Management has evaluated the design and operating effectiveness of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2021.

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 2021 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 40 - Shareholder information

40.1 Authorized share capital and outstanding share data

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

Table 62 – Outstanding share data (number of shares)

As at February 8, 2022	
Common shares[1]	**176,081,958**
Class A	
Series 1 preferred shares	**10,000,000**
Series 3 preferred shares[2]	**10,000,000**
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	**6,000,000**

[1] Included 33,063,824 common shares issued on June 1, 2021.

[2] Reflected the exchange on a one-for-one basis of 828,676 Series 4 Preferred Shares to Series 3 Preferred Shares effective September 30, 2021.

Refer to our Annual Information Form for more detailed information on the rights of shareholders and to Note 21 – Common shares and preferred shares to the Consolidated financial statements for additional information.

40.2 Quarterly dividends declared on common shares and preferred shares

Table 63 – Dividends declared per share

	Q1-2022	Q4-2021	Q4-2020
Common shares	**1.00**	**0.91**	0.83
Class A			
Series 1 preferred shares	**0.21225**	**0.21225**	0.21225
Series 3 preferred shares	**0.2160625**	**0.2160625**	0.20825
Series 4 preferred shares (floating rate)	**-**	**-**	0.1765225
Series 5 preferred shares	**0.325**	**0.325**	0.325
Series 6 preferred shares	**0.33125**	**0.33125**	0.33125
Series 7 preferred shares	**0.30625**	**0.30625**	0.30625
Series 9 preferred shares	**0.3375**	**0.3375**	0.3375

On February 8, 2022, the Board of Directors approved the quarterly dividend for Q1-2022. *See Section 28.4 - Common shareholder dividends*

40.3 Expected release dates of our financial results

Q1-2022	Q2-2022	Q3-2022	Q4-2022
May 10, 2022	July 26, 2022	November 8, 2022	February 7, 2023

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

Section 41 - Selected annual and quarterly information

41.1 Selected annual information

Table 64 – Selected annual information

	2021	2020	2019
Direct premiums written	**17,994**	12,143	11,019
Operating DPW	**17,283**	12,039	11,049
Total revenues[1]	**17,635**	12,303	11,207
Net income	**2,088**	1,082	754
Net income attributable to shareholders	**2,067**	1,082	754
EPS, basic and diluted (in dollars)	**12.40**	7.20	5.08
Cash dividends declared per share (in dollars)			
Common shares	**3.40**	3.32	3.04
Class A			
Series 1 Preferred Shares	**0.85**	0.85	0.85
Series 3 Preferred Shares	**0.84**	0.83	0.83
Series 4 Preferred Shares (floating rate)	**0.52**	0.89	1.08
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	1.23
Series 9 preferred shares	**1.35**	1.17	-
Investments	**36,680**	20,630	18,608
Total assets	**66,349**	35,119	32,292
Total financial liabilities	**35,287**	17,917	16,548
Equity attributable to shareholders	**15,674**	9,583	8,747

[1] This measure has been adjusted to align with our Consolidated financial statements. Comparative figures are reported on the same basis.

41.2 Selected quarterly information

Table 65 – Selected quarterly information[1]

				2021				2020
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Direct premiums written	**5,318**	5,719	4,414	2,543	2,928	3,269	3,389	2,557
Operating DPW	**5,017**	5,447	4,297	2,522	2,872	3,264	3,382	2,521
Total revenues[1]	**5,270**	5,189	3,748	2,997	3,120	3,092	2,939	2,996
Operating NEP	**4,931**	4,871	3,482	2,759	2,879	2,863	2,712	2,766
Current year CAT losses	**186**	365	73	52	74	24	124	137
Favourable PYD	**(160)**	(148)	(136)	(150)	(28)	(17)	(3)	(52)
Underwriting income	**600**	426	464	297	415	369	284	159
Operating combined ratio[2]	**87.8%**	91.3%	86.7%	89.3%	85.6%	87.1%	89.5%	94.3%
Net investment income	**220**	191	154	141	143	143	141	150
Distribution income	**77**	105	118	62	72	81	78	44
NOI	**678**	519	515	357	467	411	350	243
Net income	**701**	300	573	514	378	334	263	107
Net income attributable to shareholders	**692**	295	566	514	378	334	263	107
Per share measures, basic and diluted (in dollars)								
NOIPS	**3.78**	2.87	3.26	2.40	3.18	2.78	2.35	1.61
EPS	**3.85**	1.60	3.59	3.51	2.55	2.25	1.74	0.66

[1] This measure has been adjusted to align with our Consolidated financial statements. Comparative figures are reported on the same basis.
[2] *See Section 17 – Seasonality of our P&C insurance business.*

Section 42 - Glossary and definitions

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

42.1 Glossary of abbreviations

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

42.2 Definitions of performance measures and key terms used in our MD&A

- Unless otherwise noted, operating DPW refer to DPW normalized for the effect of multi-year policies, excluding industry pools, fronting and exited lines (referred to as "operating DPW" in this MD&A).
- Unless otherwise noted, all underwriting results and related ratios exclude the MYA, as well as the results from exited lines. 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 a predetermined CAT threshold, before reinsurance, related to a single event. Reported CAT losses can either be weather-related or not weather-related ('other than weather-related') and exclude those from exited lines. Effective July 1, 2021, our CAT threshold is as follows; P&C Canada: $10 million, P&C UK&I: £7.5 million and P&C U.S: US$5 million.
- A large loss is defined as a single claim, which is considered significant but that is smaller than the CAT threshold.
- 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.
- 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.

Intact Financial Corporation

Consolidated financial statements

For the year ended December 31, 2021

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 controls over financial reporting. The Company's system of internal control includes the communication of policies and of the Company's Code of Conduct, proper segregation of duties, delegation of authority for transactions, personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records. The system of internal controls is reviewed and evaluated on an ongoing basis by management and the Company's Group Financial Control function.

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 controls, 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, the Group Financial Control function, and the Chief Actuarial Officer, have full and unrestricted access to the Audit Committee, with and without the presence of management.

The Regional Chief Actuaries, who are members of management, are appointed by the relevant entity Board of the Company. The Regional Chief Actuaries are responsible for discharging the various actuarial responsibilities and conduct a valuation of claims 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 pages.

February 8, 2022

Charles Brindamour
Chief Executive Officer

Louis Marcotte
Executive 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021, the Group has recognized $25 billion in claims liabilities on its consolidated balance sheet, which represent 51% 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 auditor attention. 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 2021, the consequences of COVID-19 and the lack of historical data for similar circumstances impacted management's determination of claims liabilities 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:

- Evaluated the objectivity, independence and expertise of the actuarial valuator appointed by management;
- Tested the design of selected key controls of the actuarial portion of the claims liabilities process. For the business not acquired in the RSA Insurance Group plc ("RSA") acquisition, we also tested the design and operating effectiveness of selected key controls, including controls over the integrity of data flows through the administration systems, for the claims handling portion of the claims liabilities process;
- Obtained an understanding of the Group's actuarial methodologies and assessing whether they were determined in accordance with generally accepted actuarial practices; performed an independent valuation of claims liabilities for a sample of lines of business that reflected 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 could affect claims settlement in terms of speed or amount. The high degree of uncertainty due to COVID-19 led to a high degree of auditor judgment in establishing our estimates;
- Performed data integrity testing of incurred claims, paid claims, and earned premiums used in the valuation of claims liabilities; and
- Assessed the adequacy of the disclosures pertaining to the claims liabilities provided in notes to the consolidated financial statements.

Accounting for business combination – Acquisition of RSA

The Group describes its significant accounting judgments, estimates and assumptions in relation to accounting for business combinations in Note 5 to the consolidated financial statements. On June 1, 2021, the Group, together with the Scandinavian P&C leader Tryg A/S, acquired the entire issued share capital of RSA, a multinational insurance group, for a total purchase consideration of $12.3 billion, resulting in the recognition of a bargain purchase gain of $204 million.

The acquisition accounting is considered a key audit matter because of the quantitative materiality of the acquisition and the significant management judgments and estimates made on the provisional purchase price allocations. The key judgments relate to the allocation of the purchase price to the assets and liabilities identified, more specifically to the valuation of identified intangibles, assets held for sale, pension obligation and claims liabilities.

Our audit procedures related to the preliminary purchase price allocations were conducted with the support of our actuarial and valuation specialists and included the following, among other procedures:

- Reviewed the key legal agreements to obtain an understanding of the transaction and the key terms;
- Assessed the adequacy of the disclosures pertaining to the acquisition provided in notes to the consolidated financial statements;
- For the intangible assets and assets held for sale, assessed the appropriateness of management's valuation methodologies, key assumptions, and inputs used in measuring fair value. The key assumptions were the discount rates and the cash flow projections, and, for the case of the intangible assets, the useful lives assigned to the acquired assets;
- For the pension obligation, assessed the appropriateness of the actuarial methodologies and the rationale for the actuarial assumptions applied; and
- For the claim liabilities, performed an independent valuation for a sample of lines of business that reflected our expectations based on historical experience, current trends, and benchmarking to our industry knowledge including information relating to forthcoming legislation and the consequences of COVID-19 that could affect claims settlement speed or amount.

Other information

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

- Management's discussion and analysis; and
- 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; and
- 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 Doru Pantea.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 8, 2022

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INTACT FINANCIAL CORPORATION

Consolidated financial statements
For the year ended December 31, 2021

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INTACT FINANCIAL CORPORATION

Consolidated balance sheets

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

As at December 31,	Note	2021	2020
Assets			
Investments	*6*		
Cash and cash equivalents		**$ 2,276**	$ 917
Debt securities		**25,307**	14,098
Preferred shares		**1,847**	1,552
Common shares		**5,686**	3,779
Investment property		**634**	-
Loans		**930**	284
Total investments		**36,680**	20,630
Premiums receivable		**7,838**	3,822
Reinsurance assets	*14*	**5,616**	1,533
Income taxes receivable		**198**	7
Deferred tax assets	*27*	**584**	179
Deferred acquisition costs		**2,024**	1,089
Investments in associates and joint ventures	*16*	**760**	811
Property and equipment	*17*	**774**	520
Intangible assets	*15*	**4,636**	2,514
Goodwill	*15*	**3,066**	2,813
Other assets	*18*	**3,331**	1,201
Asset held for sale	*19*	**842**	-
Total assets		**$ 66,349**	$ 35,119
Liabilities			
Claims liabilities	*11*	**$ 25,116**	$ 12,780
Unearned premiums	*12*	**11,703**	6,256
Financial liabilities related to investments	*7*	**265**	89
Income taxes payable		**131**	149
Deferred tax liabilities	*27*	**698**	279
Debt outstanding	*20*	**5,229**	3,041
Other liabilities	*18*	**6,424**	2,942
Total liabilities		**49,566**	25,536
Equity			
Common shares	*21*	**7,576**	3,265
Preferred shares	*21*	**1,175**	1,175
Contributed surplus		**211**	187
Retained earnings		**6,183**	4,547
Accumulated other comprehensive income (loss)			
Available-for-sale securities		**513**	412
Translation of foreign operations, net of hedges		**1**	(2)
Other		**15**	(1)
Equity attributable to shareholders		**15,674**	9,583
Equity attributable to non-controlling interests	*22*	**1,109**	-
Total equity		**16,783**	9,583
Total liabilities and equity		**$ 66,349**	$ 35,119

See accompanying notes to the Consolidated financial statements.

On behalf of the Board:

Charles Brindamour
Director

Jane E. Kinney
Director

INTACT FINANCIAL CORPORATION

Consolidated statements of income

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

For the years ended December 31,	Note		2021		2020
Direct premiums written		**$**	**17,994**	$	12,143
Premiums ceded			**(1,322)**		(527)
Net premiums written			**16,672**		11,616
Changes in unearned premiums			**(434)**		(375)
Net earned premiums			**16,238**		11,241
Other underwriting revenues			**236**		135
Investment income	*24*		**740**		600
Other revenues			**421**		327
Total revenues			**17,635**		12,303
Net claims incurred	*11*		**(8,967)**		(6,883)
Underwriting expenses			**(5,611)**		(3,696)
Investment expenses	*24*		**(34)**		(23)
Net gains (losses)	*25*		**249**		182
Gain on bargain purchase	*5*		**204**		-
Share of profit from investments in associates and joint ventures	*16*		**87**		52
Finance costs			**(153)**		(115)
Acquisition, integration and restructuring costs	*26*		**(429)**		(115)
Other expenses			**(413)**		(346)
Income before income taxes			**2,568**		1,359
Income tax benefit (expense)	*27*		**(480)**		(277)
Net income		**$**	**2,088**	$	1,082
Net income attributable to:					
Shareholders			**2,067**		1,082
Non-controlling interests	*22*		**21**		-
		$	**2,088**	$	1,082
Weighted-average number of common shares outstanding (in millions)	*28*		**162.4**		143.0
Earnings per common share, basic and diluted (in dollars)	*28*	**$**	**12.40**	$	7.20
Dividends paid per common share (in dollars)	*21*	**$**	**3.40**	$	3.32

See accompanying notes to the Consolidated financial statements.

Consolidated statements of comprehensive income

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

For the years ended December 31,	Note	2021	2020
Net income		**$ 2,088**	$ 1,082
Other comprehensive income (loss)			
Available-for-sale securities:			
net changes in unrealized gains (losses)		**445**	204
income tax benefit (expense)		**(154)**	(41)
reclassification of net losses (gains)		**(289)**	(27)
income tax (benefit) expense		**99**	1
		101	137
Cash flow hedges:			
net changes in unrealized gains (losses)		**(26)**	-
reclassification of net losses (gains)		**32**	-
		6	-
Foreign exchange gains (losses) on:			
translation of foreign operations		**(11)**	(105)
net investment hedges		**23**	55
income tax benefit (expense)		**(1)**	2
		11	(48)
Other, net of tax		**16**	(5)
Items that may be reclassified subsequently to net income		**134**	84
Actuarial gains (losses) on employee future benefits, net of other surplus remeasurement	*30*	**352**	59
income tax benefit (expense)		**(80)**	(15)
Items that will not be reclassified subsequently to net income		**272**	44
Other comprehensive income (loss)		**406**	128
Total comprehensive income		**$ 2,494**	$ 1,210
Total comprehensive income attributable to:			
Shareholders		**2,459**	1,210
Non-controlling interests		**35**	-
		$ 2,494	$ 1,210

See accompanying notes to the Consolidated financial statements.

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

		Equity attributable to shareholders						
	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Equity attributable to non-controlling interests	Total Equity
Balance as at January 1, 2021		**$ 3,265**	**$ 1,175**	**$ 187**	**$ 4,547**	**$ 409**	**$ -**	**$ 9,583**
Net income		**-**	**-**	**-**	**2,067**	**-**	**21**	**2,088**
Other comprehensive income (loss)		**-**	**-**	**-**	**272**	**120**	**14**	**406**
Total comprehensive income (loss)		**-**	**-**	**-**	**2,339**	**120**	**35**	**2,494**
Common shares issued	*21*	**4,311**	**-**	**-**	**-**	**-**	**-**	**4,311**
Dividends declared on:								
common shares		**-**	**-**	**-**	**(626)**	**-**	**-**	**(626)**
preferred shares		**-**	**-**	**-**	**(53)**	**-**	**-**	**(53)**
Share-based payments		**-**	**-**	**24**	**(22)**	**-**	**-**	**2**
Non-controlling interests:								
dividends	*22*	**-**	**-**	**-**	**-**	**-**	**(27)**	**(27)**
business combination	*5*	**-**	**-**	**-**	**-**	**-**	**1,101**	**1,101**
Other		**-**	**-**	**-**	**(2)**	**-**	**-**	**(2)**
Balance as at December 31, 2021		**$ 7,576**	**$ 1,175**	**$ 211**	**$ 6,183**	**$ 529**	**$ 1,109**	**$ 16,783**
Balance as at January 1, 2020		$ 3,265	$ 1,028	$ 170	$ 3,959	$ 325	$ -	$ 8,747
Net income		-	-	-	1,082	-	-	1,082
Other comprehensive income (loss)		-	-	-	44	84	-	128
Total comprehensive income (loss)		-	-	-	1,126	84	-	1,210
Preferred shares issued		-	147	-	-	-	-	147
Dividends declared on:								
common shares		-	-	-	(475)	-	-	(475)
preferred shares		-	-	-	(52)	-	-	(52)
Share-based payments		-	-	17	(11)	-	-	6
Balance as at December 31, 2020		$ 3,265	$ 1,175	$ 187	$ 4,547	$ 409	$ -	$ 9,583

See accompanying notes to the Consolidated financial statements.

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

For the years ended December 31,	Note	2021	2020
Operating activities			
Income before income taxes		**$ 2,568**	$ 1,359
Income taxes received (paid), net		**(783)**	(348)
Adjustments for non-cash items	*32*	**191**	255
Changes in other operating assets and liabilities	*32*	**1,153**	1,086
Net cash flows provided by (used in) operating activities		**3,129**	2,352
Investing activities			
Business combination, net of cash acquired	*5*	**(11,076)**	-
Proceeds from the disposal of certain RSA assets	*5*	**7,209**	-
Proceeds from sale of investments		**16,442**	11,170
Purchases of investments		**(18,118)**	(13,262)
Purchases of brokerages and other equity investments, net		**(102)**	(187)
Purchases of intangibles and property and equipment, net		**(327)**	(163)
Net cash flows provided by (used in) investing activities		**(5,972)**	(2,442)
Financing activities			
Payment of lease liabilities		**(97)**	(59)
Proceeds from (repurchase of) securities sold under repurchase agreements		**-**	(20)
Payment of contingent consideration related to a business combination		**(15)**	(94)
Proceeds from issuance of debt, net	*20*	**1,815**	894
Repayment of debt	*20*	**(1,429)**	(47)
Borrowing (repayment) on the credit facility and commercial paper, net	*20*	**439**	(165)
Proceeds from issuance of common shares and preferred shares, net	*21*	**4,263**	146
Repurchase of common shares for share-based payments	*29*	**(64)**	(49)
Payment of dividends on common shares and preferred shares	*21*	**(679)**	(527)
Payment of dividends to non-controlling interests	*22*	**(27)**	-
Net cash flows provided by (used in) financing activities		**4,206**	79
Net increase (decrease) in cash and cash equivalents		**1,363**	(11)
Cash and cash equivalents, beginning of year		**917**	936
Exchange rate differences on cash and cash equivalents		**(4)**	(8)
Cash and cash equivalents, end of year		**$ 2,276**	$ 917
Composition of cash and cash equivalents			
Cash		**901**	844
Cash equivalents		**1,375**	73
Cash and cash equivalents, end of year		**2,276**	917
Other relevant cash flow disclosures – operating activities			
Interest paid		**191**	115
Interest received		**445**	353
Dividends received		**323**	268

See accompanying notes to the Consolidated financial statements.

Note 1 – Status of the Company

Intact Financial Corporation (the "Company"), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange (TSX: IFC). The Company has investments in wholly owned subsidiaries which operate principally in the Canadian, UK and US P&C insurance market. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses. 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 June 1, 2021, the Company completed the acquisition of RSA Insurance Group plc ("RSA"), referred to as the "RSA acquisition". *See Note 5.1 – Business combination 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 31 – 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	**IFRS**	International Financial Reporting Standards
AFS	Available-for-sale	**JV**	Joint ventures
AMF	Autorité des marchés financiers	**LAE**	Loss adjustment expenses
AOCI	Accumulated other comprehensive income	**LTIP**	Long-term incentive plan
ARR	Alternative reference rate	**MBS**	Mortgage-backed securities
ATRA	Alberta Tax and Revenue Administration	**MCT**	Minimum capital test (Canada)
CAD	Canadian Dollar	**MD&A**	Management's Discussion and Analysis
CALs	Company action levels	**MYA**	Market-yield adjustment
CGU	Cash generating unit	**NCI**	Non-controlling interests
CRA	Canada Revenue Agency	**NEP**	Net earned premiums
DB	Defined benefits	**NOI**	Net operating income
DKK (kr.)	Danish krone, Denmark's official currency	**OCI**	Other comprehensive income
DPW	Direct premiums written	**OSFI**	Office of the Superintendent of Financial Institutions
DSU	Deferred share unit	**P&C**	Property and casualty
EPS	Earnings per share to common shareholders	**PSU**	Performance stock units
ESOP	Employee stock option plan	**PTOI**	Pre-tax operating income
ESPP	Employee share purchase plan	**RBC**	Risk-based capital (US)
EUR (€)	Currency of the European Union	**ROE**	Return on equity
FA	Facility Association	**RQ**	Revenu Quebec
FVTOCI	Fair value through other comprehensive income	**RSU**	Restricted stock units
FVTPL	Fair value through profit and loss	**SCR**	Solvency Capital Requirement (Europe)
GBP (£)	British pound sterling, UK's official currency	**UK**	United Kingdom
IAS	International Accounting Standard	**UK&I**	United Kingdom and International
IASB	International Accounting Standards Board	**US**	United States
IBNR	Insurance claims incurred but not reported by policyholders	**USD**	US Dollar
IBOR	Interbank offered rate		

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 8, 2022.

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 as described in *Note 4 – Adoption of new accounting standards* and accounting policies newly applied in relation to the RSA acquisition as described below. 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 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.

In relation to the RSA acquisition, accounting policy and presentation were aligned on closing of the acquisition for all jurisdictions where the Company had previously adopted accounting policies. For new jurisdictions, certain local accounting practices were maintained as permitted by IFRS 4 - *Insurance contracts* (“IFRS 4”).

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 and other 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.

Claim liabilities include periodic payment orders which are settlements in the form of annuities awarded by UK courts on some high value injury claims where the claimant’s quality of life has been impaired due to severe injuries. These annuities are payable until death and increase annually, applying a defined index set in the court decision, usually linked to care provider professionals’ salaries and are eligible for reinsurance where applicable.

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. For retroactive reinsurance contracts, the premium ceded is recognized in Net income net of the related risk margin release at inception.

d) Deferred acquisition costs

Policy acquisition costs incurred in acquiring insurance premiums include commissions, premium taxes, levies, and other costs directly related to the writing or renewal of insurance policies. These acquisition costs are deferred and amortized on the same basis as the unearned premiums and are reported in Underwriting expenses. Deferred acquisition costs are written off when the corresponding contracts are settled or cancelled.

e) Liability adequacy test

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

2.4 Financial instruments

a) Classification and measurement of financial assets and financial liabilities

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

Classification	Financial instruments	Description	Initial and subsequent measurement
AFS	Debt securities	Investments intended to be held for an indefinite period and which may be sold in response to liquidity needs or changes in market conditions.	Initially measured at fair value using transaction prices at the trade date. Subsequently measured at fair value using bid prices (except as noted below for Level 3 instruments) at end of period, with changes in fair value reported in OCI (when unrealized) or in Net gains (losses) when realized or impaired.
	Common shares and preferred shares	Investments neither classified nor designated as FVTPL.	
	Other instruments	Investments in mutual and private funds.	*Refer to Note 2.4 b) (Level 3) hereafter for more details on the fair value measurement.*
Designated as FVTPL on initial recognition	Debt securities backing 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.*
Amortized cost - 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
Amortized cost - Other financial liabilities	Debt outstanding	Financial liabilities with fixed or determinable payments and maturity date, such as the Company's Senior, medium-term and subordinated notes, term loan and amount drawn under a credit facility.	Initially measured at fair value at the issuance date net of transaction costs. 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	• Short-term traded government 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 those securities deemed to be Level 1 • Debt outstanding[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 • 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

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 a Government 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.

- ***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 – Currency hedging in relation with the RSA acquisition 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 and fair value hedges.

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.

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. 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.

Cash flow hedges – The Company used foreign currency derivatives to hedge the RSA purchase price exposure to fluctuations in foreign exchange rates. The Company also uses "fixed to fixed" interest rate swaps to hedge changes in the fair value of fixed income securities. Where the Company has elected to apply hedge accounting, the effective portion of changes in the fair value of the derivatives are recognized in OCI and the ineffective portion is recognized in Net gains (losses) in Net income.

The Company uses foreign currency derivatives to hedge a portion of the selling price of the Danish business. *Refer to Note 8.4 – Hedge of an investment in associate held for sale for details.*

Fair value hedges – The Company uses "fixed to floating" interest rate swaps to hedge changes in the fair value of fixed income securities. Where the Company has elected to apply hedge accounting, the gains and losses on hedging instruments are recorded in Net gains (losses) in Net income and the change in fair value of the hedged item that are attributable to the hedged risk is transferred from AOCI to Net income.

The Company uses foreign currency denominated debt, cross-currency swaps and foreign currency forwards to manage a portion of its fair value exposure to the DKK relative to the CAD for the Danish business classified as an investment in associate held for sale. *Refer to Note 8.4 – Hedge of an investment in associate held for sale for details.*

Derivatives that qualify for hedge accounting

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

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of such derivatives are recognized in Net gains (losses). *See Note 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 – The Company participates in a securities lending program to generate fee income by lending securities it owns to other financial institutions to allow them to meet their delivery commitments. 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 25.2 – 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 combination

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. The excess of the purchase consideration over the fair value of the net identifiable assets acquired and liabilities assumed in a business combination results in Goodwill. When the excess is negative, a bargain gain is recognized in Net income.

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 31 – 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. It also includes selling insurance through affinity partnerships, usually to a group of similar customers such as store-card holders, alumni groups, unions and utility company customers.
- 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. 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	6 to 25 years
Customer relationships	Straight-line	3 to 15 years
Trade names	Straight-line	3 to 10 years
Internally developed software	Straight-line	3 to 10 years

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

2.7 Foreign currency translation

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

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

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 Net 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.

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	
	2021	**2020**	**2021**	**2020**
USD vs CAD	**1.26450**	1.27210	**1.25359**	1.34104
GBP vs CAD[1]	**1.71017**	1.73972	**1.72431**	1.72588
EUR vs CAD[1]	**1.43850**	1.55412	**1.48257**	1.55619
DKK vs CAD[2]	**0.19342**	n/a	**0.19687**	n/a

[1] For 2020, the average rate reflects the period from November 18 to December 31, 2020 in relation to the RSA acquisition.
[2] For 2021, the average rate reflects the period from June 1 to December 31, 2021 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 10 years
Leasehold improvements	Straight-line	Over the terms of related leases or 10 years

2.10 Investment property and rental income

Investment property includes land and buildings mainly located in the UK which are held to earn rental income and are externally managed and not owner-occupied.

Investment property is initially measured at cost, including transaction costs, and is subsequently measured at fair value based on revised estimates, with changes in fair value reported in Net gains (losses) in Net income. Rental income from the related operating leases is recognized as Investment income in Net income on a straight-line basis over the length of the lease.

It is classified as Level 3 in the fair value hierarchy and valued, at least annually at their highest and best use by external, independent valuers *(refer to Note 2.4 b) (Level 3) for explanations on the hierarchy).* The valuation techniques include the comparative method with reference to sales of other comparable buildings as well as discounted cash flow models which consider the net present value of cash flows to be generated from the properties. The cash flow streams reflect the current rent payable to lease expiry, at which point each unit is assumed to be re-let at its estimated rental value. The discount rate considers many factors such as recent transactions on similar properties, building location and quality, tenant credit quality and lease terms.

2.11 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.

2.12 Asset held for sale

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

2.13 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.

Deferred tax in respect of the unremitted earnings of subsidiaries, associates and joint ventures is recognized as an expense in the year in which the profits arise, except where the remittance of earnings can be controlled and it is probable that remittance will not take place in the foreseeable future.

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.

2.14 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 global P&C industry benchmark based on a three-year average of Canada, US and the UK weighted on the Company's deployed capital in each country; or
- The three-year average combined ratio of the US or UK 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.

d) Employee stock option plan

In May 2021, the Company established an Executive Stock Option Plan ("ESOP") for certain key executive employees of the Company. Under the ESOP, the Human Resources and Compensation Committee may, at its discretion, from time-to-time grant options and stock appreciation rights ("SARs") and also determines the terms and conditions of grants.

The options entitle participants to purchase common shares of the Company at an exercise price that is normally equal to the volume weighted average trading price per common share on the TSX for a period of a few days preceding the grant date. The options granted generally vest over three to seven years upon achievement of performance objectives and are exercisable within a ten-year period, except in the event of termination of employment or death.

The number of options expected to vest are estimated on the grant date and will be subsequently revised on each reporting date.

Equity-settled plan

The fair value of the options, adjusted for expectations related to performance conditions and forfeitures, is accounted for as an equity-settled plan and is recognized as an expense over the vesting period with a corresponding credit to Contributed surplus. When the options are exercised, any consideration paid is credited to Common shares and the recorded fair value of the options is removed from Contributed surplus and credited to Common shares.

2.15 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.

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 the 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.

2.16 Restructuring provision

A restructuring program will materially change the scope of the business undertaken or the manner in which the business is conducted. A restructuring provision is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. A constructive obligation is when:

- there is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and
- the Company has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The provision is measured at the present value of the expenditures expected to be required to settle the obligation. The restructuring provision primarily includes severances and provisions for onerous contracts. It can relate to the integration of a business acquired or to a restructuring to simplify the organization’s structure and drive efficiencies.

The related expense is recognized in the line Acquisition, integration and restructuring costs.

2.17 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 25.2*
Business combination	*Note 5.2*	Measurement of income taxes	*Note 27.3*
Valuation of claims liabilities	*Note 11.3*	Valuation of DB obligation	*Note 30.6*
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. Support from governments to businesses and economies, as well as the climbing COVID-19 vaccination rate, supported positive momentum in equity markets in 2021. Nevertheless, capital markets are expected to remain volatile due to inflation trends and the ongoing pandemic.

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.

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. In Canada, 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. In the UK&I, the current assessment of Claims liabilities reflects relevant court judgments in the UK and Ireland. However, the resulting liability could be materially different from the current estimate as legal interpretations and regulatory expectations develop and clarify the criteria for eligible claims and the extent to which losses are recoverable under reinsurance agreements responds in the manner the Company expects. 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 25 – Net gains (losses))*;
- The valuation of the DB obligation and the related plan assets *(refer to Note 30 – Employee future benefits)*;
- The valuation of provisions in Claims liabilities to reflect the potential risks for certain lines of business *(refer to Note 11 – Claims liabilities)*;
- The customer relief measures *(see below).*

Customer relief measures

In 2020, the Company provided customer relief measures including premium reductions to reflect changes in driving habits and lower business activity resulting from COVID-19 as well as a cap and reduction in rates on renewal and new business. The Company also provided flexible payment options and immediate relief measures for small business customers. For the year ended December 31, 2020, these premium reductions including the above small business customer relief measures have negatively impacted DPW by $419 million along with NEP by $236 million.

In March 2021, the Company announced new additional support, equivalent to one month of premiums, for eligible personal auto customers in Canada to reflect changes in driving habits during the second wave of COVID-19 pandemic. The program closed during the second quarter of 2021. For the year ended December 31, 2021, these additional measures negatively impacted DPW and NEP equally by **$105 million**, respectively. *Refer to Note 2.3 a) Revenue recognition and premiums receivable for the accounting policy on premium reductions.*

The Company applied judgment in its evaluation of bad debt expense and allowance for doubtful accounts on Premiums and other customer receivables, it considered flexible payment options as well as the 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. For the year ended December 31, 2021, the impact was not significant.

Note 4 – Adoption of new accounting standards

The following amendments to existing standards are effective for annual periods beginning on or after January 1, 2021:

4.1 Interest rate benchmark reform – Phase 2

In August 2020, the IASB issued amendments to IFRS 9 – *Financial instruments* ("IFRS 9"), IAS 39 – *Financial instruments: recognition and measurement* ("IAS 39"), IFRS 7 – *Financial instruments: disclosures*, IFRS 4 and IFRS 16 – *Leases*. The amendments complement those issued in 2019 and focus on the effects on financial statements when an entity replaces an old interest rate benchmark with an ARR as part of the IBOR 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.

As a result of the transition to ARRs, certain benchmark rates may be subject to discontinuance, changes in methodology, increased volatility or decreased liquidity. The Company, as a holder of certain IBOR-based instruments, is exposed to increased financial, operational, legal and regulatory risks as the rates transition. In order to manage those risks, the Company has established an enterprise-wide IBOR Transition Working Group, supported by senior management, to coordinate the transition from IBORs to ARRs, and to monitor the development and adoption of ARRs across the industry. The Company is progressing on its transition plan and incorporating market developments as they arise.

The Company's exposure to IBORs that have yet to transition to ARRs as at December 31, 2021 consists of financial assets of approximately **$246 million** related to the USD LIBOR and **$162 million** related to GBP LIBOR. The Company holds other financial instruments indexed to US LIBOR tenors which will mature before their related transition dates, therefore no additional disclosure was provided. The Company's financial instruments exposed to the CDOR are indexed to tenors that will continue as benchmark rates.

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

Note 5 – Business combination

5.1 Business combination

The Company completed the following acquisition during the year ended December 31, 2021:

RSA Insurance Group plc

On June 1, 2021, the Company, together with the Scandinavian P&C leader Tryg A/S ("Tryg"), completed the all-cash acquisition for the entire 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 received 685 pence per ordinary share from the Company which represented an aggregate cash consideration of **£7.2 billion ($12.3 billion).** On the same day, the Company sold a portion of the Scandinavia operations to Tryg for **£4.2 billion** which was used to partially fund the consideration paid to RSA's shareholders. The total consideration paid to RSA shareholders consists of:

- **£3.0 billion ($5.1 billion)** for the acquisition of RSA's Canadian, UK and International operations and the 50% co-share of RSA's Danish business; and
- **£4.2 billion ($7.2 billion)** for the acquisition of RSA's Sweden and Norway businesses and the 50% co-share of RSA's Danish business which was sold to Tryg on the same day. The disposed assets and associated liabilities are presented as held for sale in the fair value of assets acquired and liabilities assumed of *Table 5.1 – Business combination.*

Subsequently, on June 11, 2021, the Company announced that together with Tryg it has entered into a definitive agreement to sell RSA's Danish business to Alm. Brand A/S Group ("Alm. Brand") for a total cash consideration of approximately **DKK 12.6 billion ($2.6 billion)** of which the Company will receive 50% of the proceeds of approximately **DKK 6.3 billion ($1.3 billion).** *Refer to Note 19 – Asset held for sale.*

In 2020, financing for the purchase price of $5.1 billion (£3.0 billion) for the Company's retained portion, and related transaction fees of approximately $0.7 billion, was raised with $4.45 billion of private placement subscription receipts, a USD478 million ($577 million) bank term loan facility drawn on closing, $600 million of medium-term notes and the remaining balance was raised with **$250 million** of subordinated notes issued on March 31, 2021. *Refer to Note 20 – Debt outstanding and Note 21 – Common shares and preferred shares.*

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

As part of the acquisition, the Company assumed the full amount of RSA's outstanding issued debt and other equity instruments which totals **£0.8 billion ($1.4 billion)** and **£0.4 billion ($0.7 billion)**, respectively as at June 1, 2021. *Refer to Note 20 – Debt outstanding, Note 22.2 – Tier 1 notes issued by RSA and Note 22.3 – Preferred shares issued by RSA.*

The Company also retains and guarantees the obligations of the closed RSA UK pension plans and has provided funding commitments**.** *Refer to Note 30.1 b) – Employee future benefits in relation to the RSA acquisition.*

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

The following table summarizes the consideration and the preliminary fair value of the assets acquired and liabilities assumed as at the acquisition date including the Scandinavian assets and liabilities held for sale. The provisional fair values have been reassessed, since the second quarter of 2021, in light of additional information obtained during the measurement period following the acquisition. The adjustments were recorded prospectively since they were not significant. The final determination of the fair value will be completed within the prescribed period of one year following the acquisition.

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

Table 5.1 – Business combination

As at the acquisition date (June 1, 2021)	GBP	CAD
Purchase price		
Cash consideration[1]	**7,182**	**12,311**
Purchase price hedge *(Note 8.3)*	**-**	**28**
Total purchase price	**7,182**	**12,339**
Fair value of the identifiable assets acquired and liabilities assumed		
Assets		
Investments[2]	**8,331**	**14,283**
Premiums receivable	**2,305**	**3,952**
Reinsurance assets	**2,607**	**4,470**
Deferred tax assets[3]	**256**	**440**
Deferred acquisition costs	**538**	**921**
Property and equipment	**180**	**309**
Intangible assets	**1,223**	**2,096**
Other	**959**	**1,642**
Assets held for sale[4]	**8,982**	**15,399**
Liabilities		
Claims liabilities	**(6,804)**	**(11,664)**
Unearned premiums	**(3,105)**	**(5,324)**
Deferred tax liabilities[3]	**(258)**	**(442)**
Debt outstanding[5]	**(829)**	**(1,421)**
Other	**(2,153)**	**(3,691)**
Liabilities associated with assets held for sale[4]	**(4,273)**	**(7,326)**
Total identifiable net assets acquired	**7,959**	**13,644**
Non-controlling interests *(Note 22)*	**(642)**	**(1,101)**
Gain on bargain purchase	**(135)**	**(204)**
Exchange rate (GBP/CAD)		**1.71431**

[1] Includes proceeds from Tryg of **$7.2 billion (£4.2 billion).**
[2] Includes cash and cash equivalents acquired of **$1,263 million (£736 million).**
[3] Considers changes in the UK Corporate tax rate from 19% to 25% enacted in May 2021 and effective on April 1, 2023.
[4] Represents RSA's Sweden and Norway businesses and 50% of RSA's Danish business sold to Tryg as well as the Company's 50% interest in RSA's Danish business *(Refer to Note 19 – Asset held for sale).*
[5] The Company repaid part of the debt assumed ahead of the maturity date *(Refer to Note 20 – Debt outstanding).*

The gain on bargain purchase of **$204 million** is non-taxable and represents the difference between the purchase price paid for RSA and the fair value of the identifiable net assets acquired less the amount of non-controlling interests. The gain considers various items including the difference between the valuation of the pension plan liability used to determine the transaction price and the recognition and measurement principles defined by IAS 19 – *Employee benefits*.

The customer relationships, distribution networks and the trade names will be amortized over a three to seven year, six to twenty year and three to ten-year period, respectively, and vary by country. *Refer to Note 5.2 below for details* on how management determined the fair value of the intangible assets on acquisition.

From June 1 to December 31, 2021, RSA's contribution to NEP and Income before income taxes was **$4,422 million** and **$377 million** respectively, using a GBP/CAD exchange rate of 1.71681. On a pro-forma basis, for the year ended December 31, 2021, the NEP and Income before income taxes would have been **$7,569 million** and **$442 million** respectively if RSA was consolidated from January 1, 2021. The pro-forma basis was calculated using historical information without the Scandinavian operations, by applying the Company's accounting policies and assuming fair value adjustments that arose on acquisition would have been the same if the acquisition occurred on January 1, 2021. The pro-forma amounts exclude acquisition costs and benefits from integration initiatives or synergies and are not necessarily indicative of the results that would have resulted if the acquisition occurred on January 1, 2021, or the results that may be obtained in the future.

The Company recorded acquisition costs of **$90 million** for the year ended December 31, 2021 ($42 million - December 31, 2020), mainly related to professional fees and stamp duties related to the closing of the acquisition. For the year ended December 31, 2021, the Company also incurred integration costs of **$285 million**. These costs are reported in the line Acquisition, integration, and restructuring. *Refer to Note 26 – 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 (if any) have been included in the Consolidated balance sheets at fair value. Management determined the fair values using the methods described below. During the measurement period following the acquisition, the changes in the estimates that relate to new information obtained about facts and circumstances that existed as of the acquisition date, would have an impact on the amount of goodwill or gain on bargain purchase recognized. Any other changes in the estimates would be recognized in income.

Customer relationships and distribution networks were determined using discounted cash flows with the key estimates and assumptions as follows:

- Cash flow projections including estimated growth rates and profitability, synergies and contributory asset charges such as capital required to operate.
- Discount rate is based on the weighted-average cost of capital by major geographical regions for comparable companies with similar activities.

Trade names were determined using the relief-from royalty method, an income approach using a projection of DWP to which a royalty rate is applied. The key estimates and assumptions are the growth rate, the useful life, the royalty rate and the discount rate.

Internally generated software was determined using the replacement cost method. The key estimates and assumptions used include direct and indirect costs attributable to the development of the software, adjustment for obsolescence and assumptions on the useful life of the assets.

The fair value at the time of the acquisition of the Company's 50% interest in RSA's Danish business was supported by the agreed price with Tryg and a valuation based on the income approach.

Notes to the Consolidated financial statements
(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, 2021					
Cash and cash equivalents	-	-	-	2,276	2,276
Short-term notes	516	-	-	-	516
Fixed income					
Investment grade					
Government	5,247	-	3,860	-	9,107
Corporate	6,818	-	3,690	-	10,508
Asset-backed[1]	1,100	-	202	-	1,302
Mortgage-backed					
Agency[2]	1,150	-	215	-	1,365
Non-agency	691	-	298	-	989
Below investment grade Corporate	70	-	9	-	79
Non-rated	1,441	-	-	-	1,441
Debt securities	17,033	-	8,274	-	25,307
Investment grade					
Retractable	16	-	-	-	16
Fixed-rate perpetual	408	-	-	-	408
Other perpetual	1,423	-	-	-	1,423
Preferred shares	1,847	-	-	-	1,847
Common shares	3,841	14	1,831	-	5,686
Investment property	-	634	-	-	634
Loans	-	-	-	930	930
	22,721	648	10,105	3,206	36,680
December 31, 2020					
Cash and cash equivalents	-	-	-	917	917
Short-term notes[3]	684	-	-	-	684
Fixed income					
Investment grade					
Government	2,708	-	3,134	-	5,842
Corporate	2,270	-	2,968	-	5,238
Asset-backed[1]	366	-	76	-	442
Mortgage-backed					
Agency[2]	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

[1] Credit card receivables and auto loans.
[2] Publicly traded MBS, which carry the full faith and credit guarantee of the US Government or are guaranteed by a government sponsored entity.
[3] Includes the invested proceeds of $600 million from the Series 9 and 10 medium-term notes issued on December 16, 2020 *(refer to Note 20 – Debt outstanding)*. These amounts were held in a segregated account with restricted use until the closing date of the RSA acquisition.

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

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.

6.2 Carrying value of investments

Table 6.2 – Carrying value of investments

	FVTPL investments				Other investments	Total investments
As at	Carrying value	Amortized cost	Unrealized gains[2]	Unrealized losses[2]	Carrying value	Carrying value
December 31, 2021						
Cash and cash equivalents	**-**	**2,276**	**-**	**-**	**2,276**	**2,276**
Debt securities	**8,274**	**17,003**	**145**	**(115)**	**17,033**	**25,307**
Preferred shares[1]	**-**	**1,676**	**183**	**(12)**	**1,847**	**1,847**
Common shares	**1,845**	**3,420**	**475**	**(54)**	**3,841**	**5,686**
Investment property	**634**	**-**	**-**	**-**	**-**	**634**
Loans	**-**	**930**	**-**	**-**	**930**	**930**
	10,753	**25,305**	**803**	**(181)**	**25,927**	**36,680**
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

[1] Includes unrealized gains (losses) on embedded derivatives of **$(62) million** as at December 31, 2021 ($(12) million as at December 31, 2020). 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.

IFRS 9 – *Financial Instruments*

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 is adopted, which is expected to be on January 1, 2023.The table below presents the fair value and the change in fair value of financial assets that have contractual cash flows that qualify as SPPI and other assets.

Table 6.3 – SPPI and Other financial assets

As at December 31,	2021			2020		
	SPPI financial assets	Other financial assets	Total	SPPI financial assets	Other financial assets	Total
Cash and cash equivalents	**2,276**	**-**	**2,276**	917	-	917
Debt securities	**23,114**	**2,193**	**25,307**	13,551	547	14,098
Preferred share	**-**	**1,847**	**1,847**	-	1,552	1,552
Common shares	**-**	**5,686**	**5,686**	-	3,779	3,779
Loans	**930**	**-**	**930**	284	-	284
Derivative financial assets	**-**	**150**	**150**	-	166	166
	26,320	**9,876**	**36,196**	14,752	6,044	20,796

The change in fair value of SPPI financial assets and other financial assets was **$(497) million** and **$850 million** for the year ended December 31, 2021 ($472 million and $85 million - December 31, 2020) respectively.

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

6.3 Collateral

The following table summarizes the investment related collateral:

Table 6.4 – Collateral

As at December 31,	2021	2020
Collateral pledged	**789**	69
Collateral accepted	**4,560**	1,221

The Company has pledged financial assets as collateral for liabilities or contingent liabilities, mainly consisting of debt and cash and cash equivalents. The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities, derivative transactions and repurchase agreements.

The Company has accepted collateral mainly consisting of government securities. The terms and conditions of the collateral accepted are market standard in relation to securities loaned, derivative transactions and reverse repurchase agreements. The collateral cannot be sold or re-pledged externally by the Company unless the counterparty defaults on its financial obligations. The obligation to repay the cash is included in Other liabilities and the corresponding receivable is recognized as an asset. Collateral accepted is mainly related to securities loaned which as at December 31, 2021 had a fair value of **$3,036 million** ($1,054 million as at December 31, 2020). The related collateral accepted represents approximately **104%** of the fair value of the securities loaned as at December 31, 2021 (105% as at as at December 31, 2020).

Note 7 – Financial liabilities related to investments

Table 7.1 – Financial liabilities related to investments

As at December 31,	2021	2020
Accounts payable to investment brokers on unsettled trades	**32**	43
Derivative financial liabilities *(Table 8.2)*	**224**	38
Equities sold short positions	**9**	8
	265	89

Note 8 – Derivative financial instruments

8.1 Types of derivatives used

Table 8.1 – Types of derivatives used

Derivatives	Description	Objective	Reason for holding the 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:**		
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
Interest rate	in which two counterparties exchange a stream of future interest payment for another, based on a specified principal amount	Modify or mitigate exposure to interest rate fluctuations	Fair value hedge
Cross currency interest rate	in which two counterparties exchange a stream of future interest payment for another, based on a specified principal amount and in two different currencies	Modify or mitigate exposure to interest rate and foreign currency fluctuations	Cash flow hedge
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	Risk management purposes
Inflation	that transfer inflation risk from one party to another	Modify exposure to inflation risk	Risk management purposes

(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

	2021			2020		
	Notional	Fair value		Notional	Fair value	
As at December 31,	amount	Asset	Liability	amount	Asset	Liability
Foreign currency contracts						
Forwards	**5,695**	**34**	**60**	10,328	154	23
Cross currency swaps	**604**	**42**	**-**	266	12	-
Interest rate contracts						
Futures	**889**	**-**	**-**	1,841	-	-
Swaps	**93**	**-**	**15**	-	-	-
Foreign currency and interest rate contracts						
Cross currency interest rate swaps	**142**	**3**	**11**	-	-	-
Equity contracts						
Swaps	**1,819**	**-**	**81**	1,348	-	15
Futures	**428**	**-**	**-**	427	-	-
Inflation contracts						
Swaps	**205**	**71**	**57**	-	-	-
	9,875	**150**	**224**	14,210	166	38
Held for risk management purposes						
Designated as net investment hedges	**4,127**	**17**	**42**	2,447	123	-
Designated as cash flow hedges	**367**	**9**	**9**	-	-	-
Designated as fair value hedges	**1,019**	**49**	**17**	-	-	-
Not designated	**4,230**	**75**	**156**	11,628	43	38
	9,743	**150**	**224**	14,075	166	38
Held for trading purposes	**132**	**-**	**-**	135	-	-
	9,875	**150**	**224**	14,210	166	38
Term to maturity:						
less than one year	**9,435**			12,312		
from one to five years	**108**			1,898		
over five years	**332**			-		
	9,875			14,210		

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 ($5.1 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 ($4.6 billion) GBP/CAD and £0.3 billion ($0.5 billion) GBP/EUR, of which £2.4 billion ($4.1 billion) were contingent on the closing of the acquisition.

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 and the ineffective portion was recognized in Net gains (losses) in Net income. On closing, losses of **$32 million ($28 million net of tax)** was recognized in AOCI and was reclassified as part of the purchase price consideration for RSA. Before January 18, 2021, 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. These contracts were settled upon closing of the acquisition.

Refer to Note 5.1 – Business combination for more details.

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 were recognized through Net income until closing of the transaction. At the time of closing, the Company designated these forward contracts as a net investment hedge of its foreign operations in RSA. The effective portion of changes in fair value was recognized in OCI and the ineffective portion was recognized in Net gains or losses in Net income.

The Company also entered into other foreign currency forward contracts for a net notional of £100 million ($171 million) CAD/GBP for risk management purposes related to the RSA acquisition. These contracts were settled upon closing of the acquisition.

In September 2021, the Company hedged an additional **£275 million ($470 million)** using foreign currency forward contracts. The Company also reduced its USD book value hedge by **USD200 million.**

Refer to Note 5.1 – Business combination for more details.

8.4 Hedge of an investment in associate held for sale

The Company hedged its exposure to the DKK relative to the CAD for the Danish business classified as an investment in associate held for sale. The Company uses a USD denominated bank term loan together with cross-currency swaps equivalent to **DKK 2.9 billion ($0.6 billion)** (the "synthetic term loan") and foreign currency forwards of **DKK 1.4 billion ($0.3 billion)** to manage its fair value exposure. The synthetic term loan and the forwards were designated as hedging instruments in a fair value hedge and as a result their gains or losses are recorded in Net gains or losses in Net income together with foreign exchange translation gains or losses on the asset held for sale. On July 1, 2021, the transaction was considered highly probable and foreign currency forwards used to hedge the remaining exposure to the selling price were designated as a cash flow hedge. The effective portion of changes in the fair value of the hedging instrument was recognized in OCI and the ineffective portion was recognized in Net gains or losses in Net income.

Refer to Note 19 – Asset held for sale for 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, investment property 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, 2021				
Short-term notes	**516**	**-**	**-**	**516**
Fixed income				
Investment grade				
Government	**3,115**	**5,992**	**-**	**9,107**
Corporate	**-**	**10,508**	**-**	**10,508**
Asset-backed	**-**	**1,302**	**-**	**1,302**
Mortgage-backed				
Agency	**-**	**1,365**	**-**	**1,365**
Non-agency	**-**	**986**	**3**	**989**
Below investment grade corporate	**-**	**79**	**-**	**79**
Non-rated	**-**	**-**	**1,441**	**1,441**
Debt securities	**3,631**	**20,232**	**1,444**	**25,307**
Preferred shares[1]	**1,844**	**3**	**-**	**1,847**
Common shares	**5,471**	**-**	**215**	**5,686**
Investment property	**-**	**-**	**634**	**634**
Derivative financial assets *(Table 8.2)*	**-**	**150**	**-**	**150**
Total financial assets measured at fair value	**10,946**	**20,385**	**2,293**	**33,624**
Total financial liabilities measured at fair value *(Table 7.1)*	**9**	**224**	**-**	**233**
December 31, 2020				
Short-term notes	459	255	-	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

[1] Includes perpetual preferred shares with call options amounting to **$1,574 million** as at December 31, 2021 ($1,373 million as at December 31, 2020). The fair value of the embedded derivatives component amounting to **$139 million** as at December 31, 2021 ($63 million as at December 31, 2020) was determined using a Level 3 methodology.

The fair value of loans was **$929 million** as at December 31, 2021 ($290 million as at December 31, 2020).

The carrying value of certain short-term financial instruments not measured at fair value is a reasonable approximation of their fair value.

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

9.2 Reconciliation of fair values measurement of Level 3 financial assets and investment property

Table 9.2 – Reconciliation of fair value measurement of Level 3 financial assets and investment property

	AFS		Classified as FVTPL		
For the years ended	**Equity**	**Fixed income**	**Equity**	**Investment property**	**Total**
December 31, 2021					
Balance, beginning of the year	**19**	**335**	**9**	**-**	**363**
Business combination	**222**	**995**	**-**	**522**	**1,739**
Total gain (losses) recognized in:					
Net income	**2**	**24**	**5**	**79**	**110**
OCI	**11**	**(3)**	**-**	**-**	**8**
Purchases	**1**	**379**	**-**	**41**	**421**
Disposals	**(43)**	**(287)**	**(9)**	**(4)**	**(343)**
Exchange rate differences	**(2)**	**1**	**-**	**(4)**	**(5)**
Balance, end of year	**210**	**1,444**	**5**	**634**	**2,293**
December 31, 2020					
Balance, beginning of the year	16	246	8	-	270
Total gain (losses) recognized in:					
Net income	-	-	4	-	4
OCI	2	3	-	-	5
Purchases	2	99	-	-	101
Disposals	(1)	(10)	(3)	-	(14)
Exchange rate differences	-	(3)	-	-	(3)
Balance, end of year	19	335	9	-	363

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 or investment property will fluctuate because of changes in equity market prices, interest rates or spreads, foreign exchange rates, property prices 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	Property price 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 of losses arising from changes in property prices.
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. A portion of foreign currency inflows and outflows impacting the Company's operations.	Exposure to price changes for property including investment properties held in the pension plans.
Risk management	Set forth limits in terms of equity exposure through investment policies. Through geographic and economic sector diversification and, in some cases, the use of derivatives	Set forth limits in terms of interest rate and credit spread duration through investment policies. 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.	Set forth limits in terms of currency exposure through investment policies. Using foreign currency derivatives.	Set forth limits in terms of direct property exposure through investment policies Used to back the Company's long-tailed claim liabilities.

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 analysis to market risk

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

	December 31, 2021		December 31, 2020	
For the years ended	**Net income**	**OCI**	**Net income**	**OCI**
Equity price risk				
Common share prices (10% decrease)[1]	**27**	**(446)**	11	(221)
Preferred share prices (5% decrease)[2]	**19**	**(88)**	12	(68)
Property price risk (10% decrease)	**(51)**	**(40)**	-	-
Interest rate risk (100 basis point increase)				
Debt securities[3,4]	**(237)**	**(445)**	(198)	(197)
Net claims liabilities	**378**	**-**	200	-
Defined benefit pension plan obligation, net of related debt securities	**-**	**11**	-	130
Currency risk[5]				
Strengthening of CAD by 10% vs all currencies				
Net assets of foreign operations in:				
USD	**10**	**(305)**	6	(196)
GBP	**8**	**(411)**	-	-
Currency derivatives related to RSA acquisition	**-**	**-**	-	(283)
Strengthening of GBP by 10% vs EUR				
Currency derivatives related to RSA acquisition	**-**	**-**	(52)	-

[1] Including the impact of common shares (net of any equity hedges, including the impact of any impairment) or investment property related to the defined benefit pension plan..
[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 45% of government-related securities and 55% of corporate-related securities.
[5] After giving effect to forward-exchange contracts.

The sensitivity analysis was prepared using the following assumptions:

- Shifts in the yield curve are parallel;
- Interest rates, equity prices, property 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

As at December 31,	2021			2020
Exposure in CAD	USD[1]	GBP	DKK/EUR[2]	USD
Investments supporting the Company's Canadian operations	**2,499**	**-**	**-**	2,198
Less: foreign-currency derivatives, notional amount	**(2,499)**	**-**	**-**	(2,179)
	-	**-**	**-**	19
Consolidated net assets of foreign operations	**2,636**	**3,507**	**574**	2,304
Less: foreign-currency derivatives, notional amount	**-**	**(1,337)**	**(328)**	(254)
	2,636	**2,170**	**246**	2,050
Other net assets denominated in foreign currency	**161**	**(60)**	**842**	48
Less: foreign-currency derivatives, notional amount[3]	**-**	**-**	**(1,093)**	-
	161	**(60)**	**(251)**	48
Total net currency exposure	**2,797**	**2,110**	**(5)**	2,117

[1] Includes the Company's operations in the US and the Middle East.
[2] The DKK and EUR exposures are aggregated as the DKK continues to be pegged closely to the EUR.
[3] Includes the fair value and cash flow hedges of the Danish business classified as an investment in associated held for sale. *Refer to Note 8.4- Hedge of an investment in associate held for sale.*

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

	2021		2020	
As at December 31,	Fair value	Duration (in years)	Fair value	Duration (in years)
Investments:				
Debt securities	**25,307**	**3.46**	14,098	3.57
Preferred shares	**1,847**	**2.20**	1,552	2.45
Net claims liabilities[1]	**20,793**	**2.33**	11,399	2.46
Defined benefit pension plans				
Debt securities	**19,502**	**20.7**	2,054	18.4
Obligation[1]	**18,569**	**17.7**	3,151	18.8

[1] *For more details on duration by country, refer to Note 13 – Insurance risk and Table 30.1 – DB pension plan asset (liability) by country.*

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,	2021	2020
Cash and cash equivalents	**2,276**	917
Debt securities	**25,307**	14,098
Preferred shares	**1,847**	1,552
Loans	**930**	284
Premiums receivable	**7,838**	3,822
Reinsurance assets	**5,616**	1,533
Other financial assets[1]	**1,755**	909
On-balance sheet credit risk exposure	**45,569**	23,115
Structured settlements	**1,859**	1,552
Off-balance sheet credit risk exposure	**1,859**	1,552

[1] Mainly includes other receivables and recoverables, industry pools receivable, financial assets related to investments, restricted funds, reinsurance receivable and accrued investment income.

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 reduced since the Company deals with registered life insurers. In addition, the credit risk is further mitigated by an industry compensation scheme which would assume a significant majority of the remaining outstanding obligations in case a life insurer defaults.

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 57% 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,	2021	2020
Debt securities		
AAA	**28%**	38%
AA	**30%**	30%
A	**23%**	21%
BBB	**12%**	9%
Not rated	**7%**	2%
	100%	100%

Table 10.8 – Credit quality of preferred shares

As at December 31,	2021	2020
P1	**2%**	-
P2	**75%**	80%
P3	**23%**	20%
	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 enhance sector diversification, the Company holds investment-grade non-financial US corporate bonds. The recently acquired RSA investment portfolio helps diversify out of Canadian Financial issuers.

Table 10.9 – Investment breakdown by country of incorporation and by industry

As at December 31,	2021	2020
By country of incorporation		
Canada	**55%**	72%
US	**19%**	27%
UK	**11%**	-
Other (including Ireland)	**15%**	1%
	100%	100%
By industry		
Government	**26%**	34%
Financials	**33%**	27%
ABS and MBS	**10%**	10%
Energy	**4%**	5%
Other	**27%**	24%
	100%	100%

The Company's regulated subsidiaries are subject to limitations on issuer concentration that vary by jurisdiction; the Company ensures continuous compliance with these regulations. 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 **$189 million** as at December 31, 2021 ($311 million as at December 31, 2020) 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.

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 20.2 – Other financing).*

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, 2021					
Cash and cash equivalents	**2,276**	**-**	**-**	**-**	**2,276**
Debt securities	**2,709**	**12,173**	**9,194**	**1,231**	**25,307**
Preferred shares	**-**	**16**	**21**	**1,810**	**1,847**
Common shares	**-**	**-**	**-**	**5,686**	**5,686**
Investment property	**-**	**-**	**-**	**634**	**634**
Loans	**44**	**220**	**666**	**-**	**930**
	5,029	**12,409**	**9,881**	**9,361**	**36,680**
Derivative financial assets	**151**	**-**	**-**	**-**	**151**
	5,180	**12,409**	**9,881**	**9,361**	**36,831**
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

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, 2021					
Claims liabilities – undiscounted value[1]	**9,904**	**11,700**	**2,504**	**-**	**24,108**
Debt outstanding	**892**	**1,952**	**2,385**	**-**	**5,229**
Lease liabilities – undiscounted value[2]	**120**	**321**	**284**	**-**	**725**
Other financial liabilities	**3,622**	**572**	**24**	**1,007**	**5,225**
	14,538	**14,545**	**5,197**	**1,007**	**35,287**
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[2]	83	231	211	-	525
Other financial liabilities	1,095	57	27	802	1,981
	6,051	7,186	3,878	802	17,917

[1] Excludes periodic payment orders.

[2] Lease liabilities in Other Liabilities includes discounting of **$87 million** as at December 31, 2021 ($78 million as at December 31, 2020) *(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. At closing of the RSA acquisition, the Company's risk margin was reviewed to ensure risk margin assumptions reflects the benefit of additional diversification of insurance risk across lines of businesses and geographic region.

11.1 Movements in claims liabilities

Table 11.1 – Movements in claims liabilities

For the years ended	Direct	Ceded	Net
December 31, 2021			
Balance, beginning of year	**12,780**	**1,381**	**11,399**
Business combination and other *(Note 5)*[1]	**11,679**	**3,087**	**8,592**
Current year claims	**10,606**	**864**	**9,742**
Unfavourable (favourable) prior-year claims development	**(611)**	**(62)**	**(549)**
Increase (decrease) due to changes in discount rate *(Note 11.2)*	**(255)**	**(29)**	**(226)**
Total claims incurred	**9,740**	**773**	**8,967**
Claims paid	**(9,040)**	**(905)**	**(8,135)**
Exchange rate differences	**(43)**	**(13)**	**(30)**
Balance, end of year	**25,116**	**4,323**	**20,793**
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)
Exchange rate differences	(51)	(17)	(34)
Balance, end of year	12,780	1,381	11,399

[1] Includes the net favourable impact on claims liabilities resulting from the purchase of adverse development coverage *(see Note 14 – Reinsurance).*

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

	2021			2020		
As at December 31,	**Direct**	**Ceded**	**Net**	**Direct**	**Ceded**	**Net**
Undiscounted value	**24,108**	**3,952**	**20,156**	12,370	1,313	11,057
Effect of time value of money	**(742)**	**(95)**	**(647)**	(264)	(31)	(233)
Risk margin	**1,328**	**271**	**1,057**	674	99	575
Periodic payment orders[1]	**422**	**195**	**227**	-	-	-
	25,116	**4,323**	**20,793**	12,780	1,381	11,399

[1] The net claims liabilities are net of the discount and risk margin of **$332 million** as at December 31, 2021.

Table 11.3 – Discount rate and duration of claims liabilities

	2021			2020	
For the years ended December 31,	**Canada**	**UK&I[1]**	**US**	**Canada**	**US**
Discount rate	**1.68%**	**3.10%**	**1.67%**	0.85%	1.13%
Average duration (in years)	**2.3**	**2.5**	**2.2**	2.5	2.1

[1] Includes the discount rate and average duration of periodic payment orders of **4.00%** and **17.7 years** as at December 31, 2021 respectively.

(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;
- The volatility in our measurement of the time value of money (discounting) from variability of the financial markets;
- The level of uncertainty in how reinsurers will react to claims from severe events; 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. The risk margin assumption used reflects this diversification benefit.

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 11.4 – Sensitivity analysis (claims liabilities net of reinsurance) – Impact on Net income

		2021			2020	
As at December 31,		**Canada**	**UK&I[1]**	**US**	**Canada**	**US**
Average claim costs (severity)	+5%	**(483)**	**(261)**	**(88)**	(344)	(71)
Average number of claims (frequency)	+5%	**(115)**	**(33)**	**(13)**	(80)	(10)
Discount rate	+1%	**210**	**84**	**34**	179	26

[1] Excludes periodic payment orders. A change of +0.5% in the discount rate of periodic payment orders would increase Net income by **$19 million** as at December 31, 2021.

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 acquisition year. Prior years are adjusted to ensure comparability while avoiding the presentation of development in pre-acquisition accident years. Future developments are presented from the acquisition year.

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 11.5 – Prior-year claims development – net

		Accident year										
As at December 31, 2021	**Total**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**Earlier**
Undiscounted claims liabilities outstanding at end of accident year		4,065	3,700	3,580	3,392	3,458	3,084	2,775	2,659	2,636	2,446	
Revised estimates												
One year later			3,393	3,473	3,301	3,311	3,121	2,672	2,588	2,575	2,413	
Two years later				3,413	3,312	3,282	3,127	2,707	2,581	2,540	2,333	
Three years later					3,354	3,281	3,188	2,728	2,599	2,530	2,291	
Four years later						3,295	3,234	2,748	2,610	2,527	2,265	
Five years later							3,248	2,762	2,598	2,535	2,242	
Six years later								2,752	2,591	2,506	2,237	
Seven years later									2,576	2,495	2,221	
Eight years later										2,489	2,210	
Nine years later											2,220	
Current estimate		4,065	3,393	3,413	3,354	3,295	3,248	2,752	2,576	2,489	2,220	
Claims paid to date			(1,118)	(1,746)	(2,072)	(2,429)	(2,651)	(2,441)	(2,383)	(2,340)	(2,118)	
Net undiscounted claims liabilities	**11,992**	4,065	2,275	1,667	1,282	866	597	311	193	149	102	485
Net claims undiscounted – RSA	**8,164**	2,734	1,317	1,153	776	607	405	236	174	150	97	515
Discounting and risk margin	**410**											
Periodic payment orders[1]	**227**											
Net claims liabilities	**20,793**											

[1] *Refer to Table 11.2.*

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, 2021.

11.6 Industry pools

The Company participates in several voluntary and mandatory industry pools in different jurisdictions as it operates in various countries. The impact of these industry pools on the Consolidated financial statements may vary, as in some cases the Company pays a levy to the pool and in other cases it may assume or cede risks.

(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, 2021 and 2020.

Table 12.1 – Movements in unearned premiums

For the years ended	Direct	Ceded	Net
December 31, 2021			
Balance, beginning of year	**6,256**	**152**	**6,104**
Business combination *(Note 5)*	**5,324**	**1,447**	**3,877**
Premiums written	**17,994**	**1,322**	**16,672**
Premiums earned	**(17,866)**	**(1,628)**	**(16,238)**
Exchange rate differences	**(5)**	**-**	**(5)**
Balance, end of year	**11,703**	**1,293**	**10,410**
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

Note 13 – Insurance risk

The Company principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses in the Canadian, UK and US insurance market. *Refer to Note 31 – Segment information for more details.*

Most of the insurance risk to which the Company is exposed is of a short-tail nature. Policies generally cover a 12-month period. *For the average duration of claim liabilities, refer to Table 11.3 – Discount rate and duration of claims liabilities.*

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's underwriting performance is at risk from a deterioration of the economy, unexpected cost inflation, inadequate segmentation, the misestimation of replacement costs, and/or unclear wording in our contracts. The Company also manages emerging risks that may arise.

The Company has a Board approved risk appetite statement that includes guiding principles for risk taking and key risk metrics. These metrics are monitored and reported on frequently to ensure underwriting risk remains within our tolerance.

a) Concentration by countries and lines of business

Table 13.1 – Concentration by countries and lines of business

	2021		2020	
As at December 31,	**DPW**	**Net claims liabilities**	**DPW**	**Net claims liabilities**
By countries				
Canada	**69%**	**66%**	85%	86%
UK&I	**20%**	**26%**	-	-
US	**11%**	**8%**	15%	14%
	100%	**100%**	100%	100%
By lines of business				
Personal auto - Canada	**28%**	**34%**	36%	45%
Personal property - Canada	**18%**	**6%**	21%	6%
Commercial lines - Canada	**23%**	**26%**	28%	35%
Personal lines - UK&I	**8%**	**4%**	-	-
Commercial lines - UK&I	**12%**	**22%**	-	-
Commercial lines - US	**11%**	**8%**	15%	14%
	100%	**100%**	100%	100%

Risks associated with commercial lines and personal 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, US and UK&I 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

With 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 regularly reviews 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 earthquakes, hurricanes, windstorms, hailstorms, rainstorms, ice storms, floods, solar storms, severe winter weather and wildfires.
- 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;
- inflation including social inflation;
- other factors such as 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 Company has a corporate reinsurance program which covers single risk events and multi-risk events and catastrophes. In 2021, RSA's operations were covered by its own reinsurance program as described below.

The following table shows the Company's reinsurance net retention and coverage limits by nature of risk in relation to its corporate reinsurance program.

Table 14.1 – Company's reinsurance net retention[1] and coverage limits[2] by nature of risk

For the years ended December 31,	2021	2020
Single risk events		
Retentions in Canada:		
on property policies	**7.5**	7.5
on liability policies	**5 - 10**	5 - 10
Retentions in the US (in USD):		
on property policies	**4**	3
on liability policies	**3**	3
Multi-risk events and catastrophes		
Retention	**150**	100
Coverage limits	**5,300**	5,300

[1] Excluding reinstatement premiums, co-participations and tax impacts.
[2] Excluding co-participations.

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 **9.2%** as at December 31, 2021 (10.2% as at December 31, 2020) 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, 2022, RSA is covered by the Company's corporate reinsurance programs with certain reinsurance programs being purchased separately by region based on the nature of risk. In addition, the Company increased its coverage limit for Canadian events from $5.3 billion to $7.2 billion for multi-risk events and catastrophes and the retention from $150 million to $200 million for Canadian events, reflecting the addition of RSA. The Company retains participations on reinsurance layers between the retention and coverage limit averaging 2.8% for Canadian events, 3.0% for US events and 1.3% for UK events. The retention and coverage limit for US events have been adjusted to reflect all exposure in the US. For UK events, the Company maintained the same retention and coverage limit for 2022 and introduced a small amount of co-participation in the program.

The Company's approach for setting limits in each country is consistent with prior years.

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

RSA

As at December 31, 2021, the newly acquired operations of the Company are covered by its own reinsurance program for single risk events as well as multi-risk events and catastrophes. Under the property catastrophe reinsurance program, the retention and limit vary based on the location of the loss occurrence. In addition, the Company also purchases dedicated reinsurance protection for certain lines of business and territories. The following table shows the Company's reinsurance net retention and coverage limits by nature of risk and region.

Table 14.2 – RSA's reinsurance net retention and coverage limits by nature of risk and region

As at December 31, 2021	Canada (CAD)	UK (GBP)
Single property risk events		
Retention	**17**	**17**
Multi-risk events and catastrophes		
Retention	**75**	**75**
Coverage limit	**3,200**	**1,350**

In 2021, large net retained property risk and catastrophe losses are subject to an annual aggregate loss treaty. Coverage under this treaty is triggered once cumulative qualifying large losses exceed £160 million, subject to a limit of £125 million and Company retained participation of 25%.

On July 27, 2021, the Company entered into a reinsurance contract pursuant to which a third-party reinsurer assumed 50% of negative reserve development in excess of an agreed retention with respect to certain of RSA's UK&I and other claims liabilities for accident years 2020 and prior. The maximum amount recoverable from the third-party reinsurer under the reinsurance contract is 50% of £400 million and is subject to certain exclusions and limitations including in relation to first party COVID-19 related claims. The transaction closed on October 6, 2021, following regulatory approval and satisfaction of various closing conditions. The purchase of this adverse development coverage has reduced the potential volatility in the Company's claims liabilities and resulted in a release of risk margin in 2021. The net impact of the adverse development coverage, amounting to **$71 million** was reported in Acquisition, integration and restructuring costs in Net income.

14.2 Components of reinsurance assets

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums.

Table 14.3 – Components of reinsurance assets

As at December 31,	2021	2020
Reinsurers' share of claims liabilities *(Note 11.1)*	**4,323**	1,381
Reinsurers' share of unearned premiums *(Note 12.1)*	**1,293**	152
	5,616	1,533

14.3 Net recovery (expense) from reinsurance

Table 14.4 – Net recovery (expense) from reinsurance

For the years ended December 31,	2021	2020
Ceded earned premiums *(Note 12.1)*	**(1,628)**	(587)
Ceded claims incurred *(Note 11.1)*	**773**	447
Commissions earned on ceded reinsurance	**102**	90
	(753)	(50)

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.

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

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 also has a policy that limits potential exposure to a single reinsurer. The Company monitors the financial strength of its reinsurers on a regular basis. Uncollectible amounts historically have not been significant.

As at December 31, 2021 and 2020, the Company did not have significant concentration of credit risk with any single reinsurer.

Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at December 31, 2021 and 2020.

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 primarily from unauthorized reinsurers in the US and captive reinsurers in the UK&I for which there is significant credit risk. This collateral is held in support of policy liabilities and could be used should these reinsurers be unable to meet their obligations.

Table 14.5 – Collateral in place to support amounts receivable and recoverable from unregistered, unauthorized and captive reinsurers

	2021			2020	
For the years ended December 31,	**Canadian operations**	**UK&I operations**	**US operations**	**Canadian operations**	**US operations**
Collateral consisting of cash, security agreements and letters of credit	**124**	**143**	**113**	91	136
Policy liabilities supported by the above collateral	**95**	**69**	**88**	65	110

(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	Customer relationships and trade names	Internally developed software	Total intangible assets
Cost					
Balance as at January 1, 2021	**2,813**	**2,051**	**560**	**740**	**3,351**
Business combination *(Note 5)*	**-**	**1,365**	**352**	**379**	**2,096**
Acquisitions and costs capitalized	**259**	**-**	**120**	**241**	**361**
Disposals and write-off	**-**	**(4)**	**-**	**(37)**	**(41)**
Exchange rate differences	**(6)**	**(4)**	**(1)**	**(2)**	**(7)**
Balance as at December 31, 2021	**3,066**	**3,408**	**1,031**	**1,321**	**5,760**
Accumulated amortization					
Balance as at January 1, 2021	**-**	**(209)**	**(281)**	**(347)**	**(837)**
Amortization expense	**-**	**(102)**	**(79)**	**(132)**	**(313)**
Disposals and write-off	**-**	**-**	**-**	**23**	**23**
Exchange rate differences	**-**	**2**	**-**	**1**	**3**
Balance as at December 31, 2021	**-**	**(309)**	**(360)**	**(455)**	**(1,124)**
Net carrying value	**3,066**	**3,099**	**671**	**866**	**4,636**
Cost					
Balance as at January 1, 2020	2,626	2,072	483	633	3,188
Business combination	4	-	-	-	-
Acquisitions and costs capitalized	205	-	109	108	217
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

Intangible assets under development amounted to **$295 million** as at December 31, 2021 ($88 million as at December 31, 2020). These intangible assets are not subject to amortization but are tested for impairment on an annual basis.

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

15.2 Significant accounting judgments, estimates and assumptions

a) Allocation of goodwill and intangible assets with indefinite lives to the group of CGUs

Goodwill and intangible assets with indefinite lives are allocated to CGUs, or groups of CGUs, that are expected to benefit from the business combination in which they arose.

Table 15.2 – Allocation of goodwill and intangible assets with indefinite lives to the groups of CGUs

	Goodwill		Intangible assets	
As at December 31,	**2021**	**2020**	**2021**	**2020**
Canada	**2,168**	1,910	**829**	829
US	**898**	903	**8**	8
	3,066	2,813	**837**	837

The RSA acquisition did not result in goodwill or intangible assets with indefinite lives *(refer to Note 5 – Business combination)*.

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, 2021 and 2020.

The Canada and US groups of CGUs, which correspond to the Company's operating segments level, 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 US 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 US 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 US groups of CGUs.
- In some cases, the Company uses the most recent detailed calculation of the recoverable amount made in a preceding year, in the current period's impairment test, but only if there are no significant changes to the CGU, the likelihood of impairment is remote based on the analysis of current events and circumstances, and the most recent recoverable amount substantially exceeds the carrying amount of the CGU. In 2021, the Company used the 2020 recoverable amount in its impairment test of the Canada group of CGUs.

Table 15.3 – Key assumptions used (groups of CGUs)

	Terminal growth rate		Pre-tax discount rate	
	2021	**2020**	**2021**	**2020**
Canada	**2.5%**	2.5%	**11.1%**	11.1%
US	**3.9%**	3.9%	**11.5%**	11.1%

No impairment loss on goodwill or intangible assets with indefinite lives has been recognized for these CGUs for the years ended December 31, 2021 and 2020.

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 US 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,	2021	2020
Balance, beginning of year	**811**	715
Acquisitions (sales)	**(123)**	75
Dividends received	**(28)**	(27)
Share of profit (loss) recorded in:		
net income	**87**	52
OCI	**13**	(4)
Balance, end of year	**760**	811
Of which:		
associates	**378**	446
joint ventures	**382**	365

During 2021, 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,	2021	2020
Right-of-use assets[1]	**465**	349
Furniture and equipment	**140**	82
Leasehold improvements	**107**	57
Land and buildings	**62**	32
	774	520

[1] Right-of-use assets mainly related to real estate for which additions for the year ended December 31, 2021 amounted to **$48 million** ($45 million - December 31, 2020). Total additions to right-of-use assets related to business combination was **$183 million** for the year ended December 31, 2021.

(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,	2021	2020
Pension plan in a surplus position	**1,027**	-
Financial assets related to investments	**500**	230
Reinsurance receivable	**400**	137
Other receivables and recoverables	**294**	165
Other investments	**282**	121
Industry pools receivable	**219**	168
Accrued investment income	**174**	83
Prepaids	**161**	114
Restricted funds	**73**	86
Premium and sale taxes receivable	**58**	44
Other	**143**	53
	3,331	1,201

18.2 Other liabilities

Table 18.2 – Components of other liabilities

As at December 31,	2021	2020
Reinsurance payable	**1,378**	53
Commissions payable	**918**	297
Deposits received in connection with insurance contracts[1]	**704**	475
Lease liabilities	**638**	447
Account payables and accrued expenses	**543**	233
Premium and sale taxes payable	**410**	263
Accrued salaries and related compensation	**380**	261
Pension plans in a deficit position and unfunded plans	**225**	260
Industry pools payable	**213**	151
Other payable to broker	**149**	107
Other post-employment benefits and other post-retirement benefits	**139**	55
Provisions[2]	**112**	8
Deposits received from reinsurers	**31**	26
Contingent considerations[3]	**18**	37
Other payables and other liabilities	**566**	269
	6,424	2,942

[1] Unrestricted collateral held by the Company primarily in relation with the surety business.
[2] Provisions were mainly related to the RSA acquisition and include restructuring provisions of **$34 million** as well as other provisions such as litigations and lease dilapidations and refurbishments.
[3] 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.

Note 19 – Asset held for sale

On June 1, 2021, the Company acquired RSA and on the same day, the Company sold a portion of the Scandinavia operations to Tryg for **£4.2 billion ($7.2 billion).**

On June 11, 2021, the Company announced that together with Tryg it had entered into a definitive agreement to sell the Danish business to Alm. Brand for a total cash consideration of approximately **DKK 12.6 billion ($2.6 billion).** The Company will receive 50% of the proceeds which represents approximately **DKK 6.3 billion ($1.3 billion)**. The transaction is expected to close in the first half of 2022, subject to the receipt of the relevant approvals or clearances from regulatory and antitrust authorities, the completion of Alm. Brand's financing and the satisfaction or waiver of certain other conditions. The gain on sale will be recorded at the time of closing.

As a result, the Company included the Scandinavian assets and liabilities as held for sale in its preliminary fair value of the assets acquired and liabilities assumed as at the acquisition date. The portion sold to Tryg on the same day is no longer presented in the consolidated balance sheets as at December 31, 2021 and the Company's retained interest in the Danish business was classified as an investment in associate held for sale. *Refer to Note 5.1 – Business combination.*

At initial recognition, the investment in associate held for sale was recorded at its fair value less cost to sell of **DKK 4.3 billion ($0.9 billion)** which was determined by allocating the total purchase price of the RSA acquisition.

The Company hedged its fair value exposure to foreign exchange risk and as a result gains and losses on foreign currency translation on the asset held for sale and the hedging instrument were recognized in Net gains or losses in Net income. On July 1, 2021, the transaction was considered highly probable and foreign currency forwards used to hedge the remaining exposure to the selling price were designated as a cash flow hedge. The effective portion of changes in the fair value of the hedging instrument was recognized in OCI and the ineffective portion was recognized in Net gains or losses in Net income. *Refer to Note 8.4 – Hedge of an investment in associate held for sale for details.*

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

Note 20 – Debt outstanding

20.1 New financing

Series 1 Subordinated Notes	• On March 31, 2021, the Company completed an offering of **$250 million** principal amount of fixed-to-fixed rate subordinated notes Series 1 (the "hybrid notes"), due March 31, 2081 with the option for the issuer to redeem the hybrid notes every five years. • The hybrid notes bear interest at a fixed annual rate of 4.125% for the initial five years until March 31, 2026, subsequently the interest rate will be reset on that date and on every fifth anniversary of such date until maturity on March 26, 2081 at a fixed interest rate per annum equal to the Government of Canada Yield on the business day prior to such interest date reset plus 3.196%. Interest is payable in semi-annual instalments commencing on September 30, 2021. • The hybrid notes will be converted automatically into Non-cumulative Class A Series 10 preferred shares of the Company upon certain bankruptcy or insolvency related events. The hybrid notes are direct unsecured obligations and are subordinated to all senior indebtedness of the Company. • The net proceeds from this offering were used to partly finance the RSA acquisition.

Series 11, 12 & 13 Unsecured Medium-Term Notes	• On May 18, 2021, the Company completed a three-tranche offering of: o **$375 million** Series 11 unsecured medium-term notes, which bears interest at a fixed annual rate of 1.207% until maturity on May 21, 2024, payable in semi-annual instalments commencing on November 21, 2021; o **$375 million** Series 12 unsecured medium-term notes, which bears interest at a fixed annual rate of 2.179% until maturity on May 18, 2028, payable in semi-annual instalments commencing on November 18, 2021; o **$250 million** Series 13 unsecured medium-term notes, which bears interest at a fixed annual rate of 3.765% until maturity on May 20, 2053, payable in semi-annual instalments commencing on November 20, 2021. • The net proceeds from this offering were used to fund the early redemption of: o RSA's **£350 million** 2019 Senior notes on June 16, 2021; o the Company's **$300 million** Series 4 unsecured medium-term notes on June 17, 2021; and o the early redemptions resulted in fees of **$30 million**, offset by the reversal of fair value adjustments on acquisition of **$27 million**, which were reported in Finance costs.

Commercial Paper	• On October 7, 2021, the Company launched a Canadian commercial paper program, whereby it may issue short-term promissory notes ("commercial paper") up to an aggregate principal amount of **$500 million**. • The commercial paper will be issued with maturities of less than one year at varying interest or discount rates depending on prevailing market rates. • The net proceeds will be used to finance the Company's short-term liquidity needs. • In October 2021, the Company issued a total of **$471 million** in commercial paper at a weighted average rate of 0.27%. The proceeds were used to repay the Company's credit facility. • In December 2021, the Company repaid a total of **$32 million** of its commercial paper. The remaining balance at the end of 2021 was **$439 million** at a weighted average rate of 0.28%.

20.2 Other financing

USD Term Loan
In 2021, the Company repaid **USD85 million ($109 million)** of its USD term loan.

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

Term Loan and Medium-term notes in relation with the RSA acquisition
On November 18, 2020, the Company entered into a 24-month bank term loan facility agreement which was drawn upon closing of the RSA acquisition for USD478 million ($577 million) at a rate of Libor plus 80bps.

On December 16, 2020, the Company completed an offering of $600 million principal amount of Series 9 and 10 unsecured medium-term notes. The proceeds of these medium-term notes were held in a segregated account with the Company's custodian and became available at closing of the RSA acquisition.

Bridge financing facility in relation with the RSA acquisition
On November 18, 2020, the Company secured a bridge financing facility ("bridge facility") to be used if alternative financing was not available by closing of the acquisition. 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. In March 2021, with the issuance of the subordinated notes as described above, the non-revolving bond bridge facility was cancelled, and the non-revolving equity bridge facility was reduced to approximately £246 million ($426 million). In May 2021, with the issuances of the Series 11, 12 and 13 Medium-Term notes, the non-revolving equity bridge was also cancelled. *Refer to Note 5.1 – Business combination for more details.*

Series 8 Unsecured Medium-term notes
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 which commenced on September 24, 2020. The net proceeds from this offering of Notes have been used for general corporate purposes.

Credit facility
The Company has an unsecured revolving term credit facility. On June 1, 2021, the credit facility was increased from $750 million to **$1.5 billion** in order to provide incremental liquidity and the maturity was extended by 18 months, it now matures on May 20, 2026. In 2021, there was $472 million drawn under the credit facility which was subsequently repaid in October 2021 using the proceeds from the commercial paper issuance. As at December 31, 2021 and 2020, no balance was drawn under this credit facility.

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

As part of the covenants of the loans under the credit facility, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2021 and 2020.

20.3 Debt outstanding assumed from the RSA acquisition

2019 Senior notes – On June 17, 2021, the Company repaid £350 million principal amount of debt assumed ahead of the maturity date which had a fair value of £364 million. *Refer to Note 20.1 – New financing.*

Guaranteed subordinated notes - The £400 million principal amount of bonds were issued on October 10, 2014 at a fixed rate of 5.13% and have a redemption date of October 10, 2045. The Company has the right to repay the notes on specific dates from October 10, 2025. If the bonds are not repaid at that time, the applicable interest rate would be reset at a rate of 3.852% plus the appropriate benchmark gilt for a further five-year period. Upon closing of the acquisition, the bonds were remeasured at fair value of £455 million using a quoted market price. On September 30, 2021, the Company redeemed £240 million principal amount of the notes ahead of the maturity date using its credit facility. The redemption price was £275 million, and the notes had a carrying value of £271 million reflecting fair value adjustments on acquisition. The net cost of £4 million ($7 million) was reported in Acquisition, integration and restructuring costs.

Subordinated guaranteed US bonds – The USD9 million principal amount of bonds were issued in 1999 and have a redemption date of October 15, 2029, and the rate of interest payable on the bonds is 8.95%. Upon closing of the acquisition, the bonds were remeasured at fair value of USD13 million using a quoted market price.

The Guaranteed subordinated notes and Subordinated guaranteed US bonds are contractually subordinated to all other creditors such that in the event of a winding up or of bankruptcy, they are able to be repaid only after the claims of all other creditors have been met. The Company has the option to defer interest payment but has not exercised this right to date.

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

20.4 Summary of debt outstanding

Table 20.1 – 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) 2021	2020
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
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**	423
Series 8	Mar. 2025	5	3.69%	Mar. & Sept.	300	**299**	298
Series 9	Dec. 2030	10	1.93%	June & Dec.	300	**298**	298
Series 10	Dec. 2050	30	2.95%	June & Dec.	300	**298**	298
Series 11	May 2024	3	1.21%	May & Nov.	375	**374**	-
Series 12	May 2028	7	2.18%	May & Nov.	375	**373**	-
Series 13	May 2053	32	3.77%	May & Nov.	250	**248**	-
2012 US senior notes	Nov. 2022	10	4.60%	May & Nov.	USD275	**352**	358
Term loans							
USD term loan	Nov. 2022	1.5			USD80	**101**	210
USD term loan facility *(Note 20.2)*	Jun. 2023	2			USD478	**600**	-
Subordinated notes							
Guaranteed subordinated notes in GBP *(Note 20.3)*	Oct. 2045	31	5.13%	Oct.	£160	**307**	-
Subordinated guaranteed US bonds *(Note 20.3)*	Oct. 2029	30	8.95%	Apr. & Oct.	USD9	**16**	-
Commercial Paper						**439**	-
Credit facility						**-**	-
Other debt	Various					**9**	11
Total debt outstanding before hybrid subordinated notes						**4,982**	3,041
Hybrid subordinated notes							
Series 1 *(Note 20.1)*	Mar. 2081	60	4.13%	Mar. & Sept.	250	**247**	-
Total debt outstanding						**5,229**	3,041

The medium-term notes may be redeemed at the option of the issuer, in whole or in part at any time, at a redemption price equal to the greater of the Government of Canada Yield at the date of redemption plus a margin or their par value.

Fair value of debt outstanding amounted to **$5,552 million** as at December 31, 2021 ($3,482 million as at December 31, 2020) and was established using valuation data from a benchmark firm. As at December 31, 2021 and 2020, the Company was in compliance with all debt covenants.

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

20.5 Movement in the Company's debt outstanding

Table 20.2 – Movement in the Company's debt outstanding

For the years ended December 31,	2021	2020
Balance, beginning of year	**3,041**	2,362
Business combination *(Note 5)*	**1,421**	-
Cash flows from financing activities		
Proceeds from issuance of debt	**1,815**	894
Borrowing (repayment) on the credit facility and commercial paper, net	**439**	(165)
Repayment of debt	**(1,429)**	(47)
Exchange rate differences	**26**	(10)
Other	**(84)**	7
Balance, end of year	**5,229**	3,041

Note 21 – Common shares and preferred shares

21.1 Authorized

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

21.2 New financing in relation with the RSA acquisition

Issuance of common shares pursuant to subscription receipts	On June 1, 2021, concurrent to the closing of the RSA acquisition: • 23.8 million private placement subscription receipts ("receipts") were converted into 23.8 million common shares. The Company had completed its offering of the receipts on November 25, 2020 with three Canadian institutional investors at a price of $134.50 per receipt for gross proceeds of $3.2 billion. The related issuance costs of $140 million ($104 million after tax) were accounted for as a reduction in common shares, resulting in net proceeds of approximately **$3.1 billion.** • 9,272,000 receipts were converted into 9,272,000 common shares. The Company had completed its offering of the receipts on December 3, 2020 with a group of underwriters at a price of $134.50 per receipt for gross proceeds of $1.25 billion. The related issuance costs of $47 million ($35 million after tax) were accounted for as a reduction in common shares, resulting in net proceeds of approximately **$1.2 billion.** • The receipt holders received a dividend equivalent payment of **$55 million** which is equal to any common share dividends declared by the Company from the date of their issuance to the closing of the acquisition.

Refer to Note 5.1 – Business combination for more details.

21.3 Other financing

On August 31, 2021, the Company announced that it did not intend to exercise its right to redeem the Company's Non-cumulative Rate Reset Class A Series 3 Preferred Shares (the "Series 3 Preferred Shares") or the Non-cumulative Floating Rate Class A Series 4 Preferred Shares (the "Series 4 Preferred Shares") on September 30, 2021. Holders of Series 3 and Series 4 Preferred shares could elect to convert their shares into Series 4 and Series 3 shares respectively. As a result of the conversion, less than 1,000,000 Series 4 Preferred Shares remained outstanding therefore, they were automatically converted into Series 3 Preferred Shares on a one-to-one basis, on September 30, 2021 and were subsequently delisted on the same day.

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.

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

21.4 Issued and outstanding

Table 21.1 – Issued and outstanding shares

	2021		2020	
As at December 31,	Number of shares	Amount (in millions)	Number of shares	Amount (in millions)
Common shares	**176,081,958**	**7,576**	143,018,134	3,265
Preferred shares - Class A Shares				
Series 1	**10,000,000**	**244**	10,000,000	244
Series 3	**10,000,000**	**245**	8,405,004	206
Series 4	**-**	**-**	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**	6,000,000	147
Total Class A	**48,000,000**	**1,175**	48,000,000	1,175

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

Table 21.2 – Reconciliation of number of shares outstanding

	Common shares (in shares)		Preferred shares Class A shares (in shares)	
As at December 31,	2021	2020	2021	2020
Balance, beginning of year	**143,018,134**	143,018,134	**48,000,000**	42,000,000
Issued	**33,063,824**	-	**-**	6,000,000
Balance, end of year	**176,081,958**	143,018,134	**48,000,000**	48,000,000

21.5 Dividends declared and paid per share

Table 21.3 – Dividends declared and paid per share (in dollars)

For the years ended December 31,	2021	2020
Common shares	**3.40**	3.32
Preferred shares		
Series 1	**0.85**	0.85
Series 3	**0.84**	0.83
Series 4	**0.52**	0.89
Series 5	**1.30**	1.30
Series 6	**1.33**	1.33
Series 7	**1.23**	1.23
Series 9	**1.35**	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, 2021 to but excluding September 30, 2026 is 3.457%.

- ***Series 4 Preferred Shares –*** These shares were delisted on September 30, 2021, *refer to Note 21.3 above*.

- ***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 22 – Non-controlling interests

22.1 Non-controlling interests

As a result of the RSA acquisition, the Company recognized NCI of **$1,101 million** in its Consolidated balance sheets on acquisition. *Refer to Note 5.1 – Business combination for more details.*

The NCI of the Company includes the following:

Table 22.1 – Non-controlling interests recognized in the consolidated balance sheet

As at December 31, 2021	Principal place of business	NCI shares %	NCI in subsidiaries	NCI Net income	NCI Dividends[3]
Ownership interest in a subsidiary					
Royal & Sun Alliance Insurance (Middle East) BSC (c)[1]	**Middle East**	**50**	**314**	**(6)**	**-**
Equity instruments issued by a subsidiary					
RSA Insurance Group plc[2]	**UK**	**n/a**			
Tier 1 notes			**510**	**19**	**(19)**
Preferred shares			**285**	**8**	**(8)**
			1,109	**21**	**(27)**

[1] This entity owns 50% of the ordinary share capital of Al Alamiya for Cooperative Insurance Company, a company operating in the Kingdom of Saudi Arabia and 52.5% of Al Ahlia Insurance Company SAOG, a company operating in the Sultanate of Oman. Its NCI in these two subsidiaries was **$117 million** as at December 31, 2021.
[2] Related to the Tier 1 notes and Preferred shares issued by a subsidiary of the Company, as a result presented as NCI in the consolidated balance sheet. *Refer to Note 22.2 and 22.3 for more details.*
[3] For the period from the RSA acquisition on June 1 to December 31, 2021.

Upon closing of the RSA acquisition, the Company elected to measure the NCI in Royal & Sun Alliance Insurance (Middle East) BSC (c) using the proportionate share method, which corresponds to the proportionate share of the value of the net identifiable assets acquired.

22.2 Tier 1 notes issued by RSA

On March 27, 2017, RSA issued two floating rate Restricted notes (the “notes”) totalling $509 million in aggregate size and with a blended coupon of 4.7%:

- Swedish Krona, 2,500 million at 3-month Stibor +525bps (equivalent to 4.8% coupon on issue)
- Danish Krone 650 million at 3-month Cibor +485bps (equivalent to 4.6% coupon on issue)

Interest on the notes is due and payable only at the sole and absolute discretion of the Company, subject to certain additional restrictions and is non-cumulative. The notes are redeemable at the option of the Company in whole on the fifth anniversary of the issue date, or any interest payment date thereafter or in the event of certain changes in the tax, regulatory or ratings treatments of the notes. Any redemption is subject to permission of the relevant regulator. The notes convert into common shares of the Company, at a pre-determined price if certain solvency capital requirements are breached, or in the event of a winding up occurring earlier.

Upon closing of the RSA acquisition, the Tier 1 notes were remeasured at fair value of **$510 million (£298 million)** using average quotes obtained from dealer banks.

22.3 Preferred shares issued by RSA

The Company assumed preferred shares issued by RSA which have a nominal value of £1 each and are not redeemable, they have preferential rights over the holders of RSA’s ordinary shares in respects of dividends and are entitled to a cumulative preferential dividend of 7.375% per annum in semi-annual installments subject to approval by the Board. As at December 31, 2021, shares issued and fully paid to preferred shareholders were 125,000,000.

Upon closing of the RSA acquisition, preferred shares were remeasured at fair value of **$285 million (£166 million)** using a quoted market price.

Note 23 – Capital management

23.1 Capital management objectives

Capital management is a vital part of the financial management of the Company and is aligned with its strategy and business plan. Capital is managed on a group basis as well as individually for each operating subsidiary.

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 and the probability of breaching regulatory minimum requirements is very low.

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.

23.2 Group capital position

Capital management at a group level focuses on optimizing overall capital within the various subsidiaries and ensuring there are sufficient liquid resources to support regulatory capital requirements, debt obligations, the payment of shareholder dividends, acquisitions and other business purposes.

The capital strength of the group is measured by the Total Capital Margin. Total Capital Margin includes capital in excess of the internal CALs for insurance entities in Canadian, US, UK and other internationally regulated jurisdictions and the funds held in non-regulated entities less any ancillary own funds committed by the Company. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels. These thresholds are reviewed annually as part of risk management practices.

23.3 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.

As at December 31, 2021 and 2020, all the Company's regulated P&C insurance subsidiaries were well capitalized on an individual basis.

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

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.

UK	• RSA's UK&I operations are subject to regulation and supervision by the Prudential Regulation Authority ("PRA"), as well as other regulators at a subsidiary level. • UK&I operations use an internal model compliant with the Solvency II regime enacted in the UK and approved by the PRA to calculate the SCR. • The coverage ratio represents total Eligible Own Funds over the SCR as determined by the internal model.

US	• The Company's US 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.

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 2021 results indicated that the Company's capital position is strong. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

Note 24 – Net investment income

Table 24.1 – Net investment income

For the years ended December 31,	**2021**	**2020**
Interest income from:		
debt securities		
designated or classified as FVTPL	**181**	177
classified as AFS	**212**	158
loans and cash and cash equivalents	**33**	23
Interest income	**426**	358
Dividend income (expense) from:		
common shares, net		
designated or classified as FVTPL	**85**	70
classified as AFS	**125**	96
preferred shares classified as AFS	**86**	76
equities sold short positions	**-**	(1)
other investments	**1**	1
Dividend income	**297**	242
Investment property rental income	**17**	-
Total investment income	**740**	600
Expenses	**(34)**	(23)
	706	577

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

Note 25 – Net gains (losses)

25.1 Net gains (losses)

Table 25.1 – Net gains (losses)

For the years ended December 31,	2021			2020		
Portfolios	Fixed Income	Equity and property	Total	Fixed Income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	**(267)**	**458**	**191**	237	(140)	97
classified as FVTPL	**-**	**6**	**6**	-	(5)	(5)
classified as AFS[1]	**-**	**381**	**381**	35	102	137
	(267)	**845**	**578**	272	(43)	229
derivatives[2]:						
swap agreements	**-**	**(494)**	**(494)**	-	85	85
forwards and futures	**-**	**(137)**	**(137)**	(2)	(34)	(36)
	-	**(631)**	**(631)**	(2)	51	49
Embedded derivatives[1]	**-**	**(96)**	**(96)**	-	(14)	(14)
Investment property	**-**	**79**	**79**	-	-	-
Net foreign currency gains (losses)	**10**	**-**	**10**	(1)	11	10
Impairment losses on investments[1]	**(7)**	**(85)**	**(92)**	-	(121)	(121)
	(264)	**112**	**(152)**	269	(116)	153
Currency derivative hedges related to the RSA acquisition *(see Note 8.3)*:						
Purchase price[3]			**(71)**			41
Book value			**36**			(22)
Gain related to an investment in associate[1]			**273**			-
Other gains (losses)[4]			**163**			10
			249			182

[1] Includes a net gain of **$66 million** related to a venture investment recorded in 2021, comprised of a gain of **$273 million** mainly related to the disposal of an investment in associate in exchange for its publicly issued common shares, offset by **$207 million** of losses of which **$134 million** were mainly due to the sale of shares and **$73 million** were due to impairment losses.
[2] Excluding foreign currency contracts, which are reported in the line net foreign currency gains (losses).
[3] Including the changes in fair value related to the ineffective portion of the hedge and hedging premium associated with deal contingent forwards.
[4] Includes an unrealized gain of **$68 million** recorded in 2021 related to certain venture investments which were previously measured at cost and remeasured at fair value due to the availability of new information. The remaining amount recorded in 2021 is mainly related to realized gains on broker transactions.

25.2 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 of 2020, 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 26 – Acquisition, integration and restructuring costs

26.1 Acquisition, integration and restructuring costs

Acquisition costs include professional fees and stamp duties related to the closing of an acquisition. Integration costs include restructuring costs related to an acquisition such as severances, retention bonuses and system integration, the initial net impact of a reinsurance coverage for the purpose of an acquisition as well as changes in the fair value of the contingent considerations. Restructuring and other costs include restructuring costs not related to an acquisition and expenses related to the implementation of significant new accounting standards.

Table 26.1 – Acquisition, integration and restructuring costs

For the years ended December 31,	2021	2020
Acquisition costs	**90**	42
Integration costs[1]	**285**	55
Restructuring and other costs	**54**	18
	429	115

[1] Includes the net impact of **$71 million** recorded in 2021 related to the purchase of adverse development coverage *(see Note 14 – Reinsurance)*.

Note 27 – Income taxes

27.1 Income tax expense recorded in Net income

Table 27.1 – Components of income tax expense recorded in Net income

For the years ended December 31,	2021	2020
Current income tax expense (benefit)		
Current year	**496**	322
Adjustments to prior years	**(9)**	1
Deferred income tax expense (benefit)		
Origination and reversal of temporary differences	**(8)**	(58)
Adjustments related to the US Corporate Tax reform[1]	**-**	14
Adjustments to prior years	**1**	(2)
	480	277

[1] Includes a current tax expense of $14 million recorded in 2020 related to US corporate tax changes which limit tax deductions for interest payable on certain debt in a US subsidiary. The rules are applicable retroactive to January 1, 2019.

27.2 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 27.2 – Effective income tax rate reconciliation

For the years ended December 31,	2021	2020
Statutory tax rate	**25.9%**	26.2%
Increase (decrease) in income tax rates resulting from:		
non-taxable gain on bargain purchase	**(2.1)%**	-
non-deductible losses (non-taxable gains)	**(1.5)%**	(1.3)%
non-taxable investment income	**(2.3)%**	(4.5)%
non-deductible losses (non-taxable income) from subsidiaries	**(0.9)%**	(1.0)%
change in unrecognized deferred income taxes	**(0.9)%**	(0.2)%
tax rate differential of subsidiaries, foreign entities and associates	**(0.9)%**	(0.2)%
adjustments related to the US Corporate Tax reform[1]	**0.0%**	1.1%
non-deductible expenses	**1.0%**	0.6%
other	**0.4%**	(0.3)%
Effective income tax rate	**18.7%**	20.4%

[1] *See Note 27.1 above for details.*

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

27.3 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.

27.4 Components of deferred tax assets and liabilities

Table 27.3 – Components of deferred tax assets and liabilities

	Consolidated balance sheets Asset (liability)		Consolidated statements of comprehensive income Expense (benefit)	
As at December 31,	**2021**	**2020**	**2021**	**2020**
Net claims liabilities	**100**	134	**67**	(25)
Deferred acquisition costs	**64**	34	**(7)**	(1)
Accrued liabilities	**336**	124	**(40)**	-
Losses available for carry forward	**197**	139	**26**	39
DB pension plans	**32**	71	**66**	4
Financing costs	**54**	6	**(12)**	-
Other assets	**2**	2	**(3)**	2
Deferred tax assets	**785**	510	**97**	19
Intangible assets	**(793)**	(460)	**(41)**	(61)
Property and equipment	**(32)**	(132)	**(8)**	7
Investments	**(70)**	(12)	**(2)**	6
Other liabilities	**(4)**	(6)	**(1)**	(2)
Deferred tax liabilities	**(899)**	(610)	**(52)**	(50)
Net deferred tax asset (liability) / expense (benefit)	**(114)**	(100)	**45**	(31)

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, 2021 and 2020, no deferred tax liability has been recognized on the temporary differences of **$493 million** ($318 million as at December 31, 2020) associated with investments in subsidiaries and associates.

27.5 Movement in the net deferred tax asset (liability)

Table 27.4 – Movement in the net deferred tax asset (liability)

As at December 31,	**2021**	**2020**
Balance, beginning of year	**(100)**	(111)
Business combination and other acquisitions	**(21)**	(24)
Income tax benefit (expense):		
recorded in net income	**7**	46
recorded in OCI	**(52)**	(15)
recorded in equity	**53**	1
Exchange rate differences and other	**(1)**	3
Balance, end of year	**(114)**	(100)
Reported in:		
deferred tax assets	**584**	179
deferred tax liabilities	**(698)**	(279)

As a result of the RSA acquisition, the Company has recorded **$440 million** of deferred tax assets, which was included in the acquired net assets of RSA. *Refer to Note 5.1 – Business combination for more details.*

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

27.6 Unused tax losses, tax credits and other tax attributes

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, 2021 and 2020.

Table 27.5 – Unused tax losses and tax credits

	2021			2020		
As at December 31,	**Total**	**Recognized**	**Expiry date**	**Total**	**Recognized**	**Expiry date**
Unused net operating losses:						
US	**179**	**179**	**2024-2036**	219	219	2033-2036
Canada	**211**	**208**	**2037-2041**	256	254	2037-2040
UK	**2,942**	**154**	**No expiry date**	-	-	n/a
Ireland	**523**	**170**	**No expiry date**	-	-	n/a
Other jurisdictions	**121**	**9**	**No expiry date**	-	-	n/a
Unused tax credits:						
US	**25**	**25**	**2030-2041**	29	29	2030-2040
Unused allowable capital losses:						
Canada	**1**	**-**	**No expiry date**	5	1	No expiry date
Ireland	**1**	**-**	**No expiry date**	-	-	n/a
UK	**2,196**	**-**	**No expiry date**	-	-	n/a

Unused tax credits can be used to offset US tax payable in the future. Unused allowable capital losses in Canada can be used to reduce future taxable capital gains. Unused capital losses in the UK and Ireland have not been recognized as it is not considered probable that they will be utilized in the future.

In addition to tax losses and tax credits not recognized, the Company had deductible temporary differences of **$753 million** as at December 31, 2021, for which no deferred tax asset was recognized on the Consolidated Balance Sheet. These deductible temporary differences are predominantly located in the UK.

Deferred tax assets in respect of losses, deductible temporary differences and tax credits have been recognized on the basis that management consider it probable that future taxable profits will be available against which deferred tax assets can be utilized. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income based on future profit projections in the respective tax type and jurisdiction. Management also considers tax planning opportunities that will create future taxable income against which the unused losses, deductible temporary differences and tax credits can be utilized.

27.7 Dividend received deduction

During fiscal 2021, the Company was reassessed by the CRA for additional income tax and interest with respect to the 2014, 2015 and 2016 taxation years. The ATRA has commenced issuing reassessments on the same basis in respect of the 2014, 2015 and 2016 taxation years and the Company expects RQ to reassess in 2022. The total amount of additional income taxes and interest owed (including estimated provincial tax and interest) is approximately $16 million for the 2014 taxation year, $13 million for the 2015 taxation year and $5 million for the 2016 taxation year.

In 2020, the CRA and ATRA reassessed the Company for additional income tax and interest in respect of the 2013 taxation year. Throughout the months of April and May 2021, the RQ also reassessed the Company for the same issue in respect of the 2013 taxation year. The total amount of additional income taxes and interest owed for the 2013 taxation year is approximately $9 million.

All reassessments received to date have been paid in full and accordingly, no additional interest should be owing in the event of an unfavourable outcome.

These tax authorities are denying certain dividend deductions on the basis that they were part of a “dividend rental arrangement”. 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 28 – 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 28.1 – Earnings per share

For the years ended December 31,	2021	2020
Net income attributable to shareholders	**2,067**	1,082
Less: dividends declared on preferred shares, net of tax	**53**	52
Net income attributable to common shareholders	**2,014**	1,030
Weighted-average number of common shares outstanding (in millions)	**162.4**	143.0
EPS – basic and diluted (in dollars)	**12.40**	7.20

Note 29 – Share-based payments

29.1 Long-term incentive plan

a) Outstanding LTIP units and fair value at grant date

Table 29.1 – Outstanding units and weighted-average fair value at grant date by performance cycle

As at December 31,	2021			2020		
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 - 2022	**110,005**	**103.88**	**11**	105,515	103.88	11
2018 - 2020	**-**	**-**	**-**	458,165	105.14	48
2019 - 2021	**470,541**	**102.36**	**48**	451,640	102.36	46
2020 - 2022	**416,240**	**136.06**	**56**	404,755	136.06	55
2021 - 2023	**513,190**	**149.17**	**77**	-	-	-
	1,509,976	**127.48**	**192**	1,420,075	112.64	160

b) Movements in LTIP units

Table 29.2 – Movements in LTIP share units

For the years ended December 31,	2021 (in units)	2020 (in units)
Outstanding, beginning of year	**1,420,075**	1,357,796
Awarded	**432,618**	370,510
Net change in estimate of units outstanding	**151,290**	(25,549)
Units settled	**(494,007)**	(282,682)
Outstanding, end of year	**1,509,976**	1,420,075

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 29.3 – LTIP expense recognized in Net income

For the years ended December 31,	2021	2020
Cash-settled plans	**29**	13
Equity-settled plans	**47**	38
	76	51

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

29.2 Employee share purchase plan

a) Movements in restricted common shares

Table 29.4 – Movements in restricted common shares

For the years ended December 31,	2021 (in units)	2020 (in units)
Outstanding, beginning of year	**123,114**	116,036
Accrued	**115,625**	124,076
Awarded and vested	**(122,386)**	(115,299)
Forfeited	**(2,625)**	(1,699)
Outstanding, end of year	**113,728**	123,114

b) ESPP expense recognized in Net income

The ESPP is accounted for as an equity-settled plan. For the years ended December 31, 2021 and 2020, the ESPP expense was **$17 million** and $14 million respectively.

29.3 Deferred share unit

The DSU is accounted for as a cash-settled plan. For the year ended December 31, 2021, the expense was **$1 million** ($3 million – December 31, 2020). The DSU provision amounted to **$19 million** as at December 31, 2021 ($18 million as at December 31, 2020).

29.4 Executive stock option plan

a) Fair value of ESOP at grant date

In May 2021, the Company established an ESOP for certain key executive employees of the Company. As at December 31, 2021, 1,430,181 common shares have been reserved for issuance under the ESOP, and no SARs were granted.

On June 1, 2021, the Company approved a grant of 830,166 stock options. The fair value of the stock options granted, and the key assumptions used in the calculation of their fair value on the date of grant using the Black-Scholes option pricing model were as follows:

Table 29.5 – Key assumptions used in the Black-Scholes option pricing model

As at December 31, 2021	Values
Grant date fair value	**$20.05**
Exercise price[1]	**$161.27**
Share price at the date of grant	**$163.24**
Expected life	**8 years**
Risk-free interest rate	**1.37%**
Expected volatility[2]	**18.3%**
Dividend yield	**3.07%**

[1] The exercise price was approved by the HRC Committee and represents the weighted average trading price for the three-week period preceding the grant date.
[2] The expected volatility was determined by using the Company's own historical volatility on a daily basis, calculated over a period corresponding to the expected life of the options.

The maturity date of the options outstanding is June 1, 2031. Their remaining contractual life as at December 31, 2021 is nine years and five months.

b) ESOP expense recognized in Net income

The ESOP is accounted for as an equity-settled plan. For the year ended December 31, 2021, the ESOP expense was **$2 million**.

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

29.5 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 29.6 – Settlement in shares (LTIP and ESPP plans)

For the years ended December 31,	2021	2020
Value of common shares repurchased for share-based payments	**64**	49
Less: cumulative cost of the units for the Company	**42**	35
Excess of market price over the cumulative cost for the Company	**22**	14
Amount recognized in Retained earnings, net of taxes	**16**	11

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 30 – Employee future benefits

30.1 Employee future benefits

The Company provides various post-employment plans, including DB and defined contribution pension plans as well as other benefit plans for its employees as described below. In the US, the Company offers a 401(k) plan to its employees.

a) Employee future benefits in Canada

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.

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.

b) Employee future benefits in relation to the RSA acquisition

RSA has DB pension plans in the UK, Canada, Ireland and other countries, with the most significant plans in the UK. RSA also provides post-retirement life insurance and healthcare benefits to a limited number of active employees and retirees in Canada and statutory end-of-service indemnities to certain employees in the Middle East, in addition to defined contribution pension plans.

UK DB pension plans

The plans were effectively closed to new entrants in 2002 and subsequently closed to future accruals with effect from March 31, 2017. The plan assets are mainly held in separate trustee administered funds. The plans in surplus are net a 35% tax expense of an authorized return of surplus; the Company does not believe the tax to be an income tax expense within the meaning of IAS 12 – *Income Taxes* ("IAS 12"), but rather classifies it with "other net surplus remeasurements".

Accrued benefits are revalued up to retirement in accordance with government indices for inflation. After retirement, pensions in payment are increased each year based on the increases in the government indices for inflation, subject to maximum caps.

Each plan is subject to triennial valuations, which are used to determine the future funding. The effective date of the most recent valuations of the main UK plans was March 31, 2018.

At the most recent funding valuation, the main UK plans had an aggregate funding deficit of **£468 million ($800 million)**, equivalent to a funding level of 95%. On November 18, 2020, an agreement was reached with the pension trustees and the Company requiring the following funding commitments:

- An additional contribution of approximately **£75 million ($129 million)** at closing;
- Continuation of current funding arrangements of approximately **£75 million ($129 million)** per year plus expenses and regulatory levies until the plans are fully funded on a previously agreed longer term funding basis; and
- The Company provides parental guarantees of the obligations.

The next funding valuation will be dated as at March 31, 2021 and is expected to be completed in the first half of 2022.

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

Canada DB pension plans

The net DB pension asset reported for certain plans has been limited further to the application of the accounting rules as clarified by IFRIC 14, as presented in line Other net surplus remeasurement of *Table 30.1.* For the affected plans, it was estimated that the fair value of plan assets, including expected future contributions, exceeds the amount needed to fulfil the plan's obligations. The excess assets are not recognized on the Consolidated balance sheet. In determining a plan's obligations for this purpose, future administration expenses expected to be charged to the pension fund were considered.

30.2 Annuity buy-in insurance contracts

In 2021, as part of its de-risking strategy, the Company purchased qualifying annuity buy-in insurance contracts of **$808 million** on behalf of certain Canadian DB pension plans, including those of RSA Canada. The resulting actuarial loss was recognized in OCI. The fair value of annuity buy-in insurance contracts fluctuates based on changes in the associated DB obligation. These values are unquoted due to the use of the significant unobservable inputs used in deriving these assets' fair values.

30.3 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 30.1 – DB pension plan asset (liability) by country

	2021				2020
As at December 31,	**UK**	**Canada**	**Other**	**Total**	**Canada**
DB obligation[1]	**(14,665)**	**(3,739)**	**(165)**	**(18,569)**	(3,151)
Fair value of plan assets	**15,899**	**3,736**	**195**	**19,830**	2,891
Other net surplus remeasurement[2]	**(435)**	**(24)**	**-**	**(459)**	-
Net DB asset (liability)	**799**	**(27)**	**30**	**802**	(260)
Reported in:					
other assets – plans in a surplus position *(Table 18.1)*	**808**	**189**	**30**	**1,027**	-
other liabilities – plans in a deficit position and unfunded plans *(Table 18.2)*	**(9)**	**(216)**	**-**	**(225)**	(260)
	799	**(27)**	**30**	**802**	(260)
Funded status – funded plans	**108%**	**106%**	**118%**	**108%**	97%

[1] The weighted average duration of the DB obligation for the UK plans was **17.6 years** and of the Canada plans was **18.0 years** as at December 31, 2021 (Canada plans was 18.8 years as at December 31, 2020).
[2] Includes a 35% tax expense of an authorized return of surplus related to UK DB plans as it does not fall within the meaning of IAS 12 and the impact of the asset ceiling related to certain Canadian DB plans.

The latest actuarial valuations for the Canadian DB pension plans were performed as at December 31, 2020 for the IFC plans and as at December 31, 2019 for the RSA plans. The Company's liquidity risk with regards to these pension plans is not significant, as inflows from contributions and buy-in annuity policies mostly offset outflows for benefit payments. A large portion of the invested assets is held in short-term notes and highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements. The latest actuarial valuations for the two main UK DB pension plans were performed as at March 31, 2018, *as described in Note 30.1 above***.**

30.4 Movement in the DB obligation and fair value of plan assets

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

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 in Canada, 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. The Company funds the UK plans further to agreements with the pension trustees. Since the UK plans are closed to future accruals, contributions that are made are with respect to past service deficiencies.

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

Table 30.2 – Movement in the DB obligation and fair value of plan assets

As at December 31, 2021	DB obligation	Fair value of plan assets	Other net surplus remeasurement	Net DB asset (liability)
Balance, beginning of year	(3,151)	2,891	-	(260)
Business combination	(15,139)	16,100	(355)	606
Current service cost	(91)	-	-	(91)
Net interest expense	(244)	248	-	4
Other	-	(13)	-	(13)
Total benefit (expense) recognized in Net income	(335)	235	-	(100)
Change in discount rate	83	-	-	83
Change in other financial assumptions	(157)	-	-	(157)
Changes in plan experience	(245)	-	-	(245)
Changes in demographic assumptions	(81)	-	-	(81)
Actual return on plan assets	-	856	-	856
Other net surplus remeasurements	-	-	(104)	(104)
Net actuarial gains (losses) recognized in OCI	(400)	856	(104)	352
Employee contributions	(37)	37	-	-
Employer contributions	-	206	-	206
Benefit payments	456	(456)	-	-
Exchange rate differences	37	(39)	-	(2)
Balance, end of year	(18,569)	19,830	(459)	802

As at December 31, 2020	DB obligation	Fair value of plan assets	Other net surplus remeasurement	Net DB asset (liability)
Balance, beginning of year	(2,756)	2,472	-	(284)
Current service cost	(72)	-	-	(72)
Net interest expense	(84)	74	-	(10)
Other	-	(4)	-	(4)
Total benefit (expense) recognized in Net income	(156)	70	-	(86)
Change in discount rate	(229)	-	-	(229)
Change in other financial assumptions	(34)	-	-	(34)
Changes in plan experience	(34)	-	-	(34)
Actual return on plan assets	-	356	-	356
Net actuarial gains (losses) recognized in OCI	(297)	356	-	59
Employee contributions	(36)	36	-	-
Employer contributions	-	51	-	51
Benefit payments	94	(94)	-	-
Balance, end of year	(3,151)	2,891	-	(260)

In 2020, remeasurements of the DB obligation and pension plan assets were impacted by the market volatility resulting from the COVID-19 crisis *(refer to Note 30.6 a) – Assumptions used and sensitivity analysis)*.

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

30.5 Composition of pension plan assets

Pension plan assets are mainly composed of securities from the government and financial sectors.

Table 30.3 – Composition of fair value of pension plan assets by quoted and unquoted

As at December 31, 2021	UK	Canada	Other	Total	% of total	Total quoted	Total unquoted
Cash and cash equivalents	**146**	**21**	**1**	**168**	**-**	**168**	**-**
Debt securities							
Government	**11,230**	**1,154**	**83**	**12,467**	**63%**	**12,467**	**-**
Non-government	**6,241**	**781**	**13**	**7,035**	**35%**	**4,775**	**2,260**
Debt securities	**17,471**	**1,935**	**96**	**19,502**	**98%**	**17,242**	**2,260**
Annuity buy-in insurance contracts	**-**	**793**	**-**	**793**	**4%**	**-**	**793**
Common shares	**985**	**1,220**	**35**	**2,240**	**11%**	**1,779**	**461**
Derivative financial instruments	**1,780**	**37**	**21**	**1,838**	**9%**	**-**	**1,838**
Property	**1,125**	**-**	**1**	**1,126**	**6%**	**2**	**1,124**
Other	**611**	**-**	**41**	**652**	**3%**	**-**	**652**
Securities sold under repurchase agreements	**-**	**(270)**	**-**	**(270)**	**-**	**-**	**(270)**
Total investments	**22,118**	**3,736**	**195**	**26,049**	**131%**	**19,191**	**6,858**
Value of asset and longevity swaps	**(6,219)**	**-**	**-**	**(6,219)**	**(31%)**	**-**	**(6,219)**
Total assets	**15,899**	**3,736**	**195**	**19,830**	**100%**	**19,191**	**639**

As at December 31, 2020	Canada	% of total	Total quoted	Total unquoted
Cash and cash equivalents	(7)	-	-	(7)
Debt securities				
Government	1,391	48%	1,391	-
Non-government	663	23%	603	60
Debt securities	2,054	71%	1,994	60
Common shares	1,043	36%	807	236
Derivative financial instruments	59	2%	-	59
Securities sold under repurchase agreements	(258)	(9)%	-	(258)
Total assets	2,891	100%	2,801	90

In 2009, RSA entered into an arrangement that provides coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest UK plans at that time. The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on a portfolio made up of quoted government debt of **£5,159 million ($8,823 million)** which was offset by swaps held by the pension funds of **£3,636 million ($6,219 million)** as at December 31, 2021. The swaps are accounted for as longevity swaps and are measured at fair value by discounting all expected future cash flows using a discounted rate which reflects the economic matching nature of the arrangement with a range of acceptable values obtained from external sources. As at December 31, 2021, the total value of the arrangement, including government debt measured at prices quoted in an active market was **£1,523 million ($2,604 million)**.

Based on the latest projections of the financial position of all its plans, total cash contributions by the Company are expected to be approximately **$208 million** in 2022 including **$129 million (£75 million)** of additional contributions to reduce the deficit of the UK plans. 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)

30.6 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 costs are calculated 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 2020.

a) Assumptions used and sensitivity analysis

Table 30.4 – Key weighted-average assumptions used in measuring the Company's pension plans

	Pension Plans			
	2021			2020
As at December 31,	**UK**	**Canada**	**Other**	**Canada**
To determine the defined benefit obligation:				
Discount rate	**1.84%**	**3.25%**	**1.58%**	2.71%
Rate of increase in future compensation:				
next 3 years	**n/a**	**2.75%**	**n/a**	2.75%
beyond 3 years	**n/a**	**3.07%**	**n/a**	2.49%
Rate of inflation (CPI)	**2.71%**	**2.07%**	**n/a**	1.74%
Rate of inflation (RPI)	**3.35%**	**n/a**	**n/a**	n/a
Rate of increase in pensions[1]	**3.14%**	**n/a**	**n/a**	n/a

	Pension Plans			
	2021			2020
For the years ended December 31,	**UK**	**Canada**	**Other**	**Canada**
To determine the benefit expense:				
Discount rate:				
current service cost	**n/a**	**2.84%**	**n/a**	3.18%
interest expense on the DB obligation	**1.94%**	**2.29%**	**1.40%**	2.97%
Rate of increase in future compensation:				
next 3 years	**n/a**	**2.75%**	**n/a**	2.75%
beyond 3 years	**n/a**	**2.55%**	**n/a**	2.34%
Rate of inflation (CPI)	**2.69%**	**1.75%**	**n/a**	1.59%
Rate of inflation (RPI)	**3.35%**	**n/a**	**n/a**	n/a
Rate of increase in pensions[1]	**3.09%**	**n/a**	**n/a**	n/a

[1] For the UK, the annual rate of increase in pensions shown is the rate that applies to pensions that increase at RPI subject to a cap of 5%. For other plans, the weighted average assumption is shown.

The following table presents the assumptions regarding future mortality. The current life expectancies underlying the values of the DB obligation and benefit expenses in the DB plans are as follows.

Table 30.5 – Future mortality assumptions

	Pension Plans			
	2021			2020
For the years ended December 31,	**UK**	**Canada**	**Other**	**Canada**
Life expectancy (in years) for pensioners at the age of 65:				
male	**22.4**	**22.6**	**22.5**	22.2
female	**23.8**	**24.6**	**24.4**	24.6

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

The rate of compensation increase for the Canadian DB plans 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 in the Canadian DB plans are based on the standard Canadian private sector mortality table published in 2014 by the Canadian Institute of Actuaries ("CPM2014Priv table"). The assumptions for the IFC plans also reflect the results of a mortality experience study conducted in 2018. The core mortality rates assumed for the main UK plans are based on the latest industry-standard UK tables published in 2018 by the Continuous Mortality Investigation ("CMI") (S3 series tables) with percentage adjustments to reflect the plans' recent experience based on the latest study conducted in 2021. Reductions in future mortality rates are allowed for by using the CMI 2020 tables with a long-term improvement rate of 1.25%.

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

Table 30.6 – Sensitivity of the DB obligation to key assumptions

As at December 31,	Change	2021		2020
		UK	**Canada**	**Canada**
Discount rates	+1%	**(2,220)**	**(578)**	(541)
Discount rates	-1%	**2,880**	**769**	729
Rate of increase in future compensation	+1%	**-**	**153**	144
Rate of increase in future compensation	-1%	**-**	**(133)**	(125)
Rate of inflation	+1%	**1,562**	**98**	98
Rate of inflation	-1%	**(1,490)**	**(89)**	(89)
Life expectancy	+ One year	**556**	**95**	83
Life expectancy	- One year	**(556)**	**(95)**	(83)

The effect on the DB 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.

30.7 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.

Factors that 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. They are also sensitive to the discount rate, which is based on estimates of market yields on highly rated corporate bonds.

a) UK DB pension plans

The UK plans are managed through trusts with independent trustees responsible for all oversight and the safeguarding of the interests of all members at all times. The Trustees work closely with the Company and meet regularly to discuss the funding position, investment strategy and any proposed changes to the plans. The plans are regulated by The Pensions Regulator.

The assets of the UK plans are held under trust, with control of these arrangements belonging to the Trustees. Investment strategy is set by the Trustees after consultation with the Company. Both the Company and the Trustees with the support of their investment advisers regularly review the performance of the plans' assets to ensure that they are performing in line with expectations. In addition, stress and scenario testing is regularly carried out to understand current exposures.

The plans have taken significant steps over recent years to substantially de-risk from return seeking assets such as equities into bonds and other asset classes that produce a stable stream of cashflows that match liabilities. Market conditions and funding levels are also monitored dynamically on an ongoing basis to identify opportunities for further de-risking.

In addition, the plans have significant hedging strategies in place including the use of interest rate, inflation rate and longevity swaps to mitigate the risk of market movements adversely impacting the financial position. For example, the two large UK plans entered into arrangements in 2009 that effectively removed all market and demographic risk associated with around 55% of the retiree liabilities at that time. As a result, significant inflation exposure for liabilities is fully hedged through the use of a portfolio consisting of UK Index-Linked Government Bonds and inflation swaps.

b) Canadian DB pension plans

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.

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.

As part of a de-risking strategy, annuity buy-in insurance contracts were acquired in 2021 in five Intact and RSA pension plans. These contracts effectively removed all market and demographic risk associated with around 60% of the retiree liabilities in the Company's Canadian registered pension plans.

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. In performing this calculation, the obligation covered by annuity buy-in insurance contracts, is considered to be fully hedged and the plans are assumed to be 100% funded. The interest rate hedge ratio was **73%** as at December 31, 2021 (72% as at December 31, 2020).

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, 2021, **22%** of pension plan assets were invested in Canada Government Real Return Bonds (21% as at December 31, 2020). In addition, some of the inflation-linked liabilities were covered by the annuity buy-in insurance contracts acquired in 2021.

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 31 – Segment information

31.1 Reportable segments

In connection with the RSA acquisition, the Company changed the composition of its reportable segments in the third quarter of 2021 to align with how senior management assesses its operating performance. The Company now has three reportable segments, in line with its management structure and internal financial reporting which is based on country, and the nature of its activities as described below.

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 RSA's Canadian operations since July 1, 2021.
- Distribution income includes the operating results from the Company's wholly owned subsidiaries, Brokerlink Inc. and broker affiliates, including the results of RSA's Canadian operations since July 1, 2021, as well as supply chain operations from On Side.

UK & International

- Underwriting of automobile, home, pet and business insurance contracts to individuals and businesses in the UK, Europe, Ireland and the Middle East as well as internationally through the Company's global network since July 1, 2021. The Company distributes insurance through a wide network of affinity partners and brokers or directly to consumers.

US

- Underwriting of specialty contracts mainly to small to medium-sized businesses in the United States. The Company distributes insurance through independent agencies, brokers, wholesalers and managing general agencies.

Corporate and Other ("Corporate") consists of investment management, treasury and capital management activities, corporate reinsurance, including certain internal and external agreements as well as other corporate activities. The results of RSA's Canadian and UK&I operations for June 2021 were included in Corporate and Other as it was not significant.

31.2 Segment operating performance

All segment operating revenues presented in *Table 31.1 – 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 include elements that arise mostly from changes in market conditions, relate to acquisition-related items or special items, or because they are not part of the Company's normal activities. In addition, the Company presents:

- Other underwriting revenues against Operating net claims and Operating net 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 resulting in total finance costs.

The reconciliation of the segment information to the amounts reported in the Consolidated statements of income is presented in *Table 31.2 – Reconciliation of segment information to amounts reported in the Consolidated statements of income*.

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

Table 31.1 – Segment operating performance[1]

	2021					2020			
For the years ended December 31,	**Canada**	**UK&I**	**US**	**Corp.**	**Total**	**Canada**	**US**	**Corp.**	**Total**
Operating income									
Operating NEP	**11,450**	**2,319**	**1,652**	**622**	**16,043**	9,633	1,582	5	11,220
Investment income	**-**	**-**	**-**	**740**	**740**	-	-	600	600
Other	**389**	**-**	**-**	**32**	**421**	309	-	18	327
Segment operating revenues	**11,839**	**2,319**	**1,652**	**1,394**	**17,204**	9,942	1,582	623	12,147
Operating net claims	**(6,259)**	**(1,381)**	**(910)**	**(423)**	**(8,973)**	(5,571)	(893)	(13)	(6,477)
Operating net underwriting expenses	**(3,666)**	**(786)**	**(625)**	**(206)**	**(5,283)**	(2,908)	(608)	-	(3,516)
Investment expenses	**-**	**-**	**-**	**(34)**	**(34)**	-	-	(23)	(23)
Share of profit from invest. in associates & JV	**146**	**-**	**-**	**-**	**146**	121	-	-	121
Total finance costs	**(9)**	**-**	**-**	**(153)**	**(162)**	(11)	-	(115)	(126)
Other	**(173)**	**-**	**-**	**(57)**	**(230)**	(155)	-	(55)	(210)
PTOI	**1,878**	**152**	**117**	**521**	**2,668**	1,418	81	417	1,916
Operating income tax expense					**(577)**				(445)
Net income (loss) attributable to NCI					**(21)**				-
Preferred share dividends					**(53)**				(52)
NOI attributable to common shareholders					**2,017**				1,419
PTOI is comprised of:									
underwriting income	**1,525**	**152**	**117**	**(7)**	**1,787**	1,154	81	(8)	1,227
net investment income	**-**	**-**	**-**	**706**	**706**	-	-	577	577
distribution income	**362**	**-**	**-**	**-**	**362**	275	-	-	275
total finance costs	**(9)**	**-**	**-**	**(153)**	**(162)**	(11)	-	(115)	(126)
other operating income (expense)	**-**	**-**	**-**	**(25)**	**(25)**	-	-	(37)	(37)
Investments *(Note 6)*	**-**	**-**	**-**	**36,680**	**36,680**	-	-	20,630	20,630
Net claims liabilities *(Table 11.1)*	**13,663**	**5,234**	**1,669**	**227**	**20,793**	9,869	1,530	-	11,399

[1] *See Section 38 – Non-GAAP and other financial measures* of the Company's MD&A for the definition and reconciliation of related operating measures.

Table 31.2 – Reconciliation of segment information to amounts reported in the Consolidated statements of income

For the years ended December 31,	**2021**	**2020**
Segment operating revenues *(Table 31.1)*	**17,204**	12,147
Add: other underwriting revenues	**236**	135
Add: NEP from exited lines	**195**	21
Revenues, as reported	**17,635**	12,303
Segment PTOI *(Table 31.1)*	**2,668**	1,916
Non-operating items[1]:		
net gains (losses)	**249**	182
gain on bargain purchase	**204**	-
positive (negative) impact of MYA on underwriting	**226**	(315)
amortization of intangible assets recognized in business combination	**(199)**	(154)
acquisition, integration and restructuring costs	**(429)**	(115)
non-operating pension expense	**(64)**	(53)
underwriting results from exited lines	**(53)**	(62)
other	**(4)**	(18)
Pre-tax income, as reported in the MD&A	**2,598**	1,381
Less: share of income tax expense of broker associates	**(30)**	(22)
Income before income taxes, as reported	**2,568**	1,359

[1] *See Section 37 – 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)

31.3 Information by geographic areas

Table 31.3 – Geographic areas

	Revenues		Total assets	
As at December 31,	**2021**	**2020**	**2021**	**2020**
Canada	**12,973**	10,630	**37,899**	28,235
UK&I	**2,915**	-	**21,102**	-
US	**1,747**	1,673	**7,348**	6,884
	17,635	12,303	**66,349**	35,119

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 31.4 – Significant operating subsidiaries by geographic areas

Operations	Legal entities	
Canada	• Belair Insurance Company Inc. • Brokerlink Inc. • Canadian Northern Shield Insurance Company • Equisure Financial Network Inc. • IB Reinsurance Inc. • Intact Insurance Company • Intact Public Entities Inc. • Jevco Insurance Company • Novex Insurance Company	• On Side Developments Ltd. • Quebec Assurance Company • Royal & Sun Alliance Insurance Company of Canada • The Johnson Corporation • The Nordic Insurance Company of Canada • Trafalgar Insurance Company of Canada • Unifund Assurance Company • Western Assurance Company
US	• 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
UK&I	• Al Alamiya for Cooperative Insurance Company • Al Ahlia Insurance Company SAOG • Royal & Sun Alliance Insurance Limited	• Royal & Sun Alliance Insurance (Middle East) BSC (c) • RSA Luxembourg S.A. • RSA Insurance Ireland DAC

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

Note 32 – Additional information on the Consolidated statements of cash flows

32.1 Cash flows from operating activities

Table 32.1 – Cash flows from operating activities

For the years ended December 31,	2021	2020
Adjustments for non-cash items		
Net losses (gains) *(Note 25)*	**(249)**	(182)
Gain on bargain purchase *(Note 5)*	**(204)**	-
Depreciation of property and equipment[1]	**148**	116
Amortization of intangible assets	**313**	198
Net premiums on debt securities classified as AFS	**124**	31
DB pension expense	**100**	86
Share-based payments expense	**95**	65
Share of profit from investments in associates and joint ventures *(Note 16)*	**(87)**	(52)
Other	**(49)**	(7)
	191	255
Changes in operating assets and liabilities		
Contributions to the defined benefit pension plans *(Note 30)*	**(206)**	(51)
Share-based payments	**(35)**	(7)
Changes in net claims liabilities *(Note 11)*	**783**	887
Unearned premiums, net	**434**	375
Premiums receivable, net	**(90)**	(246)
Deferred acquisition costs, net	**(16)**	(70)
Other operating assets	**125**	(124)
Other operating liabilities	**130**	295
Dividends received from investments in associates and joint ventures *(Note 16)*	**28**	27
	1,153	1,086

[1] Includes depreciation of right-of-use assets of leases.

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

Note 33 – Related-party transactions

The Company enters into transactions with associates and joint ventures, including those classified as held for sale, 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 of commissions for insurance policies, interest and principal payments on loans and reinsurance agreements.

33.1 Transactions with associates and joint ventures

Table 33.1 – Transactions with associates and joint ventures

As at December 31,	2021	2020
Income and expenses reported in:		
net earned premiums	**(2)**	-
net claims incurred	**(31)**	-
net investment income	**5**	5
underwriting expenses	**413**	349
Assets and liabilities reported in:		
reinsurance assets	**83**	-
deferred acquisition costs	**1**	-
loans, other receivables and other assets	**281**	279
claims liabilities	**9**	-
unearned premiums	**2**	-
other payables and other liabilities	**154**	107
commissions payable	**112**	60

33.2 Compensation of key management personnel

The Company's key management personnel are those that have the authority and responsibility for planning, directing and controlling the activities of the Company. Following the RSA acquisition, the Company has refined its definition of key management personnel which now includes the entirety of the Executive Officers of the Company as well as the Board of Directors. Accordingly, the 2020 comparative figures have been retroactively revised.

Table 33.2 – Aggregate compensation of key management personnel

For the years ended December 31,	2021	2020
Compensation[1]	**21**	20
Share-based payments	**25**	21
	46	41

[1] Compensation is comprised of short-term employee benefits and long-term employee benefits, including pension benefits.

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.

33.3 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, 2021 ($8 million – December 31, 2020). The Company made contributions to pension plans of **$206 million** for the year ended December 31, 2021 ($51 million – December 31, 2020).

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

Note 34 – Commitments and contingencies

34.1 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 18 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 34.1 – Other non-cancellable commitments

As at December 31, 2021	Leases[1]	Investments[2]	Other	Total
Less than 1 year	87	1,087	152	1,326
From 1 to 5 years	241	n/a	218	459
Over 5 years	219	n/a	4	223
	547	1,087	374	2,008

[1] Includes variable lease payments not based on an index or rate, such as property taxes.
[2] Represents property funds, collateralized debt obligations and other classes of investments which are callable on demand over the life of the funds.

b) Amounts recognized in the Consolidated statements of income

Table 34.2 – Amounts recognized in the Consolidated statements of income

For the years ended December 31,	2021	2020
Interest expense on lease liabilities	16	13
Operational costs and variable lease payment expenses	58	44

34.2 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.

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

Note 35 – Disclosures on rate regulation

35.1 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 35.1 – 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 **$4.4 billion**, or **74%** of the Canadian Company's automobile DPW for the year ended December 31, 2021 ($3.8 billion, or 72% – December 31, 2020).

35.2 US

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.

35.3 UK&I

In the UK&I, there are no regulations requiring insurance companies to file their rates, however, there are rules to ensure that insurance companies provide quotes for renewing home and automobile insurance policies that are not greater than quotes for a new customer through the same channel.

Note 36 – Standards issued but not yet effective

36.1 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 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 2020, amendments to the standard were issued and the IASB officially extended the deferral of the effective date and the deferral of the temporary exemption from applying IFRS 9 as provided by IFRS 4 to January 1, 2023. The Company plans to adopt the new standard on the required effective date together with IFRS 9.

In December 2021, the IASB issued a narrow-scope amendment to IFRS 17 transition requirements for entities as they first apply IFRS 17 and IFRS 9. An entity has the option to present comparative information about financial assets on initial application of IFRS 17 and IFRS 9 to avoid temporary accounting mismatches between financial assets and insurance contract liabilities. The Company has decided to not apply this transition option and not restate comparative period information, instead it will recognize any IFRS 9 measurement differences by adjusting its Consolidated balance sheet on January 1, 2023. IFRS 17 will be applied retrospectively as of January 1, 2022 to each group of insurance contracts, if retrospective application is impracticable, the modified retrospective approach or the fair value approach could be applied.

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. 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 2021, the Company finalized its accounting policies and continued its efforts towards 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 2022, the Company is aiming to monitor changes in regulatory requirements, 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.

36.2 Financial instruments

IFRS 9 is a three-part standard that replaced 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 36.1 – 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.

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

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.

36.3 Reference to the Conceptual Framework (amendments to IFRS 3 – Business Combinations)

In May 2020, the IASB issued amendments to IFRS 3 – *Business Combinations* ("IFRS 3") to update references to the revised Conceptual Framework without significantly changing its requirements. 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.

36.4 Deferred tax related to assets and liabilities arising from a single transaction

In May 2021, the IASB issued narrow scope amendments to IAS 12, to clarify how companies should account for deferred tax on certain transactions and events that lead to the initial recognition of both an asset and a liability. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences, such as leases and decommissioning obligations.

The amendments apply prospectively to annual periods beginning on or after January 1, 2023, with earlier application permitted. The Company is currently assessing the impact of these amendments but does not expect any significant impact from their adoption.

Glossary

This glossary includes IFRS and Non-IFRS financial measures, as well as other insurance-related terms used in our financial reports.

Acquisition, integration and restructuring costs

Acquisition costs **–** Include professional fees and stamp duties related to the closing of an acquisition. Acquisition costs incurred in connection with an acquired business do not represent an ongoing operating expense of the business.

Integration costs **–** Includes restructuring costs related to an acquisition, such as severances, retention bonuses, system integration, the initial net impact of a reinsurance coverage for the purpose of an acquisition, as well as changes in the fair value of the contingent considerations. With respect to the RSA Acquisition, ADC costs represent the net impact of a reinsurance coverage pursuant to which a third-party reinsurer will assume 50% of negative reserve development in excess of an agreed retention with respect to certain RSA UK&I and other claims liabilities for accident years 2020 and prior. Integration costs incurred in connection with an acquired business do not represent an ongoing operating expense of the business.

Restructuring and other costs **–** Includes restructuring costs not related to an acquisition and expenses related to the implementation of significant new accounting standards.

Adjusted average common shareholders' equity[1]

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. Equity attributable to shareholders and Preferred shares is determined in accordance with IFRS.

Adjusted debt-to-total capital ratio[1]

Debt outstanding (excluding hybrid debt) at the end of the period, divided by *Adjusted total capital*.

Adjusted earnings per share (AEPS)[1]

Adjusted net income attributable to common shareholders, divided by the *WANSO*.

Adjusted net income attributable to common shareholders[1]

Adjusted net income attributable to shareholders less preferred share dividends.

Adjusted net income attributable to shareholders[1]

Net income attributable to shareholders, 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 is net of net income (loss) attributable to non-controlling interests.

Adjusted return on equity (AROE)[1]

Adjusted net income attributable to common shareholders for the last 12 months, divided by the Adjusted average common shareholders' equity over the same period.

Adjusted total capital[1]

The sum of Debt outstanding, Equity attributable to shareholders, Restricted Tier 1 notes and preferred shares instruments held by subsidiaries, at the same date. The restricted Tier 1 notes and preferred shares instruments held by subsidiaries are included in the equity attributable to non-controlling interests.

Affiliated brokers

Brokers in which we hold an equity investment or provide financing.

Attributable to shareholders

Excludes Non-controlling interests (NCI).

Average investments

Mid-month average fair value of investments portfolio held during the reporting period.

Book value per share

Common shareholders' equity divided by the number of common shares outstanding at the same date.

Book value per share (excluding AOCI)[1]

Common shareholders' equity (excluding AOCI) 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 a predetermined CAT threshold, before reinsurance, related to a single event for the current accident year. Effective July 1, 2021, our CAT threshold is as follows by segment: P&C Canada: $10 million, P&C UK&I: £7.5 million and P&C US: US$5 million. Reported CAT losses can either be weather-related or not weather-related and exclude those from exited lines.

CAT loss ratio

Net current year *CAT losses* plus net reinstatement premiums, expressed as a percentage of *Operating NEP* before the impact of reinstatement premiums.

[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.

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]
Operating net claims expressed as a percentage of *Operating NEP*.

Common shareholders' equity
Equity attributable to shareholders determined in accordance with IFRS, excluding preferred shares 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 average CAL for all regulated Canadian insurance entities is 173% MCT. The CAT varies by legal Canadian entities. The CAL is 200% RBC for regulated insurance entities in the US and 120% SCR for those in the UK&I.

Direct premiums written (DPW)
The total amount of premiums for new and renewal policies written during a specific period, as determined in accordance with IFRS.

Distribution income[1]
Includes operating income before interest and taxes from our consolidated brokers, broker associates, Intact Public Entities, On Side Restoration, Coast Underwriters and Johnson Group Benefits.

Earnings per share (EPS)
Net income attributable to common shareholders divided by the *WANSO*, as reported in the Consolidated statements of income.

Expense ratio[1]
Operating net underwriting expenses, expressed as a percentage of *Operating NEP*.

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 assets expressed as a percentage of funded plans' obligations.

Incurred but not reported (IBNR) claims reserve
Reserves for estimated claims that have been incurred but not reported by policyholders, including a reserve for future developments on claims which have been reported.

Industry pools
Canadian operations **–** When certain automobile owners are unable to obtain insurance via the voluntary insurance market in Canada, they are insured via the Facility Association ("FA"). In addition, entities can choose to cede certain risks to the FA administered Risk Sharing Pool ("RSP"). The related risks associated with FA insurance policies and policies ceded to the RSP are aggregated and shared by the entities in the Canadian P&C insurance industry, generally in proportion to market share and volume of business ceded to the RSP.

U.S. operations **–** As a condition of its license to do business in certain states in the U.S., the Company is required to participate in various mandatory shared market mechanisms commonly referred to as residual or involuntary markets. Each state dictates the type of insurance and the level of coverage that must be provided.

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 bond yields rise, all else equal.

Large loss
A single claim, which is considered significant but that is smaller than the CAT threshold.

Market-based yield
Annualized total pre-tax investment income (before expenses), divided by the weighted-average investments.

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 under IFRS.

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 the Autorité des marchés financiers (AMF).

Net current year CAT losses (Net CAT losses)
Current accident year *Catastrophe losses*, net of reinsurance, excluding those from exited lines.

Net earned premiums (NEP)
Net premiums written recognized for accounting purposes as revenue during a specific period, including net reinstatement premiums, as determined in accordance with IFRS.

Net income attributable to common shareholders
Net income attributable to shareholders, as reported under IFRS, less preferred share dividends.

[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 operating income (NOI)[1]
Net income attributable to shareholders, as reported under IFRS, excluding the after-tax impact of *Non-operating results*. NOI is presented net of Net income attributable to non-controlling interests.

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*.

Non-catastrophe weather event
A group of claims, which is considered significant, but that is smaller than the catastrophe threshold, 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 on Intact's Canadian pension plan assets. The expected return better reflects our operating performance given our internal investment management expertise and the composition of our pension asset portfolio. The non-operating pension expense is included in Net claims incurred and Underwriting expenses under IFRS.

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 from 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 combined ratio[1]
The sum of the *Claims ratio* and the *Expense ratio*. An operating combined ratio below 100% indicates a profitable underwriting result. An operating combined ratio over 100% indicates an unprofitable underwriting result.

Operating direct premiums written (Operating DPW)[1]
Direct premiums written normalized for the effect of multi-year policies, excluding the impact of industry pools, fronting and exited lines. This measure matches operating 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.

Operating DPW growth in constant currency[1]
Operating 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.

Operating income tax expense (benefit)[1]
Includes the impact of income taxes from our broker associates, which are accounted for using the equity method (net of tax) under IFRS.

Operating 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 from exited lines.

Operating net earned premiums (Operating NEP)[1]
NEP, excluding net earned premiums from exited lines.

Operating net premiums written (Operating NPW)[1]
Net premiums written normalized for the effect of multi-year policies, excluding NPW from exited lines.

Operating net underwriting expenses[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 from exited lines.

Operating return on equity (OROE)[1]
Net operating income attributable to common shareholders for the last 12 months, divided by the *Adjusted average common shareholders' equity* (excluding accumulated other comprehensive income) over the same period.

Other operating income (expense)[1]
Includes general corporate expenses related to the operation of the group and our public company status, consolidation adjustments, 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. Policies in force exclude pet insurance given its low value.

Pre-tax income[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 tax expense (benefit)*. In the Financial statements, the share of profit (loss) from investments in associates and joint ventures is presented net of taxes.

[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.

Pre-tax operating income (PTOI)[1]
Represents Income before income taxes, as reported under IFRS, including the Share of income tax expense (benefit) of broker associates (accounted for using the equity method – net of tax – under IFRS), and excluding the pre-tax impact of Non-operating results. Comprises the following items: *Underwriting income*, Net investment income, *Distribution income, Total finance costs* and *Other operating income (expense)*.

Prior year claims development (PYD)[1]
Change in total prior year claims liabilities during a specific period, net of reinsurance, excluding the PYD related to exited lines. 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 ratio[1]
PYD, expressed as a percentage of *Operating NEP*.

Regulatory capital ratios
Minimum capital test (as defined by the Office of the Superintendent of Financial Institutions and the Autorité des marchés financiers in Canada), Risk-based capital requirements (as defined by the National Association of Insurance Commissioners in the US), and Solvency capital requirement (as defined by the Prudential Regulation Authority in the UK&I).

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 under IFRS.

Reinsurer
An insurance company that agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company, under one or more policies.

Return on equity (ROE)
Net income attributable to common shareholders for the last 12 months, divided by the *Adjusted average common shareholders' equity* over the same 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.

Solvency Capital Requirement ratio (SCR)
Ratio of Eligible Own Funds to Solvency Capital Requirement as defined under Solvency II and regulated by the Prudential Regulation Authority in the UK.

Structured settlements
Periodic payments to claimants for a determined number of years or until death, 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 capital in excess of the internal CALs for insurance entities in Canadian, US, UK and other internationally regulated jurisdictions and the funds held in non-regulated entities less any ancillary own funds committed by the Company.

Total finance costs[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 (included in Share of profit from investments in associates and joint ventures under IFRS).

Total income tax benefit (expense)[1]
Income tax benefit (expense), as reported under IFRS, adjusted to include income taxes from our broker associates, which are accounted for using the equity method under IFRS.

Underlying current year loss ratio[1]
Operating net claims, excluding *Current year CAT losses* and *Prior year claims development*, expressed as a percentage of *Operating NEP* before reinstatement premiums.

Underwriting income[1]
Operating NEP less *Operating net claims* and *Operating net underwriting expenses* for a specific period. Underwriting income (loss) represents Net earned premiums, Other underwriting revenues, Net claims incurred and Underwriting expenses, all of which are reported under IFRS, excluding the impact of MYA on underwriting results, non-operating pension expense and underwriting results from exited lines.

Underwriting results from exited lines
Included the results of US Commercial's Business Programs, Architects and Engineers, Healthcare (effective July 1, 2019), BC auto exit (effective in Q4-2020), as well as UK & International (UK&I) exited lines as of the closing date.

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. Written insured risks exclude pet insurance given its low value.

[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

This table contains non-GAAP and other financial measures. Refer to Section 38 – Non-GAAP and other financial measures of the MD&A for the year-ended December 31, 2021 for further details.

	2021	2020	2019	2018	2017	3-year average	5-year average	10-year average
Consolidated performance								
Operating direct premiums written[1]	**17,283**	12,039	11,049	10,090	8,730	**13,457**	**11,838**	**9,693**
Direct premiums written	**17,994**	12,143	11,019	10,125	8,748	**13,719**	**12,006**	**9,761**
Operating net earned premiums[1]	**16,043**	11,220	10,211	9,715	8,530	**12,491**	**11,144**	**9,199**
Net earned premiums	**16,238**	11,241	10,275	9,765	8,558	**12,585**	**11,215**	**9,217**
Underwriting income (loss)[1]	**1,787**	1,227	465	474	486	**1,160**	**888**	**655**
Net investment income	**706**	577	576	541	448	**620**	**570**	**498**
Distribution income[1]	**362**	275	209	175	158	**282**	**236**	**171**
Net operating income[1]	**2,070**	1,471	905	839	771	**1,482**	**1,211**	**952**
Non-operating gains (losses)[1]	**(70)**	(535)	(257)	(147)	(36)	**(287)**	**(209)**	**(165)**
Total effective income tax rate[1]	**19.6%**	21.7%	11.3%	21.4%	17.0%	**17.5%**	**18.2%**	**18.1%**
Net income	**2,088**	1,082	754	707	792	**1,308**	**1,085**	**845**
Operating combined ratio[1]	**88.8%**	89.1%	95.4%	95.1%	94.3%	**91.1%**	**92.5%**	**93.4%**
Per share measures ($)								
Net operating income per share[1]	**12.41**	9.92	6.16	5.74	5.60	**9.50**	**7.97**	**6.54**
Earnings per share	**12.40**	7.20	5.08	4.79	5.75	**8.23**	**7.04**	**5.75**
Book value per share	**82.34**	58.79	53.97	48.73	48.00	**65.03**	**58.37**	**47.91**
Dividend per common share	**3.40**	3.32	3.04	2.80	2.56	**3.25**	**3.02**	**2.48**
Return on equity								
Operating return on equity[1]	**17.8%**	18.4%	12.5%	12.1%	12.9%	**16.2%**	**14.7%**	**14.7%**
Adjusted return on equity[1]	**21.0%**	15.0%	11.4%	11.8%	13.0%	**15.8%**	**14.4%**	**14.1%**
Return on equity	**17.0%**	12.8%	10.0%	9.9%	12.8%	**13.3%**	**12.5%**	**12.4%**

[1] These are non-GAAP and other financial measures. See glossary on page 232 for definitions.

	2021	2020	2019	2018	2017	3-year average	5-year average	10-year average
Underwriting performance								
P&C Canada								
Operating direct premiums written[1]	**12,023**	10,216	9,399	8,601	8,423	**10,546**	**9,732**	**8,640**
Operating net earned premiums[1]	**11,450**	9,633	8,775	8,332	8,204	**9,953**	**9,279**	**8,267**
Operating combined ratio[1]	**86.7%**	88.0%	95.9%	95.2%	94.2%	**90.2%**	**92.0%**	**93.1%**
Personal auto								
Operating direct premiums written[1]	**4,843**	4,322	4,067	3,750	3,818	**4,411**	**4,160**	**3,803**
Operating net earned premiums[1]	**4,825**	4,187	3,818	3,727	3,782	**4,277**	**4,068**	**3,736**
Operating combined ratio[1]	**86.9%**	86.6%	97.7%	99.5%	101.7%	**90.4%**	**94.5%**	**95.1%**
Personal property								
Operating direct premiums written[1]	**3,104**	2,586	2,337	2,186	2,135	**2,676**	**2,470**	**2,114**
Operating net earned premiums[1]	**2,924**	2,444	2,184	2,098	2,040	**2,517**	**2,338**	**1,990**
Operating combined ratio[1]	**83.8%**	81.7%	92.5%	88.3%	89.1%	**86.0%**	**87.1%**	**89.9%**
Commercial lines – Canada								
Operating direct premiums written[1]	**4,076**	3,308	2,995	2,665	2,470	**3,460**	**3,103**	**2,726**
Operating net earned premiums[1]	**3,701**	3,002	2,773	2,507	2,382	**3,159**	**2,873**	**2,540**
Operating combined ratio[1]	**88.6%**	95.1%	96.0%	94.6%	86.5%	**93.2%**	**92.2%**	**92.5%**
P&C UK&I (in Canadian dollars)[3]								
Operating direct premiums written[1]	**2,538**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating net earned premiums[1]	**2,319**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating combined ratio[1]	**93.4%**	–	–	–	–	**n/a**	**n/a**	**n/a**
Personal lines (in Canadian dollars)[3]								
Operating direct premiums written[1]	**1,099**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating net earned premiums[1]	**1,054**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating combined ratio[1]	**97.0%**	–	–	–	–	**n/a**	**n/a**	**n/a**
Commercial lines (in Canadian dollars)[3]								
Operating direct premiums written[1]	**1,439**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating net earned premiums[1]	**1,265**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating combined ratio[1]	**90.5%**	–	–	–	–	**n/a**	**n/a**	**n/a**
Commercial lines – U.S. (in Canadian dollars)[2]								
Operating direct premiums written[1]	**1,988**	1,823	1,650	1,489	307	**1,820**	**1,451**	**n/a**
Operating net earned premiums[1]	**1,652**	1,582	1,431	1,380	326	**1,555**	**1,274**	**n/a**
Operating combined ratio[1]	**92.9%**	94.9%	93.2%	94.8%	97.4%	**93.7%**	**94.6%**	**n/a**
Corporate & Other (RSA June 2021)								
Operating direct premiums written[1]	**734**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating net earned premiums[1]	**608**	–	–	–	–	**n/a**	**n/a**	**n/a**
Operating combined ratio[1]	**90.7%**	–	–	–	–	**n/a**	**n/a**	**n/a**
Financial condition								
Total assets	**66,349**	35,119	32,292	28,461	27,838	**44,587**	**38,012**	**29,487**
Total capital margin	**2,891**	2,729	1,222	1,333	1,135	**2,281**	**1,862**	**1,274**
Adjusted debt-to-total capital ratio[1]	**23.0%**	24.1%	21.3%	22.0%	23.1%	**22.8%**	**22.7%**	**20.4%**

[1] These are non-GAAP and other financial measures. See glossary on page 232 for definitions.
[2] 2017 only includes Q4 results.
[3] 2021 only includes Q3 & Q4 results.

Three-Year Quarterly Financial History

This table contains non-GAAP and other financial measures. Refer to Section 38 – Non-GAAP and other financial measures of the MD&A for the year-ended December 31, 2021 for further details.

				2021				2020				2019
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance												
Operating direct premiums written[1]	**5,017**	**5,447**	**4,297**	**2,522**	2,872	3,264	3,382	2,521	2,670	3,012	3,152	2,215
Direct premiums written	**5,318**	**5,719**	**4,414**	**2,543**	2,928	3,269	3,389	2,557	2,696	2,996	3,119	2,208
Operating net earned premiums[1]	**4,931**	**4,871**	**3,482**	**2,759**	2,879	2,863	2,712	2,766	2,692	2,581	2,500	2,438
Net earned premiums	**5,003**	**4,950**	**3,508**	**2,777**	2,899	2,864	2,712	2,766	2,730	2,604	2,501	2,440
Underwriting income (loss)[1]	**600**	**426**	**464**	**297**	415	369	284	159	229	198	75	(37)
Net investment income	**220**	**191**	**154**	**141**	143	143	141	150	142	146	148	140
Distribution income[1]	**77**	**105**	**118**	**62**	72	81	78	44	45	56	72	36
Net operating income[1]	**679**	**519**	**515**	**357**	467	411	350	243	303	277	212	113
Non-operating gains (losses)[1]	**17**	**(265)**	**6**	**172**	(125)	(114)	(130)	(166)	(109)	(119)	(62)	33
Total effective income tax rate[1]	**20.1%**	**24.8%**	**17.0%**	**18.9%**	20.4%	22.9%	19.1%	27.9%	13.4%	20.8%	15.0%	(14.0)%
Net income	**701**	**300**	**573**	**514**	378	334	263	107	240	187	168	159
Operating combined ratio[1]	**87.8%**	**91.3%**	**86.7%**	**89.3%**	85.6%	87.1%	89.5%	94.3%	91.5%	92.3%	97.0%	101.5%
Per share measures ($)												
Net operating income per share[1]	**3.78**	**2.87**	**3.26**	**2.40**	3.18	2.78	2.35	1.61	2.08	1.91	1.44	0.73
Earnings per share	**3.85**	**1.60**	**3.59**	**3.51**	2.55	2.25	1.74	0.66	1.63	1.26	1.13	1.06
Book value per share	**82.34**	**79.21**	**77.67**	**62.19**	58.79	56.22	53.95	51.71	53.97	51.20	49.90	50.21
Dividend per common share	**0.91**	**0.83**	**0.83**	**0.83**	0.83	0.83	0.83	0.83	0.76	0.76	0.76	0.76
Return on equity												
Operating return on equity[1]	**17.8%**	**18.3%**	**19.8%**	**19.0%**	18.4%	16.9%	15.6%	14.0%	12.5%	12.4%	12.0%	11.9%
Adjusted return on equity[1]	**21.0%**	**20.2%**	**22.9%**	**20.1%**	15.0%	13.4%	12.0%	11.0%	11.4%	11.6%	12.1%	12.3%
Return on equity	**17.0%**	**16.5%**	**19.6%**	**17.6%**	12.8%	11.5%	10.1%	9.2%	10.0%	10.2%	10.6%	10.6%

[1] These are non-GAAP and other financial measures. See glossary on page 232 for definitions.

	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Underwriting performance												
P&C Canada												
Operating direct premiums written[1]	**3,283**	**3,564**	**3,051**	**2,125**	2,471	2,724	2,896	2,125	2,328	2,491	2,727	1,853
Operating net earned premiums[1]	**3,296**	**3,280**	**2,492**	**2,382**	2,446	2,479	2,330	2,378	2,302	2,234	2,155	2,084
Operating combined ratio[1]	**84.4%**	**89.2%**	**85.0%**	**88.2%**	84.0%	86.0%	89.0%	93.3%	92.0%	91.8%	97.4%	102.9%
Personal auto												
Operating direct premiums written[1]	**1,234**	**1,544**	**1,251**	**814**	984	1,214	1,242	882	941	1,126	1,204	796
Operating net earned premiums[1]	**1,390**	**1,404**	**1,048**	**983**	1,087	1,081	990	1,029	1,007	962	939	910
Operating combined ratio[1]	**87.5%**	**85.1%**	**82.4%**	**93.4%**	82.6%	84.9%	84.7%	94.6%	96.5%	93.4%	99.5%	101.9%
Personal property												
Operating direct premiums written[1]	**831**	**965**	**790**	**518**	623	719	753	491	566	653	679	439
Operating net earned premiums[1]	**838**	**828**	**637**	**621**	630	620	601	593	566	555	537	526
Operating combined ratio[1]	**79.5%**	**93.5%**	**83.3%**	**77.4%**	73.2%	83.7%	88.6%	81.8%	82.0%	89.1%	99.6%	99.8%
Commercial lines – Canada												
Operating direct premiums written[1]	**1,218**	**1,055**	**1,010**	**793**	864	791	901	752	821	712	844	618
Operating net earned premiums[1]	**1,068**	**1,048**	**807**	**778**	729	778	739	756	729	717	679	648
Operating combined ratio[1]	**84.3%**	**91.2%**	**89.6%**	**90.1%**	95.3%	89.4%	95.1%	100.7%	93.5%	91.8%	92.8%	106.7%
P&C UK&I (in Canadian dollars)												
Operating direct premiums written[1]	**1,274**	**1,264**	**–**	**–**	–	–	–	–	–	–	–	–
Operating net earned premiums[1]	**1,145**	**1,174**	**–**	**–**	–	–	–	–	–	–	–	–
Operating combined ratio[1]	**93.0%**	**93.9%**	**–**	**–**	–	–	–	–	–	–	–	–
Personal lines (in Canadian dollars)												
Operating direct premiums written[1]	**517**	**582**	**–**	**–**	–	–	–	–	–	–	–	–
Operating net earned premiums[1]	**516**	**538**	**–**	**–**	–	–	–	–	–	–	–	–
Operating combined ratio[1]	**96.1%**	**97.9%**	**–**	**–**	–	–	–	–	–	–	–	–
Commercial lines (in Canadian dollars)												
Operating direct premiums written[1]	**757**	**682**	**–**	**–**	–	–	–	–	–	–	–	–
Operating net earned premiums[1]	**629**	**636**	**–**	**–**	–	–	–	–	–	–	–	–
Operating combined ratio[1]	**90.4%**	**90.5%**	**–**	**–**	–	–	–	–	–	–	–	–
Commercial lines – U.S. (in Canadian dollars)												
Operating direct premiums written[1]	**460**	**619**	**512**	**397**	401	540	486	396	342	521	425	362
Operating net earned premiums[1]	**485**	**415**	**379**	**373**	432	383	381	386	389	346	343	353
Operating combined ratio[1]	**92.5%**	**92.8%**	**90.3%**	**96.3%**	92.0%	94.5%	93.2%	100.1%	88.8%	95.9%	94.8%	94.0%
Corporate & Other (RSA June 2021)												
Operating direct premiums written[1]	**–**	**–**	**734**	**–**	–	–	–	–	–	–	–	–
Operating net earned premiums[1]	**–**	**–**	**608**	**–**	–	–	–	–	–	–	–	–
Operating combined ratio[1]	**–**	**–**	**90.7%**	**–**	–	–	–	–	–	–	–	–
Financial condition												
Total assets	**66,349**	**66,173**	**65,491**	**35,264**	35,119	34,110	33,184	32,229	32,292	30,103	29,580	28,806
Total capital margin	**2,891**	**2,693**	**2,558**	**3,008**	2,729	1,871	1,707	1,485	1,222	1,116	1,269	1,367
Adjusted debt-to-total capital ratio[1]	**23.0%**	**23.9%**	**24.1%**	**22.5%**	24.1%	21.2%	22.1%	24.1%	21.3%	19.3%	21.6%	21.5%

[1] These are non-GAAP and other financial measures. See glossary on page 232 for definitions.

Forward Looking Statements

Certain of the statements made in this annual report are forward-looking statements. Unless otherwise indicated, all forward-looking statements in this annual report are made as at March 31, 2022, and are subject to change after that date. This annual report contains forward-looking statements with respect to objectives regarding return on equity, net operating income per share, combined ratio, underwriting performance, achievement of net-zero greenhouse gas emissions, our market position in the areas in which we operate, our specialty solutions business, the realization of the expected strategic, financial and other benefits of the acquisition and integration of RSA Insurance Group PLC ("RSA"), 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 realization of the expected strategic, financial and other benefits of the acquisition and integration of RSA and economic and political environments and industry conditions. There can also be no assurance that the strategic and financial benefits expected to result from the acquisition and integration of RSA 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 herein.

Non-GAAP financial measures and Non-GAAP ratios (which are calculated using non -GAAP financial measures) do not have standardized meanings prescribed by IFRS (or GAAP) and may not be comparable to similar measures used by other companies in our industry. Non-GAAP and other financial measures are used by management and financial analysts to assess our performance. Further, they provide users with an enhanced understanding of our financial results and related trends, and increase transparency and clarity into the core results of the business. Non-GAAP financial measures and Non-GAAP ratios used in this Annual Report include measures related to our consolidated performance, our underwriting performance and our financial strength. Please see Section 38 – Non-GAAP and other financial measures of our annual MD&A for further details.

Shareholder and Corporate Information

Credit rating

	A.M. Best	DBRS	Moody's	Fitch
IFC senior unsecured debt ratings	a-	A	Baa1	A-
Intact U.S. (OneBeacon) senior unsecured debt ratings	a-	A	Baa2	A-
RSA Insurance Group plc. senior unsecured debt ratings	not rated	A	Baa1	A-
IFC's principal Canadian P&C insurance subsidiaries' financial strength ratings	A+	AA(low)	A1	AA-
RSA Canadian entities' financial strength ratings	not rated	AA(low)	A1	AA-
Intact US (OneBeacon) US regulated entities' financial strength ratings	A+	AA(low)	A2	AA-
RSA Insurance Group UK&I financial strength ratings	A	AA(low)	A2	AA-

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 Class A Series 5 preferred shares, Non-cumulative Class A Series 6 preferred shares, Non-cumulative Class A Series 7 preferred shares, Non-cumulative Class A Shares Series 9 and Non-Cumulative Class A Series 11 (the "Series 1 Preferred Shares", "Series 3 Preferred Shares", "Series 5 Preferred Shares", "Series 6 Preferred Shares", "Series 7 Preferred Shares", "Series 9 Preferred Shares" and "Series 11 Preferred Shares" respectively) issued on July 12, 2011, August 18, 2011, May 24, 2017, August 18, 2017, May 29, 2018, February 18, 2020 and March 15, 2022, respectively. Fitch Ratings has assigned a rating of "BBB" with a Stable outlook to the Series 1 Preferred Shares, Series 3 Preferred Shares, Series 5 Preferred Shares, Series 6 Preferred Shares, Series 7 Preferred Shares, Series 9 Preferred Shares and Series 11 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 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
Series 11 Preferred Shares Ticker Symbol: IFC.PR.K

Annual meeting of the shareholders

Date: Wednesday, May 11, 2022
Time: 1:00 p.m. (Eastern Time)
Place: Virtual-only meeting via live audio webcast. The webcast will be available at **https://web.lumiagm.com/486784878**. 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 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 11, 2022
Q2 – July 29, 2022
Q3 – November 9, 2022
Q4 – February 8, 2023

Investor inquiries

Shubha Khan, Vice President, Investor Relations
1 416 341-1464, ext. 41004
shubha.khan@intact.net

Media inquiries

Kate Moseley-Williams, Manager, Communications
1 416 341-1464, ext. 42515
kate.moseley.williams@intact.net

Dividend reinvestment

Shareholders can reinvest their common share dividends of Intact Financial Corporation on a commission-free basis either through their broker under a Dividend Reinvestment Plan (DRIP) administered on behalf of the Company by our transfer agent, Computershare Investor Services Inc., or via the Co-Operative Investing Service operated by Canadian ShareOwner Investments Inc. Full details can be obtained by visiting the "Investors" section of the **www.intactfc.com** website.

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, 2021	**Dec. 31, 2021**	**$0.91**
Sept. 15, 2021	**Sept. 30, 2021**	**$0.83**
June 15, 2021	**June 30, 2021**	**$0.83**
Mar. 15, 2021	**Mar. 31, 2021**	**$0.83**
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

Common share prices and volume

	High	Low	Close	TSX Volume
2021 YE	**$178.28**	**$140.50**	**$164.42**	**67,892,949**
2021 Q4	**$173.03**	**$158.00**	**$164.42**	**15,581,571**
2021 Q3	**$178.28**	**$164.82**	**$167.48**	**18,209,154**
2021 Q2	**$172.24**	**$154.29**	**$168.41**	**17,839,784**
2021 Q1	**$157.36**	**$140.50**	**$154.00**	**16,262,440**
2020 YE	$157.74	$104.81	$150.72	88,078,150
2020 Q4	$157.74	$131.94	$150.72	18,551,508
2020 Q3	$147.81	$128.61	$142.58	16,552,737
2020 Q2	$143.10	$117.54	$129.21	25,805,748
2020 Q1	$157.65	$104.81	$121.63	27,168,157
2019 YE	$140.96	$96.37	$140.42	65,605,643
2019 Q4	$140.96	$131.64	$140.42	16,380,891
2019 Q3	$133.97	$122.68	$133.34	16,017,749
2019 Q2	$124.32	$107.00	$121.02	17,278,057
2019 Q1	$114.13	$96.37	$113.08	15,928,946

Data items are not adjusted for stock splits and consolidations. This data is provided "AS IS". TSX, its affiliates and 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.

Why Invest in Intact

Largest provider
of P&C insurance in Canada, a leading provider of global specialty insurance, and a leader in personal and commercial lines in the UK and Ireland

Consistently outperforms industry
leveraging disciplined underwriting, scale advantage and in-house claims expertise

Track record
of strong capital generation, earnings growth and annual dividend increases

Proven industry consolidator
with 18 successful P&C acquisitions since 1988

Financial strength
reinforced by prudent risk management and capital levels well above regulatory requirements

Attracts and retains
Top talent
as a best employer

See the full suite of our reports on intactfc.com

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Toronto, Ontario M5G 0A1