



**Intact Financial Corporation**  
Consolidated financial statements  
For the year ended December 31, 2019

## Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the Consolidated financial statements of Intact Financial Corporation and its subsidiaries, collectively known as "the Company". This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with International Financial Reporting Standards.

In meeting its responsibility for the reliability of consolidated financial statements, management maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal control includes the communication of policies and of the Company's Code of Conduct, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records. The system of internal controls are reviewed and evaluated on an ongoing basis by management and the Company's internal auditors.

The Company's Board of Directors, acting through the Audit Committee, which is composed entirely of independent Directors who are neither officers nor employees of the Company, oversees management's responsibility for the design and operation of effective financial reporting and internal control systems, as well as the preparation and presentation of financial information.

The Audit Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the Company employs an appropriate system of internal control, adheres to legislative and regulatory requirements and applies the Company's Code of Conduct. The internal and external auditors, as well as the Appointed Actuaries and the Group Chief Actuary, have full and unrestricted access to the Audit Committee, with and without the presence of management.

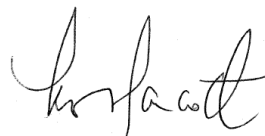
The Appointed Actuaries, who are members of management, are appointed by the Board of the Company. The Appointed Actuaries are responsible for discharging the various actuarial responsibilities and conduct a valuation of policy liabilities, in accordance with generally accepted actuarial standards, reporting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

The Company's external auditors, Ernst & Young LLP, are appointed by the shareholders to conduct an independent audit of the Consolidated financial statements of the Company and meet separately with both management and the Audit Committee to discuss the results of their audit, financial reporting and related matters. The Independent Auditor's Report to shareholders appears on the following page.

February 4, 2020



Charles Brindamour  
Chief Executive Officer



Louis Marcotte  
Senior Vice President and  
Chief Financial Officer

# Independent auditor's report

To the shareholders of  
**Intact Financial Corporation**

## Opinion

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

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

## Basis for opinion

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

## Other information

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

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

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

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

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

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



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

*Ernst & Young LLP*<sup>1</sup>

Montréal, Canada  
February 4, 2020

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A112431



## INTACT FINANCIAL CORPORATION

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# INTACT FINANCIAL CORPORATION

## Consolidated balance sheets

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

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

See accompanying notes to the Consolidated financial statements.

On behalf of the Board:



Charles Brindamour  
Director



Eileen Mercier  
Director

**INTACT FINANCIAL CORPORATION**

**Consolidated statements of income**

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

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

See accompanying notes to the Consolidated financial statements.

**INTACT FINANCIAL CORPORATION**

**Consolidated statements of comprehensive income**

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

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

See accompanying notes to the Consolidated financial statements.

**INTACT FINANCIAL CORPORATION**
**Consolidated statements of changes in shareholders' equity**

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

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

See accompanying notes to the Consolidated financial statements.

**INTACT FINANCIAL CORPORATION**

**Consolidated statements of cash flows**

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

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

See accompanying notes to the Consolidated financial statements.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### Note 1 – Status of the Company

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

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

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

#### Note 2 – Summary of significant accounting policies

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## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### Glossary of abbreviations

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

#### 2.1 Basis of presentation

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

The key accounting policies applied in the preparation of these Consolidated financial statements are described below. These policies have been applied consistently to all periods presented, except for the new standard, amendments to existing standards and interpretation adopted on January 1, 2019 as described in *Note 4 – Adoption of new accounting standards*. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, including the presentation changes described in *Note 28.2 – Segment operating performance*.

#### 2.2 Basis of consolidation

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

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

Acquisitions or disposals of equity interests in a subsidiary that do not result in the Company obtaining or losing control are treated as equity transactions and reported as acquisitions or disposals of NCI in the Consolidated statements of changes in shareholders' equity.

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

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

Table 2.1 – Basis of consolidation

Investment category	Shareholding	Accounting policies
<b>Subsidiaries</b>		
Entities over which the Company: <ol style="list-style-type: none"> <li>has the power over the relevant activities of the investee;</li> <li>is exposed, or has rights to variable returns from its involvement with the investee; and</li> <li>has the ability to affect those returns through its power over the investee.</li> </ol>	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).
<b>Associates</b>		
Entities over which the Company: <ol style="list-style-type: none"> <li>has the power to participate in the decisions over the relevant activities of the investee, but</li> <li>does not have control.</li> </ol>	Generally, between 20% to 50% of voting rights	Equity method  <i>Note 2.8 for details</i>
<b>Joint ventures</b>		
Joint arrangements whereby the parties have: <ol style="list-style-type: none"> <li>joint control of the arrangements, requiring unanimous consent of the parties sharing control for strategic and operating decision making; and</li> <li>rights to the net assets of the arrangements.</li> </ol>	Generally, an equal percentage of voting rights from each party to the joint arrangement	Equity method  <i>Note 2.8 for details</i>

### 2.3 Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risks, by comparing the benefits that could become payable under various possible scenarios relative to the premium received from the policyholder for insuring the risk.

#### a) Revenue recognition and premiums receivable

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

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

Other underwriting revenues include:

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

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

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**b) Claims liabilities**

Claims liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts earned at the balance sheet date, including IBNR, that have occurred on or before the balance sheet date. They also include a provision for adjustment expenses representing the estimated ultimate expected costs of investigating, resolving and processing these claims (usually referred to as loss adjustment expenses or LAE).

Claims liabilities are first determined on a case-by-case basis as insurance claims are reported. They are reassessed as additional information becomes known. Claims liabilities are estimated by the appointed actuaries using generally accepted actuarial standard techniques and are based on assumptions that represent best estimates of possible outcomes, such as historical loss development factors and payment patterns, claims frequency and severity, inflation, reinsurance recoveries, expenses, as well as changes in the legal and regulatory environment, taking into consideration the circumstances of the Company and the nature of the insurance policies.

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

Claims liabilities are discounted to consider the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date. Anticipated payment patterns are revised from time to time to reflect the most recent trends and claims environment. This ensures getting the most accurate and representative market yield-based discount rate.

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

**c) Reinsurance assets**

The Company reports third party reinsurance balances on the Consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance. The estimates for the reinsurers' share of claims liabilities and unearned premiums are presented as assets and are determined on a basis consistent with the related claims liabilities and unearned premiums respectively. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period.

**d) Deferred acquisition costs**

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

**e) Liability adequacy test**

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

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**2.4 Financial instruments**

**a) Classification and measurement of financial assets and financial liabilities**

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

Classification	Financial instruments	Description	Initial and subsequent measurement
AFS	Debt securities	Investments intended to be held for an indefinite period and which may be sold in response to liquidity needs or changes in market conditions.	Initially measured at fair value using transaction prices at the trade date.  Subsequently measured at fair value using bid prices (except as noted below for Level 3 instruments) at end of period, with changes in fair value reported in OCI (when unrealized) or in Net gains (losses) when realized or impaired.
	Common shares and preferred shares	Investments neither classified nor designated as FVTPL.	
	Other instruments	Surplus notes, as well as investments in mutual and private funds.	<i>Refer to Note 2.4 b) (Level 3) hereafter for more details on the fair value measurement.</i>
Designated as FVTPL on initial recognition	Debt securities backing its claims liabilities and some common shares	A portion of the Company's investments backing its claims liabilities has been voluntarily designated as FVTPL to reduce the volatility caused by fluctuations in fair values of underlying claims liabilities due to changes in discount rates. To comply with regulatory guidelines, the Company ensures that the weighted-dollar duration of debt securities designated as FVTPL is approximately equal to the weighted-dollar duration of claims liabilities.	Initially measured at fair value using transaction prices at the trade date.  Subsequently measured at fair value using bid prices (for financial assets) or ask prices (for financial liabilities) at end of period, with changes in fair value reported in Net gains (losses).  The effective portion of cash flow hedges, as well as net investment hedges in foreign operations is recorded in foreign exchange gains (losses) in OCI.
	Common shares	Investments purchased with the intention of generating profits in the near term.	
Classified as FVTPL	Derivative financial instruments	Derivatives used for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio as long as the resulting exposures are within the investment policy guidelines.	
	Embedded derivatives	Embedded derivatives related to the Company's perpetual preferred shares. Treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument. These embedded derivatives are presented in Investments, with the related perpetual preferred shares, on the Consolidated balance sheets.	
	Contingent considerations	Financial liability arising from a business combination to be remeasured at fair value based on future performance.	Initially measured at fair value based on the estimate on the date of the transaction.  Subsequently measured at fair value based on revised estimates, with changes in fair value reported in Integration and restructuring costs. <i>Refer to Note 2.4 b) (Level 3) hereafter for more details on the fair value measurement.</i>
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).	

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Classification	Financial instruments	Description	Initial and subsequent measurement
Other financial liabilities	Debt outstanding	The Company's Senior and medium-term notes and term loan.	Initially measured at fair value at the issuance date.
		Amount drawn under a credit facility.	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	<ul style="list-style-type: none"> <li>U.S. Treasuries, Canadian Federal and Canadian Agency housing trust debt securities</li> <li>Common shares and preferred shares</li> <li>Investments in mutual funds</li> <li>Exchange-traded derivatives</li> </ul>
Level 2	Valuation techniques for which all inputs that have a significant effect on the fair value are observable (either directly or indirectly)	<ul style="list-style-type: none"> <li>All Government and Corporate debt securities, except for U.S. Treasuries, Canadian Federal and Canadian Agency housing trust</li> <li>Unsecured medium-term notes and 2012 U.S. Senior Notes<sup>1</sup></li> <li>ABS and MBS</li> <li>Over-the-counter derivatives</li> </ul>
Level 3	Valuation techniques for which inputs that have a significant effect on the fair value are not based on observable market data	<ul style="list-style-type: none"> <li>Loans<sup>1</sup></li> <li>Embedded derivatives related to perpetual preferred shares with call option</li> <li>Hedge and private funds</li> <li>Surplus notes</li> <li>Contingent considerations</li> </ul>

<sup>1</sup> 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.

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For discounted cash flow models, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics.

- Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments, currencies, market liquidity and financial condition of counterparties.
- Discount rates are influenced by risk free interest rates and credit risk.

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

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

#### Level 3

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

- **Loans** – The fair value of loans is determined using a valuation technique based on the income approach. Future inflows of principal and interest are discounted using a pre-tax risk-free rate from the Government of Canada bonds curve plus a risk premium that is based on the credit risk to which the Company would be exposed from the borrowers. The Company ensures that the discount rate is consistent with borrowing rates on similar loans issued by financial institutions. The Company receives guarantees for loans.
- **Embedded derivatives related to perpetual preferred shares call options** – The fair value of the Company's perpetual preferred shares call options (which give the issuer the right to redeem the shares at a particular price) has to be measured separately from preferred shares and accounted for as an embedded derivative. To determine the fair value of embedded derivatives, the Company uses a valuation technique based on the implied volatility of underlying preferred shares. The implied volatility is an unobservable parameter that is calculated using an internally developed valuation model, which can be significantly affected by market conditions. Judgment is also required to determine the time period over which the volatility is measured.
- **Hedge funds and private funds** – Hedge funds and private funds are measured at fair value for which the net assets value ("NAV") is generally the practical expedient. The Company employs several procedures to assess the reasonableness of the NAV reported by the fund, including obtaining and reviewing periodic and audited financial statements and discussing each fund's pricing with the fund manager throughout the year. In the event, the Company believes that its estimate of the NAV differs from that reported by the fund due to the illiquidity or other factors, the Company will adjust the fund's reported NAV to more appropriately represent the fair value of its interest in the investment.
- **Surplus notes** – The fair value of the surplus notes is based on a discounted expected cash flow model using information as of the measurement date. The estimated fair value is sensitive to changes in public debt credit spreads, as well as changes in estimates with respect to other variables. These variables include a discount to reflect the lack of liquidity due to its private nature, the credit quality, as well as the timing, amount and likelihood of interest and principal payments on the notes which are subject to regulatory approval.
- **Contingent considerations** – The fair value of the contingent considerations is based on future revenues or profitability metrics discounted using a rate adjusted for specific risks related to the transaction using information as at the measurement date.

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### c) Derivative financial instruments and hedging

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

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

- **Net investment hedges**

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

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

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

#### **Derivatives that do not qualify for hedge accounting**

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

### d) Recognition of financial assets and financial liabilities

*Refer to Table 2.2 for the initial recognition of financial assets and financial liabilities.* Financial assets are no longer recorded when the rights to receive cash flows from the instruments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are no longer recorded when they have expired or have been cancelled.

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

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

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

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

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**Structured settlements** - The Company enters into annuity agreements with various Canadian life insurance companies to provide for fixed and recurring payments to claimants.

- When the annuity agreements are non-commutable, non-assignable and non-transferable, the Company is released by the claimant for the settlement of the claim amount. As a result, the liability to its claimants is substantially discharged and the Company removes that liability from its Consolidated balance sheet. However, the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations.
- When the annuity agreements are commutable, assignable or transferable, the Company keeps the liability and the corresponding asset on its Consolidated balance sheet.

#### e) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount is reported on the Consolidated balance sheets only when there is:

- a legally enforceable right to offset the recognized amounts; and
- an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### f) Revenue and expense recognition

##### Net investment income

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

##### Net gains (losses)

- Gains and losses on the sale of AFS debt and equity securities are generally calculated on a first in, first out basis, except for certain equity strategies.
- Transaction costs associated with the acquisition of financial instruments classified or designated as FVTPL are expensed as incurred; otherwise, transaction costs are capitalized on initial recognition and amortized using the effective interest method.
- Transaction costs incurred at the time of disposition of a financial instrument are expensed as incurred.
- If a business combination is achieved in stages, any previously held equity interest is remeasured as at its acquisition date fair value and any resulting gain or loss is recognized in income.

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

The Company determines, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets, other than those classified or designated as FVTPL, are impaired. Those financial assets are impaired according to either a debt, equity, or loans and receivables impairment model. The appropriate impairment model is determined based on the characteristics of each instrument, the capacity of the issuer to pay dividends or interest and the Company's intention to either hold the preferred shares for the long term or sell them. Objective evidence of impairment includes:

##### Debt impairment model

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

##### Equity impairment model

- A significant, a prolonged, or a significant and prolonged decline in the fair value of an investment below cost.
- Information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which an issuer operates, indicating that the cost of an equity instrument may not be recovered.

Table 2.4 – Objective evidence of impairment for equity impairment model

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

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#### 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	<ul style="list-style-type: none"> <li>Debt securities</li> <li>Preferred shares redeemable at the option of the holder</li> <li>Perpetual preferred shares purchased with the intent of holding for the long-term<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Common shares</li> <li>Perpetual preferred shares not impaired using the debt impairment model<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Loans and receivables:                             <ul style="list-style-type: none"> <li>Significant (tested individually)</li> <li>Otherwise (grouped by similar characteristics for testing)</li> </ul> </li> </ul>
Loss measurement	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

<sup>1</sup> Since the business model of the Company is to purchase preferred shares for the purpose of earning dividend income, with the intent of holding them for the long-term, virtually all preferred shares are assessed for impairment using a debt impairment model.

## 2.5 Business combinations

Business combinations are accounted for using the acquisition method. The purchase consideration is measured at fair value at acquisition date. At that date, the identifiable assets acquired, and liabilities assumed are estimated at their fair value. Acquisition-related costs are expensed as incurred. When the Company acquires a business, it assesses financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and relevant conditions at the acquisition date.

## 2.6 Goodwill and intangible assets

### a) Goodwill

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the Company's share in the net identifiable assets acquired and liabilities assumed in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

#### b) Intangible assets

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

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

Intangible assets are initially measured at cost, except for intangible assets acquired in a business combination which are recorded at fair value as at the date of acquisition.

The useful lives of intangible assets are assessed to be either finite or indefinite. For each distribution network acquired, that assessment depends on the nature of the distribution network. When the related cash flows are expected to continue indefinitely, intangible assets are assessed as having an indefinite useful life.

Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite lives, as well as those intangible assets that are under development, are not subject to amortization, but are tested for impairment on an annual basis.

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

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

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

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

#### 2.7 Foreign currency translation

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

#### Foreign currency transactions

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

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

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#### Foreign operations

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

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

Table 2.7 – Exchange rates used

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

#### 2.8 Investments in associates and joint ventures

The Company's investments in associates and joint ventures are initially recorded at the amount of consideration paid, which includes the fair value of tangible assets, intangible assets and goodwill identified on acquisition, plus post-acquisition changes in the Company's share of their net assets. They are subsequently measured using the equity method.

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

#### 2.9 Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation terms are established to depreciate the cost of the assets over their estimated useful lives. Depreciation methods and terms are shown below.

Table 2.8 – Depreciation methods and terms of property and equipment

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

<sup>1</sup> Right-of-use assets were recognized on January 1, 2019, Finance leases were recognized in prior periods (refer to Note 2.10 - Leases).

#### 2.10 Leases

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

##### a) Policy applicable from January 1, 2019

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

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

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### Notes to the Consolidated financial statements

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

#### b) Policy applicable before January 1, 2019

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

## 2.11 Income taxes

### a) Income tax expense (benefit)

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

- **Current income tax** is based on current year's results of operations, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and provisions are established where appropriate based on amounts expected to be paid to the tax authorities.
- **Deferred income tax** is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantively enacted as at the balance sheet date, which are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized. For each entity for which there is a history of tax losses, deferred tax assets are only recognized in excess of deferred tax liabilities if there is convincing evidence that future profit will be available.

### b) Recognition and offsetting of current tax assets and liabilities

For each legal entity consolidated, current tax assets and liabilities are offset when they relate to the same taxation authority, which allows the legal entity to receive or make one single net payment, and when it intends to settle the outstanding balances on a net basis. Upon consolidation, a current tax asset of one entity is offset against a current tax liability of another entity if, and only if, entities concerned have a legally enforceable right to make or receive a single net payment and entities intend to make or receive such net payment or to recover the asset or settle the liability simultaneously.

## 2.12 Share-based payments

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

### a) Long-term incentive plan

Certain key employees are eligible to participate in the LTIP. Participants are awarded notional share units referred to as PSUs and RSUs. The PSU payout is subject to the achievement of specific targets with regards to:

- the Company's estimated ROE outperformance versus the Canadian P&C industry or a North American P&C industry benchmark (for the three-year cycle ending in 2021), based on a three-year average; or
- the three-year average combined ratio of the U.S. operations compared to a specific target; or
- a combination of both.

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

**RSUs and PSUs** - Subject to the Company's Board of Directors' approval, certain participants can receive cash in lieu of shares of the Company:

- based on the plan structure; or
- if they meet a defined share ownership threshold ("eligible participants") and elect to receive cash.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

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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.

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### Notes to the Consolidated financial statements

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

#### 2.13 Employee future benefits – pension

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

##### DB pension expense

Cost recognized in Net income in the current period includes:

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

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

##### Remeasurement of net DB liability (asset)

The rate used to discount the DB obligation is determined by reference to market yields on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments, determined at the end of each reporting period.

Remeasurements are recognized directly in OCI in the period in which they occur and include:

- return on plan assets, which represents the difference between the actual return on plan assets and the return based on the discount rate determined using high quality corporate bonds;
- actuarial gains and losses arising from plan experience; and
- changes in actuarial methods and assumptions, such as discount rate used to discount the DB obligation.

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

#### 2.14 Integration and restructuring costs

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

#### 2.15 Current vs non-current

In line with industry practice for insurance companies, the Company's balance sheets are not presented using current and non-current classifications but are rather presented broadly in order of liquidity. Most of the Company's assets and liabilities are considered current given they are expected to be realized or settled within the Company's normal operating cycle. All other assets and liabilities are considered as non-current and generally include: Investments in associates and joint ventures, Deferred tax assets, Property and equipment, Intangible assets, Goodwill, Deferred tax liabilities and Debt outstanding.

### Note 3 – Significant accounting judgments, estimates and assumptions

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

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

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

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### Note 4 – Adoption of new accounting standards

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

##### 4.1 Leases

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

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

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

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

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

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

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

Table 4.1 – Reconciliation of operating lease commitments and lease liabilities

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

##### 4.2 Uncertainty over income tax treatments

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

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

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

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

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

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

**Notes to the Consolidated financial statements**

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

**Note 5 – Business combinations**

**5.1 Business combinations**

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

**On Side Restoration**

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

**The Guarantee Company of North America and Frank Cowan Company Limited**

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

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

Table 5.1 – Business combinations

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

<sup>1</sup> On Side’s cash consideration includes a 10% holdback.

<sup>2</sup> Includes cash and cash equivalents acquired of \$311 million.

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### Notes to the Consolidated financial statements

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

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

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

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

#### 5.2 Significant accounting judgments, estimates and assumptions

Upon initial recognition, the acquiree's assets and liabilities and the contingent consideration have been included in the Consolidated balance sheets at fair value. Management determined the fair values using estimates of future cash flows and discount rates. However, actual results can be different from those estimates. The changes in the estimates that relate to new information obtained about facts and circumstances that existed as of the acquisition date, made at initial recognition regarding items for which the valuation was incomplete, would have an impact on the amount of goodwill recognized. Any other changes in the estimates made at initial recognition would be recognized in income.

## INTACT FINANCIAL CORPORATION

### 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

As at	Fair value		Amortized cost	Total carrying amount
	AFS	Classified as FVTPL	Designated as FVTPL	
<b>December 31, 2019</b>				
<b>Cash and cash equivalents</b>	-	-	-	936
Short-term notes	61	-	-	61
Fixed income				
Investment grade				
Government	2,515	-	2,715	-
Corporate	1,903	-	2,443	-
Asset-backed <sup>1</sup>	540	-	101	-
Mortgage-backed				
Agency <sup>2</sup>	257	-	329	-
Non-agency	450	-	266	-
Non-rated	246	-	-	-
<b>Debt securities</b>	<b>5,972</b>	<b>-</b>	<b>5,854</b>	<b>-</b>
Investment grade				
Retractable	24	-	-	-
Fixed-rate perpetual	266	-	-	-
Other perpetual	1,175	-	-	-
<b>Preferred shares</b>	<b>1,465</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Common shares</b>	<b>2,712</b>	<b>202</b>	<b>1,149</b>	<b>-</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>318</b>
	<b>10,149</b>	<b>202</b>	<b>7,003</b>	<b>1,254</b>
<b>December 31, 2018</b>				
<b>Cash and cash equivalents</b>	-	-	-	442
Short-term notes	19	-	-	19
Fixed income				
Investment grade				
Government	2,248	-	2,899	-
Corporate	2,180	-	2,240	-
Asset-backed <sup>1</sup>	505	-	184	-
Mortgage-backed				
Agency <sup>2</sup>	182	-	387	-
Non-agency	373	-	314	-
Non-rated	170	-	-	-
<b>Debt securities</b>	<b>5,677</b>	<b>-</b>	<b>6,024</b>	<b>-</b>
Investment grade				
Retractable	31	-	-	-
Fixed-rate perpetual	256	-	-	-
Other perpetual	878	-	-	-
<b>Preferred shares</b>	<b>1,165</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Common shares</b>	<b>2,316</b>	<b>123</b>	<b>856</b>	<b>-</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>294</b>
	<b>9,158</b>	<b>123</b>	<b>6,880</b>	<b>736</b>

<sup>1</sup> Credit card receivables and auto loans.

<sup>2</sup> Publicly traded MBS which carry the full faith and credit guarantee of the U.S. Government or are guaranteed by a government sponsored entity.

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

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 6.2 Carrying value of investments

Table 6.2 – Carrying value of investments

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

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

#### 6.3 Market neutral equity investment strategy

Table 6.3 – Market neutral equity investment strategy

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

#### 6.4 Securities lending

The Company participates in a securities lending program to generate fee income. This program is managed by the Company’s custodian, a major Canadian financial institution. The Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. Collateral, mainly consisting of government securities, is provided by the counterparty and held in trust by the custodian for the benefit of the Company until the underlying security has been returned to the Company. The collateral cannot be sold or re-pledged externally by the Company, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded daily as the market value of underlying loaned securities fluctuates.

Table 6.4 – Securities lending

As at December 31,	2019		2018	
	Fair value	Collateral <sup>1</sup>	Fair value	Collateral <sup>1</sup>
Loaned securities – reported in Investments	1,286	1,353	1,155	1,215

<sup>1</sup> Representing approximately 105% of the fair value of the securities loaned as at December 31, 2019 and 2018.

**Notes to the Consolidated financial statements**

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

**Note 7 – Derivative financial instruments**

**7.1 Types of derivatives used**

Table 7.1 – Types of derivatives used

Derivatives	Description	Objective	Intent to hold instrument
<b>Forwards</b>	<b>Contractual obligations to exchange:</b>	Mitigate risk arising from foreign currency fluctuations on:	
Currency	one currency for another at a predetermined future date	<ul style="list-style-type: none"> <li>foreign currency cash inflows and outflows impacting the Company's operations</li> <li>on the Company's net investment in foreign operations</li> </ul>	<p>Risk management purposes</p> <p>Book value hedge</p>
<b>Futures</b>	<b>Contractual obligations to buy or sell:</b>		
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
<b>Swaps</b>	<b>Over-the-counter contracts:</b>		
Equity	in which two counterparties exchange a series of cash flows based on a basket of stocks, applied to a notional amount	Mitigate exposure to equity market fluctuations	Risk management purposes
Credit default	that transfer credit risk related to an underlying financial instrument from one counterparty to another	Modify exposure to credit	Risk management purposes
Cross currency	in which two counterparties exchange interest and principal payments in two different currencies	Mitigate risk arising from foreign currency fluctuations on the Company's net investment in foreign operations	Book value hedge
<b>Options</b>	<b>Contractual agreements under which the seller grants to the buyer the right, but not the obligation either to buy (call option) or sell (put option):</b>		
Inflation caps	an index at a predetermined price, at or by a specified future date	Mitigate exposure to inflation risk	Trading purposes

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 7.2 Fair value and notional amount of derivatives

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

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

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

<sup>1</sup> Includes net investment hedges using forwards and cross currency swaps.

#### Note 8 – Financial liabilities related to investments

Table 8.1 – Financial liabilities related to investments

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

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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## Note 9 – Fair value measurement

### 9.1 Categorization of fair values

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

As at	Level 1 Valued using quoted (unadjusted) market prices	Level 2 Valued using models (with observable inputs)	Level 3 Valued using models (without observable inputs)	Total
<b>December 31, 2019</b>				
Short-term notes	36	25	-	61
Fixed income				
Investment grade				
Government	2,367	2,863	-	5,230
Corporate	-	4,346	-	4,346
Asset-backed	-	641	-	641
Mortgage-backed				
Agency	-	586	-	586
Non-agency	-	716	-	716
Non-rated	-	-	246	246
<b>Debt securities</b>	<b>2,403</b>	<b>9,177</b>	<b>246</b>	<b>11,826</b>
<b>Preferred shares<sup>1</sup></b>	<b>1,465</b>	<b>-</b>	<b>-</b>	<b>1,465</b>
<b>Common shares</b>	<b>4,039</b>	<b>-</b>	<b>24</b>	<b>4,063</b>
<b>Derivative financial assets (Table 7.2)</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>29</b>
<b>Total financial assets measured at fair value</b>	<b>7,907</b>	<b>9,206</b>	<b>270</b>	<b>17,383</b>
<b>Total financial liabilities measured at fair value</b>	<b>197</b>	<b>45</b>	<b>-</b>	<b>242</b>
<b>December 31, 2018</b>				
Short-term notes	19	-	-	19
Fixed income				
Investment grade				
Government	2,667	2,480	-	5,147
Corporate	-	4,420	-	4,420
Asset-backed	-	689	-	689
Mortgage-backed				
Agency	-	569	-	569
Non-agency	-	687	-	687
Non-rated	-	-	170	170
<b>Debt securities</b>	<b>2,686</b>	<b>8,845</b>	<b>170</b>	<b>11,701</b>
<b>Preferred shares<sup>1</sup></b>	<b>1,165</b>	<b>-</b>	<b>-</b>	<b>1,165</b>
<b>Common shares</b>	<b>3,262</b>	<b>-</b>	<b>33</b>	<b>3,295</b>
<b>Derivative financial assets (Table 7.2)</b>	<b>-</b>	<b>58</b>	<b>-</b>	<b>58</b>
<b>Total financial assets measured at fair value</b>	<b>7,113</b>	<b>8,903</b>	<b>203</b>	<b>16,219</b>
<b>Total financial liabilities measured at fair value</b>	<b>105</b>	<b>85</b>	<b>-</b>	<b>190</b>

<sup>1</sup> Includes perpetual preferred shares with call options amounting to \$1,296 million as at December 31, 2019 (\$1,017 million as at December 31, 2018). The fair value of the embedded derivatives component amounting to \$49 million as at December 31, 2019 (\$39 million as at December 31, 2018) was determined using a Level 3 methodology.

The fair value of loans was \$314 million as at December 31, 2019 (\$289 million as at December 31, 2018).

The carrying value of certain short-term financial instruments not measured at fair value is a reasonable approximation of their fair value.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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#### Note 10 – Financial risk

The Company has a comprehensive risk management framework and internal control procedures designed to manage and monitor various risks to protect the Company's business, clients, shareholders and employees. The risk management programs aim to manage risks that could materially impair the Company's financial position, accept risks that contribute to sustainable earnings and growth and disclose these risks in a full and complete manner.

Effective risk management consists in identifying, assessing, responding, monitoring, and reporting on all material risks that the Company is exposed to in the course of its operations. To make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of Directors ensures that the Company's management has put appropriate risk management programs in place. The Board of Directors, directly and through its Risk Management Committee, oversees the Company's risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the Risk Management Department through the Chief Risk Officer and internal auditors.

Table 10.1 – Financial risk

	Market risk	Basis risk	Credit risk	Liquidity risk
<b>Risk definition</b>	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity market prices, interest rates or spreads, foreign exchange rates or commodity market.	Risk that offsetting investments in an economic hedging strategy will not experience price changes that entirely offset each other.	Risk that counterparties may not be able to meet payment obligations when they become due.	Risk that the Company will encounter difficulty in raising funds to meet obligations associated with financial liabilities.
<b>Reference</b>	<i>Notes 10.1 and 10.2</i>	<i>Note 10.3</i>	<i>Note 10.4</i>	<i>Note 10.5</i>

#### 10.1 Market risk

Table 10.2 – Market risk

	Equity price risk	Interest rate and credit spread risk	Currency risk
<b>Risk definition</b>	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.
<b>Risk exposure</b>	Significant exposure to price changes for common shares and preferred shares, including pension plan equities.	Significant exposure to changes in interest rates from: <ul style="list-style-type: none"> <li>debt securities and preferred shares;</li> <li>defined benefit pension plan obligations, net of related debt securities; and</li> <li>net claims liabilities.</li> </ul>	A portion of the Company's net investment in foreign operations.  Investments supporting the Company's Canadian operations denominated in foreign currencies, mainly USD.  A portion of foreign currency inflows and outflows impacting the Company's operations.
<b>Risk management investment policy</b>	Set forth limits in terms of equity exposure.	Set forth limits in terms of interest rate and credit spread duration.	Set forth limits in terms of currency exposure.
<b>Risk mitigation</b>	Through asset class and economic sector diversification and, in some cases, the use of derivatives.	Using interest-rate derivatives.  Changes in the discount rate applied to the Company's claims liabilities offers a partial offset to the change in price of interest sensitive assets.	Using foreign currency derivatives.

The Operational Investment Committee and Compliance Review and Corporate Governance Committee regularly monitor and review compliance, respectively, with the Company's investment policies.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### a) Sensitivity analyses to market risk

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

Table 10.3 – Sensitivity analyses (after tax)

For the years ended December 31,	2019		2018	
	Net income	OCI	Net income	OCI
<b>Equity price risk</b>				
Common share prices (10% decrease) <sup>1</sup>	3	(241)	(11)	(202)
Preferred share prices (5% decrease) <sup>2,3</sup>	11	(64)	8	(51)
<b>Interest rate risk (100 basis point increase)</b>				
Debt securities <sup>4</sup>	(182)	(170)	(188)	(174)
Preferred shares	6	(36)	6	(37)
Net claims liabilities	184	-	168	-
Defined benefit pension plan obligation, net of related debt securities	-	111	-	87
<b>Currency risk (strengthening of Canadian dollar by 10% vs all currencies)<sup>5</sup></b>				
U.S. investments supporting the Company's Canadian operations	-	-	-	-
International securities	-	(20)	-	(19)
Net assets of foreign operations	32	(236)	-	(196)

<sup>1</sup> Net of any equity hedges, including the impact of any impairment.

<sup>2</sup> Including the impact on related embedded derivatives.

<sup>3</sup> The preferred share equity price risk sensitivity analysis includes the impact of interest rate movements.

<sup>4</sup> Excludes the impact of debt securities related to the defined benefits pension plan.

<sup>5</sup> After giving effect to foreign-exchange contracts.

These sensitivity analyses were prepared using the following assumptions:

- shifts in the yield curve are parallel;
- interest rates, equity prices and foreign currency move independently;
- credit, liquidity, spread and basis risks have not been considered;
- impact on the Company's pension plans has been considered; and
- risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.

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

#### b) Exposure to currency risk

Table 10.4 – Net foreign currency and translation exposure to the USD

As at December 31,	USD	
	2019	2018
U.S. investments supporting the Company's Canadian operations	1,370	1,255
Less: foreign-currency derivatives, notional amount	(1,363)	(1,236)
	7	19
Consolidated net assets of U.S. subsidiaries	2,176	1,769
U.S. debt related to the acquisition of The Guarantee and Frank Cowan	(306)	-
Less: foreign-currency derivatives, notional amount	(300)	(300)
	1,570	1,469
Other net assets denominated in USD	51	12
<b>Total net currency exposure to the USD</b>	<b>1,628</b>	<b>1,500</b>

In addition, the Company holds international securities amounting to \$272 million as at December 31, 2019 (\$254 million as at December 31, 2018).

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 10.2 Interest risk

The following table presents the fair value and respective duration of the Company's assets and liabilities measured at fair value, as well as financial instruments that are sensitive to movements in interest rates.

Table 10.5 – Interest risk

As at December 31,	2019		2018	
	Fair value	Duration (in years)	Fair value	Duration (in years)
Investments:				
Debt securities	11,826	3.73	11,701	3.69
Preferred shares	1,465	2.76	1,165	3.59
Net claims liabilities (Note 11.1)	10,546	2.38	9,877	2.29
Defined benefit pension plans				
Debt securities (Note 27.3)	1,730	18.2	1,285	12.3
Obligation (Note 27.2)	2,756	18.8	2,271	17.7

The Company manages the interest rate risk exposure of its investment portfolio in accordance with its investment policies. Compliance with interest rate risk exposure ranges and targets established in these policies is monitored regularly.

#### 10.3 Basis risk

The use of derivatives exposes the Company to several risks, including credit and market risks. The hedging of certain risks with derivatives results in basis risk. The imperfect correlation between the hedging instrument and hedged item creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company monitors the effectiveness of its economic hedges on a regular basis. Basis risk is controlled by limits prescribed in the investment policy, which are monitored regularly.

#### 10.4 Credit risk

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

##### a) Credit exposure

The table below presents the Company's maximum exposure to credit risk without considering any collateral held or other credit enhancements available to the Company to mitigate this risk. For on-balance sheet exposures, maximum exposure to credit risk is defined as the carrying value of the asset.

Table 10.6 – Maximum exposure to credit risk

As at December 31,	2019	2018
Cash and cash equivalents	936	442
Debt securities	11,826	11,701
Preferred shares	1,465	1,165
Loans	318	294
Premiums receivable	3,588	3,358
Reinsurance assets	1,511	864
Other financial assets <sup>1</sup>	773	676
<b>On-balance sheet credit risk exposure</b>	<b>20,417</b>	<b>18,500</b>
Structured settlements	1,454	1,264
<b>Off-balance sheet credit risk exposure</b>	<b>1,454</b>	<b>1,264</b>

<sup>1</sup> Mainly includes Other receivables and recoverables, Industry pools receivable, Financial assets related to investments, Restricted funds, Reinsurance receivable, Accrued investment income, Surplus notes and Contract assets.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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#### Structured settlements

The Company has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments. If the life insurers are in default, the Company may have to assume a financial guarantee obligation. Therefore, the net risk to the Company is any credit risk related to the life insurers. This credit risk is minimal since the Company deals with registered life insurers with credit rating of at least 'A-' at the inception of the contract.

#### b) Credit quality

The Company's risk management strategy is to invest in debt securities and preferred shares of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The Company's investment policy requires that, at the time of the investment, all debt securities have a minimum credit rating of 'BBB' and of 'P3' for preferred shares. This credit quality restriction excludes indirect investments through debt funds. In the case of funds, specific policy limits apply to manage the overall exposure to these investments. Management monitors subsequent credit rating changes on a regular basis.

The following tables present the credit quality of the Company's debt securities and preferred shares.

Table 10.7 – Credit quality of debt securities

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
<b>Debt securities</b>		
AAA	41%	43%
AA	30%	31%
A	19%	17%
BBB	8%	7%
BB and not rated	2%	2%
	<b>100%</b>	<b>100%</b>

Table 10.8 – Credit quality of preferred shares

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
P2	77%	84%
P3	23%	16%
	<b>100%</b>	<b>100%</b>

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### Notes to the Consolidated financial statements

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#### c) Credit risk concentration

Concentration of credit risk exists where several borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or industries.

#### Investments

The Company has a significant concentration of its investments in the financial sector and in Canada. These risk concentrations are closely monitored. To provide sector diversification, the Company holds investment-grade non-financial U.S. corporate bonds. The U.S. and international securities reduce the concentration risk in Canada.

Table 10.9 – Investment breakdown by country of incorporation and by industry

As at December 31,	Investments		Pension assets	
	2019	2018	2019	2018
<b>By country of incorporation</b>				
Canada	71%	69%	85%	85%
U.S.	27%	29%	8%	7%
Other	2%	2%	7%	8%
	100%	100%	100%	100%
<b>By industry</b>				
Government	30%	32%	46%	43%
Financials	26%	27%	21%	24%
ABS and MBS	11%	12%	-	-
Energy	6%	5%	5%	5%
Other	27%	24%	28%	28%
	100%	100%	100%	100%

For the Company's regulated subsidiaries, the assets invested in any entity or group of related entities are limited by OSFI and AMF to 5% of the subsidiaries' assets. In the U.S. similar limitations exist and vary depending on the state. The Company also monitors aggregate concentrations of credit risk by country of issuer and by industry regardless of the asset class (see Note 14.4 – Risk management and counterparty credit risk). The Company applies limits against that aggregate exposure, which are more conservative than OSFI's limits. Investment portfolio diversification helps to mitigate credit risk and is monitored against established guidelines with respect to exposure to individual issuers.

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

## Notes to the Consolidated financial statements

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

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### d) Counterparty credit risk

Counterparty credit risk arises from reinsurance (*see Note 14.4 – Risk management and counterparty credit risk*), over-the-counter derivatives, as well as securities lending and borrowing transactions.

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

Credit risk from over-the-counter derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of an over-the-counter instrument and is normally a small fraction of the contract's notional amount. In addition, the Company may be subject to wrong-way risk arising from certain derivative transactions. Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

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

The Company subjects its derivative-related, as well as securities lending and borrowing credit risk to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a monthly review by the Operational Investment Committee. The Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of 'A-' and an issuer credit spread below established thresholds or has a guarantee from a company rated 'A-' or better.

The Company uses netting clauses in master derivative agreements to reduce derivative-related credit exposure. Netting clauses in master derivative agreements provide for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Company's financial obligations toward the counterparty to such an agreement can be set off against obligations such counterparty has toward the Company. The overall exposure to credit risk that is reduced through the netting clauses may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as by changes in underlying market rates and values.

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

The aggregate credit risk exposure was \$130 million as at December 31, 2019 (\$135 million as at December 31, 2018) and is the sum of the replacement cost net of collateral plus an add-on amount for potential future credit exposure. The risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

### 10.5 Liquidity risk

The Company's liquidity management is governed by establishing a prudent policy that identifies oversight responsibilities as well as by setting limits and implementing effective techniques to monitor, measure and control exposure to liquidity risk. Given the nature of the Company's P&C insurance activities, cash flows may be highly volatile and unpredictable.

The Company's liquidity needs are rigorously managed by matching asset and liability cash flows and by establishing forecasts for cash inflows and outflows. The Company invests in various types of assets to match them to its liabilities. This method maps the obligations towards insured clients to asset life and performance. The Company reviews the matching status on a quarterly basis. To manage its cash flow requirements, a portion of the Company's investments is maintained in short-term (less than one year) highly liquid money market securities. A large portion of the investments are unencumbered and held in highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements. In addition, the Company also has an unsecured committed credit facility (*see Note 19.3 – Credit facility*).

**INTACT FINANCIAL CORPORATION**

**Notes to the Consolidated financial statements**

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

**a) Investments and derivative financial assets by contractual maturity**

Table 10.10 – Investments and derivative financial assets by contractual maturity

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
<b>As at December 31, 2019</b>					
Cash and cash equivalents	936	-	-	-	936
Debt securities	993	5,668	4,919	246	11,826
Preferred shares	3	13	8	1,441	1,465
Common shares	-	-	-	4,063	4,063
Loans	12	43	263	-	318
	1,944	5,724	5,190	5,750	18,608
Derivative financial assets	29	-	-	-	29
	1,973	5,724	5,190	5,750	18,637
<b>As at December 31, 2018</b>					
Cash and cash equivalents	442	-	-	-	442
Debt securities	1,078	5,559	4,894	170	11,701
Preferred shares	11	12	8	1,134	1,165
Common shares	-	-	-	3,295	3,295
Loans	2	40	252	-	294
	1,533	5,611	5,154	4,599	16,897
Derivative financial assets	58	-	-	-	58
	1,591	5,611	5,154	4,599	16,955

**b) Financial liabilities by contractual maturity**

Table 10.11 – Financial liabilities by contractual maturity

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
<b>As at December 31, 2019</b>					
Claims liabilities – undiscounted value	3,772	6,200	1,834	-	11,806
Debt outstanding	-	1,068	1,267	27	2,362
Other financial liabilities <sup>1</sup>	962	112	29	745	1,848
	4,734	7,380	3,130	772	16,016
<b>As at December 31, 2018</b>					
Claims liabilities – undiscounted value	4,182	4,700	1,852	-	10,734
Debt outstanding	250	692	1,267	-	2,209
Other financial liabilities	950	77	31	599	1,657
	5,382	5,469	3,150	599	14,600

<sup>1</sup> Excludes lease liabilities (refer to Table 31.1 – Lease liabilities by contractual maturity).

The contractual maturity of claims liabilities is determined by estimating when claims liabilities will be settled. Unearned premiums have been excluded because they do not constitute actual obligations.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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#### Note 11 – Claims liabilities

On the Consolidated balance sheets, claims liabilities are reported gross of the reinsurers' share, which is included in Reinsurance assets. Changes in claims liabilities, net of reinsurance, are reported in Net claims incurred.

##### 11.1 Movements in claims liabilities

Table 11.1 – Movements in claims liabilities

For the years ended	Direct	Ceded	Net
<b>December 31, 2019</b>			
Balance, beginning of year	10,623	746	9,877
Current year claims	7,016	188	6,828
Unfavourable (favourable) prior-year claims development	163	127	36
Increase (decrease) due to changes in discount rate (Note 11.2)	143	18	125
Total claims incurred	7,322	333	6,989
Claims paid	(6,872)	(232)	(6,640)
Loss portfolio transfer (Note 14)	-	158	(158)
Business combinations (Note 5)	887	327	560
Exchange rate differences	(114)	(32)	(82)
<b>Balance, end of year</b>	<b>11,846</b>	<b>1,300</b>	<b>10,546</b>
<b>December 31, 2018</b>			
Balance, beginning of year	10,475	729	9,746
Current year claims	6,783	180	6,603
Unfavourable (favourable) prior-year claims development	(115)	51	(166)
Increase (decrease) due to changes in discount rate (Note 11.2)	(111)	(14)	(97)
Total claims incurred	6,557	217	6,340
Claims paid	(6,586)	(241)	(6,345)
Business combinations	(2)	-	(2)
Exchange rate differences	179	41	138
<b>Balance, end of year</b>	<b>10,623</b>	<b>746</b>	<b>9,877</b>

##### 11.2 Fair value of claims liabilities

The Company estimates that the fair value of its net claims liabilities approximates their carrying values.

Table 11.2 – Carrying value of claims liabilities

As at	Direct	Ceded	Net
<b>December 31, 2019</b>			
Undiscounted value	11,806	1,261	10,545
Effect of time value of money <sup>1</sup>	(605)	(74)	(531)
Risk margin	645	113	532
	<b>11,846</b>	<b>1,300</b>	<b>10,546</b>
<b>December 31, 2018</b>			
Undiscounted value	10,734	731	10,003
Effect of time value of money <sup>1</sup>	(693)	(64)	(629)
Risk margin	582	79	503
	<b>10,623</b>	<b>746</b>	<b>9,877</b>

<sup>1</sup> Using a discount rate of 2.17% for Canada and 2.32% for the U.S. as at December 31, 2019 (2.73% and 3.25% respectively as at December 31, 2018).

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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#### 11.3 Significant accounting judgments, estimates and assumptions

The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including LAE incurred with respect to insurance contracts underwritten by the Company. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with generally accepted actuarial methods.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim (severity) and average number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analyzed by accident years, by geographical area, as well as by significant business line and claim type. Catastrophic events are separately addressed, either by being reserved at the face value of loss adjuster estimates in the case of very large losses or separately projected to reflect their future development which might differ from historical data in the case of catastrophic events. Expected claim cost inflation is also considered when estimating claims liabilities.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, considering the uncertainties involved ("best estimate"). Actuaries are required to include margins in some assumptions to recognize the uncertainty in establishing this best estimate, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits.

The determination of the overall risk margin considers:

- the level of uncertainty in the best estimate due to estimation error, variability of key inflation assumptions and possible economic and legislative changes; and
- the volatility of each line of business and the diversification between the lines of business and geographic regions (referred to as diversification benefit).

At a fixed probability of adequacy, the appropriate risk margin for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. The level of diversification assumed between classes considers industry analysis, historical experience and the judgement of experienced and qualified actuaries. With operations in Canada and the U.S., the risk margin assumption used reflects this diversification benefit as at December 31, 2019 and 2018.

#### 11.4 Sensitivity analysis

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

Table 11.3 – Sensitivity analysis (claims liabilities net of reinsurance) – Impact on Net income

As at December 31,		2019		2018	
		Canada	U.S.	Canada	U.S.
Average claim costs (severity)	+5%	(317)	(54)	(282)	(61)
Average number of claims (frequency)	+5%	(65)	(7)	(52)	(19)
Discount rate	+1%	161	21	138	24

A portion of the Company's investments backing its claims liabilities has been voluntarily designated as FVTPL to reduce the volatility caused by fluctuations in the value of underlying claims liabilities due to changes in discount rates.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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#### 11.5 Prior-year claims development

The claims development table below demonstrates the extent to which the original claim cost estimates in any one accident year has subsequently developed favourably (lower than originally estimated) or unfavourably. This table illustrates the variability and inherent uncertainty in estimating the claims estimate on a yearly basis. The ultimate claims cost for any accident year is not known until all claims payments have been made. For property insurance, payout of claims liabilities generally occurs shortly after the occurrence of the loss. For casualty (long-tailed) coverages, the loss may not be paid, or even reported, until well after the loss occurred. The estimated ultimate claims payments at the end of each subsequent accident year demonstrate how the original estimate has been revised over time.

The outstanding claims liabilities assumed and revised estimates resulting from a business combination are included in the claims development table from the date of acquisition. Prior years are adjusted to ensure comparability while avoiding the presentation of development in pre-acquisition accident years.

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

Table 11.4 – Prior-year claims development – net

As at December 31, 2019	Total	Accident year										
		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Earlier
Undiscounted claims liabilities outstanding at end of accident year		3,441	3,315	3,414	3,048	2,746	2,639	2,613	2,432	2,344	2,059	-
Revised estimates												
One year later			3,222	3,266	3,085	2,643	2,568	2,552	2,399	2,245	1,944	-
Two years later				3,236	3,091	2,678	2,562	2,516	2,319	2,174	1,917	-
Three years later					3,153	2,699	2,579	2,507	2,277	2,090	1,881	-
Four years later						2,719	2,590	2,503	2,251	2,050	1,857	-
Five years later							2,578	2,513	2,228	2,018	1,813	-
Six years later								2,484	2,224	1,988	1,789	-
Seven years later									2,208	1,966	1,766	-
Eight years later										1,953	1,751	-
Nine years later											1,747	-
Current estimate		3,441	3,222	3,236	3,153	2,720	2,578	2,484	2,208	1,953	1,747	
Claims paid to date			(1,310)	(1,730)	(2,028)	(2,022)	(2,147)	(2,214)	(2,050)	(1,850)	(1,683)	
<b>Net undiscounted claims liabilities</b>	<b>9,996</b>	3,441	1,912	1,506	1,125	698	431	270	158	103	64	288
<b>Discounting and risk margin</b>	<b>(6)</b>											
<b>Net claims discounted – The Guarantee</b>	<b>556</b>	160	93	60	45	36	26	25	15	13	11	72
<b>Net claims liabilities</b>	<b>10,546</b>											

The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still open or claims still unreported.

To eliminate the distortion resulting from changes in foreign currency rates, all amounts denominated in currencies other than the CAD have been translated into CAD using the exchange rate in effect as at December 31, 2019.

#### 11.6 Industry pools

**Canadian operations** – When certain automobile owners are unable to obtain insurance via the voluntary insurance market in Canada, they are insured via the FA. In addition, entities can choose to cede certain risks to the FA administered RSP. The related risks associated with FA insurance policies and policies ceded to the RSP are aggregated and shared by the entities in the Canadian P&C insurance industry, generally in proportion to market share and volume of business ceded to the RSP.

**U.S. operations** – As a condition of its license to do business in certain states in the U.S., the Company is required to participate in various mandatory shared market mechanisms commonly referred to as residual or involuntary markets. Each state dictates the type of insurance and the level of coverage that must be provided.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### Note 12 – Unearned premiums

##### 12.1 Movements in unearned premiums

Unearned premiums represent the portion of DPW that the Company has not yet earned as it represents insurance coverage to be provided by the Company after the balance sheet date. There was no premium deficiency as at December 31, 2019 and 2018.

Table 12.1 – Movements in unearned premiums

For the years ended	Direct	Ceded	Net
<b>December 31, 2019</b>			
Balance, beginning of year	5,412	118	5,294
Premiums written	11,019	443	10,576
Premiums earned <sup>1</sup>	(10,720)	(445)	(10,275)
Loss portfolio transfer (Note 14)	-	27	(27)
Business combinations (Note 5)	289	74	215
Exchange rate differences	(40)	(6)	(34)
<b>Balance, end of year</b>	<b>5,960</b>	<b>211</b>	<b>5,749</b>
<b>December 31, 2018</b>			
Balance, beginning of year	5,365	93	5,272
Premiums written	10,125	393	9,732
Premiums earned	(10,139)	(374)	(9,765)
Exchange rate differences	61	6	55
<b>Balance, end of year</b>	<b>5,412</b>	<b>118</b>	<b>5,294</b>

<sup>1</sup> Premiums earned ceded includes the net cost of \$13 million from the loss portfolio transfer (see Note 14 - Reinsurance).

#### Note 13 – Insurance risk

The Company principally underwrites automobile, home and commercial P&C contracts to individuals and businesses in Canada. The Company also offers a wide range of specialty insurance products to small and midsize businesses in the U.S.

Most of the insurance risk to which the Company is exposed is of a short-tail nature. The average duration of claims liabilities was approximately 2.5 years for Canadian operations and 1.9 years for the U.S. operations as at December 31, 2019 (2.4 years for Canada and 2 years for the U.S. as at December 31, 2018). Policies generally cover a 12-month period.

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

- underwriting and pricing (Note 13.1);
- fluctuation in the timing, frequency and severity of claims relative to expectations (Note 13.2);
- large unexpected losses arising from a single event such as a catastrophe (Note 13.3);
- claims liability risk (Note 13.4); and
- inadequate reinsurance protection (Note 14.4).

Insured events can occur at any time during the coverage period and can generate losses of variable amounts. An objective of the Company is to ensure that sufficient claims liabilities are established to cover future insurance claim payments related to past insured events. The Company's success depends upon its ability to accurately assess the risk associated with the insurance contracts underwritten by the Company. The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including LAE incurred with respect to insurance contracts underwritten by the Company.

Claims liabilities are the Company's best estimates of its expected ultimate cost of resolution and administration of claims. Expected claim cost inflation is considered when estimating claims liabilities, thereby mitigating inflation risk. The composition of the Company's insurance risk, as well as the methods employed to mitigate risks, are described hereafter.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 13.1 Underwriting and pricing risks

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

In order to properly monitor the Company's risk appetite, guidance on pricing targets is provided by the Risk Management Department. Pricing targets are established using a return on equity model and an internal risk-based capital model.

#### a) Concentration by countries and lines of business

Table 13.1 – Concentration by countries and lines of business

As at December 31,	2019		2018	
	DPW	Net claims liabilities	DPW	Net claims liabilities
<b>By countries</b>				
Canada	84%	86%	84%	82%
U.S.	16%	14%	16%	18%
	100%	100%	100%	100%
<b>By lines of business</b>				
Personal auto	35%	47%	36%	47%
Personal property	21%	7%	21%	6%
Commercial lines - Canada	28%	32%	27%	29%
Commercial lines - U.S.	16%	14%	16%	18%
	100%	100%	100%	100%

Risks associated with commercial lines and personal property insurance contracts may vary in relation to the geographical area of the risk insured by the Company. For instance, legislation for automobile insurance is in place at a provincial level in Canada and this creates differences in the benefits provided among the provinces.

The Company's exposure to concentration of insurance risk, in terms of type of risk and level of insured benefits, is mitigated by careful selection and implementation of underwriting strategies, which is in turn largely achieved through diversification across industry sectors and geographical areas. Diversification also reduces the uncertainty associated with the unfavourable development of claims liabilities for both our Canadian and U.S. operations. The Company maintains Growth and Profitability Committees responsible for balancing growth and profitability of our insurance business and ensuring we remain adequately compensated for the risks that we underwrite.

The Enterprise Risk Committee monitors the Company's overall risk profile, aiming for a balance between risk, return and capital and determines policies concerning the Company's risk management framework. Its mandate is to identify, measure and monitor risks, as well as avoid risks that are outside of the Company's risk tolerance level. Further, to minimize unforeseen risks, new products are subject to an internal product and approval review process. The Company also uses reinsurance under its strategy for managing the underwriting risk. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect the Company's ceded premium volume and profitability. Reinsurance companies exclude some types of coverage from the contracts that the Company purchases from them or may alter the terms of such contracts from time to time. These gaps in reinsurance protection expose the Company to greater risk and greater potential loss and could adversely affect its ability to underwrite future business. Where the Company cannot successfully mitigate risk through reinsurance arrangements, consideration is given to reducing premiums written to lower its risk.

## Notes to the Consolidated financial statements

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

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### 13.2 Risk related to the timing, frequency and severity of claims

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

Strict claim review policies are in place to assess all new and ongoing claims. Regular detailed reviews of claims handling procedures and frequent investigations of possible fraudulent claims reduce the Company's risk exposure. Further, the Company enforces a policy of actively managing and promptly pursuing claims, to reduce its exposure to unpredictable future developments that could negatively impact the business. The Company has established a Large Loss Committee responsible for analyzing large losses and contentious matters to ensure that appropriate claims liabilities are established and approved.

### 13.3 Catastrophe risk

Catastrophe risk is the risk of occurrence of a catastrophe defined as any one claim, or group of claims related to a single event such as a natural disaster or any climatic, environmental, technological, political, and geopolitical risk. Catastrophes can have a significant impact on the underwriting income of an insurer. Changing climate conditions may add to the unpredictability and frequency of natural disasters and create additional uncertainty as to future trends and exposures.

The Company manages its exposure to catastrophe risk by imposing limits of insurance, deductibles, exclusions and strong underwriting guidelines on contracts, as well as by using reinsurance arrangements. The placement of ceded reinsurance is almost exclusively on an excess-of-loss basis (per event or per risk), but some proportional cessions are performed on specific portfolios. Ceded reinsurance complies with regulatory guidelines. Retention limits for the excess-of-loss reinsurance vary by product line. *See Note 14.1 – Company's reinsurance net retention and coverage limits by nature of risk.*

### 13.4 Claims liability risk

The principal assumption underlying the claims liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

- average claim costs, including claim handling costs (severity);
- average number of claims by accident year (frequency);
- trends in claim severity and frequency;
- payment patterns;
- other factors such as inflation, expected or in-force government pricing and coverage reforms, and level of insurance fraud;
- discount rate; and
- risk margin (*see Note 11.3 for more details*).

*See Note 11.4 for the sensitivity analysis of claims liabilities to certain key assumptions.*

Most or all the qualitative factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Company's ability to accurately assess the risk of insurance contracts that the Company underwrites. There may also be significant lags between the occurrence of the insured event and the time it is reported to the Company and additional lags between the time of reporting and final settlement of claims.

The Company refines its claims liabilities estimates on an ongoing basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process. Reserving policies are overseen by the Company's Reserve Review Committee.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### Note 14 – Reinsurance

##### 14.1 Company's reinsurance net retention and coverage limits by nature of risk

In the ordinary course of business, the Company reinsures certain risks with other reinsurers to limit its maximum loss in the event of catastrophic events or other significant losses. The following table shows the Company's reinsurance net retention and coverage limits by nature of risk.

Table 14.1 – Company's reinsurance net retention and coverage limits by nature of risk

As at December 31	2019	2018 <sup>1</sup>
<b>Single risk events</b>		
Retentions in Canada:		
on property policies	7.5	7.5
on liability policies	5 - 10	5 - 10
Retentions in the U.S. (in USD):		
on property and liability policies	3	3
<b>Multi-risk events and catastrophes</b>		
Retention	100	100
Coverage limits	4,050	3,800

<sup>1</sup> Since January 1, 2018, OneBeacon Insurance Group, Ltd.'s ("OneBeacon") operations are covered by the multi-risk events and catastrophes reinsurance program. Until April 30, 2018, the losses resulting from any single catastrophe above US\$20 million and up to US\$130 million were being reinsured externally.

For certain special classes of business or types of risks, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance. For multi-risk events and catastrophes, the Company retains participations averaging 5.5% as at December 31, 2019 (5.6% as at December 31, 2018) on reinsurance layers between the retention and coverage limit. The coverage limit prudently exceeds the Company's risk assessment of an earthquake in Western Canada at a 1-in-500-year return period. As at January 1, 2020, the Company increased its coverage to \$5,300 million and retains participations averaging 10.2% on reinsurance layers between the retention and coverage limit to increase its already conservative protection.

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

##### Loss portfolio transfer

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

##### The Guarantee

As at December 31, 2019, the operations of The Guarantee were covered by their own reinsurance program for single risk events, multi-risk events and catastrophes. Under the property catastrophe reinsurance program, the first \$7 million of losses resulting from any multi-risk event are retained, with the coverage limit for the next \$168 million of losses being entirely reinsured. The Guarantee also purchased dedicated reinsurance protection for certain lines of business.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 14.2 Components of reinsurance assets

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums.

Table 14.2 – Components of reinsurance assets

As at December 31,	2019	2018
Reinsurers' share of claims liabilities ( <i>Note 11.1</i> )	1,300	746
Reinsurers' share of unearned premiums ( <i>Note 12.1</i> )	211	118
	1,511	864

#### 14.3 Net recovery (expense) from reinsurance

Table 14.3 – Net recovery (expense) from reinsurance

For the years ended December 31,	2019	2018
Ceded earned premiums ( <i>Note 12.1</i> )	(445)	(374)
Ceded claims incurred ( <i>Note 11.1</i> )	333	217
Commissions earned on ceded reinsurance	45	42
	(67)	(115)

#### 14.4 Risk management and counterparty credit risk

The Company relies on reinsurance to manage underwriting risk. Under reinsurance programs, management considers that for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes the significant insurance risk related to the underlying reinsured risks and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance.

Although reinsurance makes the assuming reinsurer liable to the Company to the extent of the risk ceded, the Company is not relieved of its primary liability to its policyholders as the direct insurer. There is no certainty that its reinsurers will pay all reinsurance claims on a timely basis or at all. As a result, the Company bears credit risk with respect to its reinsurers on potential future recoverables and collectability of balances due from reinsurers is important to the Company's financial strength.

The Company is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. The Company's placement of reinsurance is diversified such that it is not dependent on a single reinsurer and the Company's operations are not substantially dependent upon any single reinsurance contract. The Company monitors the financial strength of its reinsurers on a regular basis. Uncollectible amounts historically have not been significant.

Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at December 31, 2019 and 2018.

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

#### Canadian operations

The Company has collateral in place to support amounts receivable and recoverable from unregistered reinsurers. The Company is the assigned beneficiary of collateral consisting of cash, security agreements and letters of credit totalling \$97 million as at December 31, 2019 (\$95 million as at December 31, 2018) as guarantees from unregistered reinsurers. This collateral is held in support of policy liabilities of \$61 million as at December 31, 2019 (\$58 million as at December 31, 2018) and could be used should these reinsurers be unable to meet their obligations.

#### U.S. operations

The Company has collateral in place to support amounts receivable and recoverable mainly from unauthorized reinsurers. The Company is the assigned beneficiary of collateral consisting of cash, security agreements and letters of credit totalling \$147 million as at December 31, 2019 (\$154 million as at December 31, 2018) as guarantees from unauthorized reinsurers. This collateral is held in support of policy liabilities of \$135 million as at December 31, 2019 (\$136 million as at December 31, 2018) and could be used should these reinsurers be unable to meet their obligations.

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements

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

Note 15 – Goodwill and intangible assets

15.1 Summary of goodwill and intangible assets

Table 15.1 – Reconciliation of the carrying value of goodwill and intangible assets.

	Intangible assets				Total intangible assets
	Goodwill	Distribution networks and trade names	Customer relationships	Internally developed software	
<b>Cost</b>					
Balance as at January 1, 2019	2,399	1,786	428	543	2,757
Acquisitions and costs capitalized	59	-	53	78	131
Business combinations (Note 5)	220	327	41	19	387
Disposals and write-off	(8)	-	(39)	(4)	(43)
Exchange rate differences	(44)	(41)	-	(3)	(44)
<b>Balance as at December 31, 2019</b>	<b>2,626</b>	<b>2,072</b>	<b>483</b>	<b>633</b>	<b>3,188</b>
<b>Accumulated amortization</b>					
Balance as at January 1, 2019	-	(75)	(244)	(238)	(557)
Amortization expense	-	(52)	(36)	(52)	(140)
Disposals and write-off	-	-	22	4	26
Exchange rate differences	-	3	-	3	6
<b>Balance as at December 31, 2019</b>	<b>-</b>	<b>(124)</b>	<b>(258)</b>	<b>(283)</b>	<b>(665)</b>
<b>Net carrying value</b>	<b>2,626</b>	<b>1,948</b>	<b>225</b>	<b>350</b>	<b>2,523</b>
<b>Cost</b>					
Balance as at January 1, 2018	2,284	1,719	407	517	2,643
Acquisitions and costs capitalized	39	-	22	75	97
Business combinations	4	-	-	-	-
Disposals and write-off	-	-	(1)	(55)	(56)
Exchange rate differences	72	67	-	6	73
<b>Balance as at December 31, 2018</b>	<b>2,399</b>	<b>1,786</b>	<b>428</b>	<b>543</b>	<b>2,757</b>
<b>Accumulated amortization</b>					
Balance as at January 1, 2018	-	(31)	(211)	(240)	(482)
Amortization expense	-	(41)	(34)	(45)	(120)
Disposals and write-off	-	-	1	52	53
Exchange rate differences	-	(3)	-	(5)	(8)
<b>Balance as at December 31, 2018</b>	<b>-</b>	<b>(75)</b>	<b>(244)</b>	<b>(238)</b>	<b>(557)</b>
<b>Net carrying value</b>	<b>2,399</b>	<b>1,711</b>	<b>184</b>	<b>305</b>	<b>2,200</b>

Intangible assets under development amounted to \$77 million as at December 31, 2019 (\$53 million as at December 31, 2018). These intangible assets are not subject to amortization but are tested for impairment on an annual basis.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 15.2 Significant accounting judgments, estimates and assumptions

##### a) Allocation of goodwill and intangible assets with indefinite lives to the group of CGUs

Goodwill and intangible assets with indefinite lives are allocated to CGUs, or groups of CGUs, that are expected to benefit from the business combination in which they arose.

Table 15.2 – Allocation of goodwill and intangible assets with indefinite lives to the groups of CGUs

As at December 31,	Goodwill		Intangible assets	
	2019	2018	2019	2018
Canada	1,737	1,499	829	820
U.S. <sup>1</sup>	889	900	8	50
	2,626	2,399	837	870

<sup>1</sup> In 2019, the Company reviewed the useful life of its intangible assets with indefinite lives as a result it reclassified \$40 million from indefinite to finite useful life prospectively.

In connection with the acquisitions completed in 2019, Goodwill in the amounts of \$186 and \$34 were allocated to the Canada and U.S. groups of CGUs respectively (*refer to Note 5 – Business combinations*).

##### b) Impairment testing of goodwill and intangible assets with indefinite lives

The Company determines whether goodwill and intangible assets with indefinite useful lives (not subject to amortization) are impaired at least annually and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable at the CGU or group of CGUs level.

The annual impairment tests for the groups of CGUs were performed as at June 30, 2019 and 2018.

The Canada and U.S. groups of CGUs, which correspond to the Company's operating segments, were tested for impairment by comparing their carrying value to their recoverable amount, which has been determined based on a value in use calculation using the following key estimates and assumptions:

- Cash flow projections for the next three years are based on financial budgets approved by the Board of Directors and determined using budgeted margins based on past performance and management expectations for the Canada and U.S. groups of CGUs and their industry.
- Cash flow projections beyond the three-year period are extrapolated using estimated growth rates, based mainly on the Canadian and U.S. inflation, as well as demographic or gross domestic product growth perspectives.
- Pre-tax discount rate is based on the weighted-average cost of capital for comparable companies whose activities are similar to the Canada and U.S. groups of CGUs.

Table 15.3 – Key assumptions used (groups of CGUs)

	Growth rate		Pre-tax discount rate	
	2019	2018	2019	2018
Canada	2.5%	2.5%	9.5%	9.0%
U.S.	3.9%	3.9%	10.6%	11.6%

No impairment loss on goodwill or intangible assets with indefinite lives has been recognized for these CGUs for the years ended December 31, 2019 and 2018.

The key assumptions used to determine the recoverable amount of each group of CGUs were tested for sensitivity by applying a reasonably possible change to those assumptions, with all other assumptions held constant. The results of the sensitivity analysis would not have resulted in an impairment of the Canada and U.S. groups of CGUs. Since the acquisitions completed in 2019 were recent the related goodwill was already at fair value (*refer to Note 5 – Business combinations*).

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

(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

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Balance, beginning of year	600	550
Acquisitions, net of sales	109	36
Dividends received	(20)	(15)
Share of profit (loss) recorded in:		
net income	31	25
OCI	(5)	4
<b>Balance, end of year</b>	<b>715</b>	<b>600</b>
Of which:		
associates	431	436
joint ventures	284	164

During 2019, there were no events or changes in circumstances that indicated that the carrying values of Company's investments in associates and joint ventures, all of which are investments in private entities, may not be recoverable.

#### Note 17 – Property and equipment

##### 17.1 Net carrying value of property and equipment

Table 17.1 – Net carrying value of property and equipment

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Right-of-use assets <sup>1</sup>	373	-
Furniture and equipment	74	59
Leasehold improvements	58	61
Land and buildings	33	35
Finance leases	-	15
	<b>538</b>	<b>170</b>

<sup>1</sup> Right-of-use assets were recognized on January 1, 2019 and were mainly related to real estate for which additions for the year ended December 31, 2019 amounted to \$61 million. Total additions to right-of-use assets related to business combinations was \$37 million.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### Note 18 – Other assets and other liabilities

##### 18.1 Other assets

Table 18.1 – Components of other assets

As at December 31,	2019	2018
Other receivables and recoverables	178	92
Industry pools receivable	137	104
Financial assets related to investments	106	139
Restricted funds	95	103
Investments, at cost	90	66
Reinsurance receivable	77	96
Accrued investment income	77	80
Prepays	59	48
Premium and sale taxes receivable	40	41
Surplus notes <sup>1</sup>	36	28
Contract assets <sup>2</sup>	34	-
Other	39	44
	<b>968</b>	<b>841</b>

<sup>1</sup> Recorded at fair value based on a discounted cash flow model using information as of the measurement date and classified in Level 3 of the fair value hierarchy.

<sup>2</sup> Unbilled revenues related to supply chain operations.

During 2019, there were no events or changes in circumstances that indicated that the carrying values of Investments at cost may not be recoverable.

##### 18.2 Other liabilities

Table 18.2 – Components of other liabilities

As at December 31,	2019	2018
Lease liabilities ( <i>see Notes 4.1 and 31.1</i> )	461	15
Deposits received in connection with insurance contracts <sup>1</sup>	363	366
Pension plans in a deficit position and unfunded plans ( <i>Note 27.1</i> )	284	191
Premium and sale taxes payable	266	251
Accrued salaries and related compensation	252	244
Commissions payable	189	196
Account payables and accrued expenses	158	107
Contingent considerations <sup>2</sup>	143	21
Industry pools payable	131	101
Reinsurance payable	55	34
Other post-employment benefits and other post-retirement benefits	54	51
Deposits received from reinsurers	16	14
Other payables and other liabilities	274	273
	<b>2,646</b>	<b>1,864</b>

<sup>1</sup> Unrestricted collateral held by the Company primarily in relation with the surety business.

<sup>2</sup> Recorded at fair value based on future profitability metrics, discounted using information as of the measurement date and classified in Level 3 of the fair value hierarchy (*refer to Note 5 – Business combinations*).

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

## Note 19 – Debt outstanding

### 19.1 Summary of debt outstanding

Table 19.1 – Carrying value of debt outstanding

As at December 31,	Maturity date	Initial term (years)	Fixed rate	Coupon (payment)	Principal amount	Carrying value (net of fees)	
						2019	2018
<b>Term notes</b>							
Series 1	Sept. 2019	10	5.41%	Mar. & Sept.	250	-	250
Series 2	Nov. 2039	30	6.40%	May & Nov.	250	248	248
Series 3	July 2061	50	6.20%	Jan. & July	100	99	99
Series 4	Aug. 2021	10	4.70%	Feb. & Aug.	300	300	299
Series 5	June 2042	30	5.16%	June & Dec.	250	249	249
Series 6	Mar. 2026	10	3.77%	Mar. & Sept.	250	249	249
Series 7	June 2027	10	2.85%	June & Dec.	425	422	422
<b>2012 U.S. Senior Notes</b>	Nov. 2022	10	4.60%	May & Nov.	USD275	370	393
<b>Term loan (see below)</b>					USD200	260	-
<b>Credit facility (Note 19.3)</b>						165	-
						<b>2,362</b>	<b>2,209</b>

The term notes are accounted for at amortized cost which equals their carrying value. They may be redeemed at the option of the issuer, in whole or in part at any time, at a redemption price equal to the greater of the Government of Canada Yield at the date of redemption plus a margin or their par value. On September 3, 2019, the Company repaid its Series 1 term notes on maturity.

On November 29, 2019, the Company entered into a US\$200 million (\$266 million) 18-month term loan agreement at a rate of Libor plus 0.50% and borrowed US\$106 million (\$141 million) on its credit facility to finance the acquisition of The Guarantee and Frank Cowan. The credit facility was repaid in full on January 2, 2020.

Fair value of debt outstanding amounted to \$2,650 million as at December 31, 2019 (December 31, 2018 – \$2,365 million) and was established using valuation data from a benchmark firm. As at December 31, 2019 and 2018, the Company was in compliance with all debts covenants.

### 19.2 Movement in the Company's debt outstanding

Table 19.2 – Movement in the Company's debt outstanding

For the year ended December 31,	2019	2018
Balance, beginning of year	2,209	2,241
Cash flows from financing activities		
Proceeds from issuance of debt	266	-
Borrowing (repayment) on the credit facility, net	145	(60)
Repayment of term notes on maturity	(250)	-
Business combinations (Note 5)	23	
Exchange rate differences	(27)	31
Other	(4)	(3)
<b>Balance, end of year</b>	<b>2,362</b>	<b>2,209</b>

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 19.3 Credit facility

The Company has an unsecured revolving term credit facility available for an amount of \$750 million. As at December 31, 2019, there was a balance of US\$106 million (\$138 million) drawn under this credit facility (December 31, 2018 - nil). In November 2019, the Company extended the maturity of this credit facility by 15 months and now matures on November 26, 2024 and may be drawn as follows:

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

As part of the covenants of the loans under the credit facility, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2019 and 2018.

#### Note 20 – Common shares and preferred shares

##### 20.1 Authorized

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

##### 20.2 New financing

On December 2, 2019, concurrent to the acquisition of The Guarantee and Frank Cowan, 3,829,500 subscription receipts ("receipts") were converted into 3,829,500 common shares. The Company completed its offering of receipts on August 26, 2019 at a price of \$120.45 per receipt, for aggregate gross proceeds of \$461 million. Share issuance costs of \$17 million (\$12 million after tax), were accounted for as a reduction in common shares on the Consolidated balance sheets.

##### 20.3 Issued and outstanding

Table 20.1 – Issued and outstanding shares

As at December 31,	2019		2018	
	Number of shares	Amount (in millions)	Number of shares	Amount (in millions)
<b>Common shares</b>	<b>143,018,134</b>	<b>3,265</b>	139,188,634	2,816
<b>Preferred shares - Class A Shares</b>				
Series 1	10,000,000	244	10,000,000	244
Series 3	8,405,004	206	8,405,004	206
Series 4	1,594,996	39	1,594,996	39
Series 5	6,000,000	147	6,000,000	147
Series 6	6,000,000	147	6,000,000	147
Series 7	10,000,000	245	10,000,000	245
<b>Total Class A</b>	<b>42,000,000</b>	<b>1,028</b>	42,000,000	1,028

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

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

Table 20.2 – Reconciliation of number of shares outstanding

As at December 31,	Common shares (in shares)		Preferred shares Class A shares (in shares)	
	2019	2018	2019	2018
Balance, beginning of year	139,188,634	139,188,634	42,000,000	32,000,000
Issued	3,829,500	-	-	10,000,000
<b>Balance, end of year</b>	<b>143,018,134</b>	139,188,634	<b>42,000,000</b>	42,000,000

On May 29, 2018, the Company completed a Class A Series 7 offering of preferred shares (the “Series 7 Preferred Shares”) by issuing and selling 10,000,000 Series 7 Preferred Shares, at a price of \$25.00 per share, for aggregate gross proceeds of \$250 million. Share issuance costs of \$7 million (\$5 million after tax), were accounted for as a reduction in preferred shares on the Consolidated balance sheets.

#### 20.4 Dividends declared and paid per share

Table 20.3 – Dividends declared and paid per share (in dollars)

For the years ended December 31,	2019	2018
Common shares	3.04	2.80
Preferred shares		
Series 1	0.85	0.85
Series 3	0.83	0.83
Series 4	1.08	0.97
Series 5	1.30	1.30
Series 6	1.33	1.33
Series 7	1.23	0.72

The holders of record of the Company preferred shares are entitled to receive non-cumulative preferential cash dividends on a quarterly basis, as and when declared by the Board of Directors of the Company.

- **Series 1 Preferred Shares** – The initial fixed-rate period ending on December 31, 2017 was based on an annual rate of 4.20%. The dividend rate that will prevail from and including December 31, 2017 to but excluding December 31, 2022 is 3.396%. Every five years thereafter, the dividend rate will reset at a rate equal to the five-year Government of Canada bond yield plus 1.72%.
- **Series 3 Preferred Shares** – The annual dividend rate for the five-year period from and including September 30, 2016 to but excluding September 30, 2021 is 3.332%.
- **Series 4 Preferred Shares** – The dividend rate for the 3-month floating rate period from and including September 30, 2018 to but excluding December 31, 2019 was 1.08333% (4.298% on an annualized basis). The floating quarterly dividend rate will be reset every quarter.
- **Series 5 Preferred Shares** – The annual dividend rate is 5.20% and is not subject to a rate reset.
- **Series 6 Preferred Shares** – The annual dividend rate is 5.30% and is not subject to a rate reset.
- **Series 7 Preferred Shares** – The annual dividend rate until June 30, 2023 is 4.90%, the dividend rate will be reset at this time and every five years thereafter. The initial dividend paid on September 28, 2018 amounted to \$0.4162 per share.

**Notes to the Consolidated financial statements**

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

**Note 21 – Capital management**

**21.1 Capital management objectives**

The Company’s objectives when managing capital consist of:

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

The Company seeks to maintain adequate capital levels to ensure the probability of breaching the regulatory minimum requirements is very low. Such levels may vary over time depending on the Company’s evaluation of risks and their potential impact on capital. The Company also keeps higher levels of capital margin when it foresees growth or actionable opportunities in the near term. Furthermore, the Company may return capital to shareholders through annual dividend increases and, when appropriate, through share buybacks.

**Regulatory capital**

The amount of capital in any particular company or country depends upon the Company’s internal assessment of capital adequacy in the context of its risk profile and strategic plans, as well as local regulatory requirements. The Company’s objective is to maintain the capitalization of its regulated operating subsidiaries above the relevant minimum regulatory capital requirements in the jurisdictions in which they operate (referred to as regulator supervisory minimum levels). Regulatory capital guidelines change from time to time and may impact the Company’s capital levels. The Company carefully monitors all changes, actual or proposed.

<b>Canada</b>	<ul style="list-style-type: none"> <li>• The Company’s federally chartered Canadian P&amp;C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the <i>Insurance Companies Act</i>, while its Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the <i>Act Respecting Insurance</i>.</li> <li>• Federal and Québec regulated P&amp;C insurers are required, at a minimum, to maintain a MCT ratio of 100%.</li> <li>• OSFI and the AMF have also established a regulator supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.</li> </ul>
<b>U.S.</b>	<ul style="list-style-type: none"> <li>• The Company’s U.S. insurance operations are subject to regulation and supervision in each of the states where they are domiciled and licensed to conduct business.</li> <li>• State insurance departments have established the insurer solvency laws and regulatory infrastructure to maintain accredited status with the National Association of Insurance Commissioners ("NAIC").</li> <li>• A key solvency-driven NAIC accreditation requirement is a state’s adoption of RBC requirements.</li> </ul>

**21.2 Capital position**

As at December 31, 2019 and 2018, all the Company’s regulated P&C insurance subsidiaries were well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels, as well as CALs. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 21.1 – Estimated aggregate capital position

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
<b>Canadian regulated entities</b>		
Regulatory capital ratio (MCT)	<b>198%</b>	201%
Capital above CAL (capital margin)	<b>554</b>	530
<b>Other regulated entities</b>		
Capital above CAL (capital margin) <sup>1</sup>	<b>630</b>	505
<b>Unregulated entities</b>	<b>38</b>	298
<b>Total capital margin<sup>2</sup></b>	<b>1,222</b>	1,333

<sup>1</sup> Includes Atlantic Specialty Insurance (U.S.) ("ASIC"), Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados). ASIC’s RBC was 457% as at December 31, 2019 (377% at December 31, 2018). For all entities regulatory capital level well exceeds minimum capital requirements.

<sup>2</sup> Includes the aggregate of capital in excess of CALs in regulated entities (170% MCT for most of the Canadian insurance subsidiaries, 200% RBC for the U.S. insurance subsidiaries, and other CALs in other jurisdictions) plus available cash in unregulated entities.

Annually, the Company performs Capital Adequacy Testing to ensure that the Company has sufficient capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The 2019 results indicated that the Company’s capital position is strong. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### Note 22 – Net investment income

Table 22.1 – Net investment income

For the years ended December 31,	2019	2018
Interest income from:		
debt securities		
designated or classified as FVTPL	182	190
classified as AFS	166	134
loans and cash and cash equivalents	26	27
<b>Interest income</b>	<b>374</b>	<b>351</b>
Dividend income (expense) from:		
common shares, net		
designated or classified as FVTPL	66	63
classified as AFS	102	94
preferred shares classified as AFS	62	60
equities sold short positions	(6)	(4)
investments, at cost	1	-
<b>Dividend income</b>	<b>225</b>	<b>213</b>
<b>Expenses</b>	<b>(23)</b>	<b>(23)</b>
	<b>576</b>	<b>541</b>

#### Note 23 – Net gains (losses)

##### 23.1 Net gains (losses)

Table 23.1 – Net gains (losses)

For the years ended December 31,	2019			2018		
Portfolios	Fixed Income	Equity	Total	Fixed Income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	115	173	288	(82)	(179)	(261)
classified as FVTPL	-	1	1	(3)	4	1
classified as AFS	25	85	110	(20)	127	107
	<b>140</b>	<b>259</b>	<b>399</b>	<b>(105)</b>	<b>(48)</b>	<b>(153)</b>
derivatives <sup>1</sup> :						
swap agreements	-	(201)	(201)	-	155	155
forwards and futures	(11)	(34)	(45)	(5)	22	17
other	-	2	2	-	(2)	(2)
	<b>(11)</b>	<b>(233)</b>	<b>(244)</b>	<b>(5)</b>	<b>175</b>	<b>170</b>
Embedded derivatives	-	(5)	(5)	-	25	25
Net foreign currency gains (losses)	-	-	-	(1)	-	(1)
Impairment losses on common shares	-	(76)	(76)	-	(47)	(47)
	<b>129</b>	<b>(55)</b>	<b>74</b>	<b>(111)</b>	<b>105</b>	<b>(6)</b>
Other gains (losses) <sup>2</sup>			91			19
			<b>165</b>			<b>13</b>

<sup>1</sup> Excluding foreign currency contracts, which are reported in the line net foreign currency gains (losses).

<sup>2</sup> Includes a gain of \$72 million recorded in 2019 related to a change of control which was accounted for as a disposal of the subsidiary net assets, including the related goodwill, in exchange for a joint venture investment retained by the Company in the former subsidiary.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 23.2 Significant accounting judgments, estimates and assumptions

The Company determines, at each balance sheet date, whether there is objective evidence that financial assets, other than those classified or designated as FVTPL, are impaired. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value, a loss event that has occurred which has impaired the expected cash flows, as well as other considerations such as liquidity and credit risk. *See Table 2.4 - Objective evidence of impairment for equity impairment model.*

#### Note 24 – Income taxes

##### 24.1 Income tax expense recorded in Net income

Table 24.1 – Components of income tax expense recorded in Net income

For the years ended December 31,	2019	2018
Current income tax expense		
Current year <sup>1</sup>	121	168
Adjustments to prior years	-	(2)
Deferred income tax expense (benefit)		
Change related to temporary differences <sup>2</sup>	(19)	2
Adjustments related to changes in tax legislation <sup>3</sup>	(18)	-
Adjustments related to the U.S. Corporate Tax reform <sup>4</sup>	-	9
Adjustments to prior years	(5)	2
	<b>79</b>	<b>179</b>

<sup>1</sup> Includes a non-taxable gain of \$72 million recorded in 2019 related to a change of control of a subsidiary.

<sup>2</sup> Includes a deferred income tax benefit of \$22 million recorded in 2019 related to the recognition of a capital loss carry forward of \$193 million net of unrealized capital gains of \$28 million.

<sup>3</sup> Includes a deferred income tax benefit of \$17 million recorded in 2019 related to changes in the taxable status of a Canadian subsidiary.

<sup>4</sup> Includes a deferred tax expense of \$9 million recorded in 2018 related to the finalization of the OneBeacon purchase price equation.

##### 24.2 Effective income tax rate

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

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

Table 24.2 – Effective income tax rate reconciliation

For the years ended December 31,	2019	2018
Income tax expense calculated at statutory tax rate	26.7%	26.9%
Increase (decrease) in income tax rates resulting from:		
non-taxable investment income	(7.5)%	(4.7)%
foreign income taxed at different rates	(1.3)%	(1.7)%
non-taxable income	-	(1.0)%
non-deductible losses (non-taxable income) from subsidiaries	(1.0)%	(0.8)%
non-deductible losses (non-taxable gains) <sup>1</sup>	(3.0)%	(0.3)%
recognition of previously unrecognized capital losses <sup>1</sup>	(2.6)%	-
adjustments related to changes in tax legislation <sup>1</sup>	(2.2)%	-
adjustments related to the U.S. Corporate Tax reform <sup>1</sup>	-	1.1%
non-deductible expenses	0.9%	0.3%
other	(0.5)%	0.4%
<b>Effective income tax rate</b>	<b>9.5%</b>	<b>20.2%</b>

<sup>1</sup> See Note 24.1 above for details.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 24.3 Significant accounting judgments, estimates and assumptions

Management exercises judgment in estimating the provision for income taxes. The Company is subject to income tax law in various jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations of tax laws differ from those of tax authorities or that the timing of realization of deferred tax assets is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

#### 24.4 Components of deferred tax assets and liabilities

Table 24.3 – Components of deferred tax assets and liabilities

As at December 31,	Consolidated balance sheets Asset (liability)		Consolidated statements of comprehensive income Expense (benefit)	
	2019	2018	2019	2018
Net claims liabilities	117	96	5	4
Difference between market value and book value of investments	-	32	32	(17)
Deferred expenses for tax purposes	64	55	(2)	3
Losses available for carry forward	186	155	(11)	(15)
DB plans	76	50	(24)	(14)
Other	4	6	7	7
<b>Deferred tax assets</b>	<b>447</b>	<b>394</b>	<b>7</b>	<b>(32)</b>
Intangible assets	(494)	(439)	(54)	2
Deferred income for tax purposes	-	-	-	-
Deferred gains and losses on specified debt obligations	(7)	(9)	(2)	(2)
Property and equipment	(51)	(44)	21	8
Difference between market value and book value of investments	(6)	-	6	-
<b>Deferred tax liabilities</b>	<b>(558)</b>	<b>(492)</b>	<b>(29)</b>	<b>8</b>
<b>Net deferred tax asset (liability) / expense (benefit)</b>	<b>(111)</b>	<b>(98)</b>	<b>(22)</b>	<b>(24)</b>

The Company believes that it is probable that it will generate sufficient taxable income in the future to realize the above deferred tax assets.

The Company recognizes a deferred tax liability on all temporary differences associated with investments in subsidiaries and associates unless it can control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2019 and 2018, no deferred tax liability has been recognized on the temporary differences of \$120 million (2018 – \$71 million) associated with investments in subsidiaries and associates.

#### 24.5 Movement in the net deferred tax asset (liability)

Table 24.4 – Movement in the net deferred tax asset (liability)

As at December 31,	2019	2018
Balance, beginning of year	(98)	(122)
Impact of the adoption of IFRS 16	14	-
Adjusted balance, beginning of year	(84)	(122)
Income tax benefit (expense):		
recorded in net income	42	(13)
recorded in OCI	(20)	37
recorded in equity	6	5
Business combinations and other acquisitions	(58)	(4)
Exchange rate differences and other	3	(1)
<b>Balance, end of year</b>	<b>(111)</b>	<b>(98)</b>
Reported in:		
deferred tax assets	175	141
deferred tax liabilities	(286)	(239)

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 24.6 Unused tax losses and credits

The following table presents a summary of unused tax losses and credits, as well as the amount for which a deferred tax asset was recognized on the Consolidated Balance sheets as at December 31, 2019 and 2018.

Table 24.5 – Unused tax losses and credits

As at December 31,	2019			2018		
	Total	Recognized	Expiry date	Total	Recognized	Expiry date
<b>Unused net operating losses:</b>						
U.S. subsidiaries	297	297	2033-2037	426	426	2031 - 2037
Canada	252	246	2037-2039	117	111	2037 - 2038
<b>Unused tax credits:</b>						
U.S. subsidiaries	32	32	2030-2039	33	33	2030 - 2038
<b>Unused allowable capital losses:</b>						
Canada	100	100	No expiry date	93	-	No expiry date

Unused tax credits can be used to offset U.S. tax payable in the future. Unused allowable capital losses can be used to reduce future taxable capital gains in Canada.

#### 24.7 Dividend received deduction

In January 2020, the Canada Revenue Agency (“CRA”) issued a letter in which it proposes to reassess the Company for an expected amount of \$11 million of additional income tax and interest in respect to the 2013 taxation year. The CRA proposes denying certain dividend deductions on the basis that they were part of a “dividend rental arrangement”. It is possible that subsequent years up to 2016 may be reassessed for similar activities. The Company is confident that its tax filing position was appropriate and intends to defend itself vigorously. As a result, no amounts have been accrued in the Consolidated financial statements.

### Note 25 – Earnings per share

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

Table 25.1 – Earnings per share

For the years ended December 31,	2019	2018
Net income attributable to shareholders	754	707
Less: dividends declared on preferred shares, net of tax	45	40
<b>Net income attributable to common shareholders</b>	<b>709</b>	667
<b>Weighted-average number of common shares outstanding (in millions)</b>	<b>139.5</b>	139.2
<b>EPS – basic and diluted (in dollars)</b>	<b>5.08</b>	4.79

INTACT FINANCIAL CORPORATION

Notes to the Consolidated financial statements

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

**Note 26 – Share-based payments**

**26.1 Long-term incentive plan**

**a) Outstanding LTIP units and fair value at grant date**

Table 26.1 – Outstanding units and weighted-average fair value at grant date by performance cycle

As at December 31, Performance cycles	2019			2018		
	Number of units	Weighted-average fair value at grant date (in \$)	Amount (in millions of \$)	Number of units	Weighted-average fair value at grant date (in \$)	Amount (in millions of \$)
2016 - 2018	-	-	-	248,005	90.36	22
2017 - 2019	277,572	93.30	26	246,137	93.30	23
2017 - 2022	115,991	103.88	12	119,733	103.88	12
2018 - 2020	494,575	105.14	52	473,736	105.14	50
2019 – 2021	469,658	102.36	48	-	-	-
	<b>1,357,796</b>	<b>101.70</b>	<b>138</b>	<b>1,087,611</b>	<b>99.01</b>	<b>107</b>

**b) Movements in LTIP units**

Table 26.2 – Movements in LTIP share units

For the years ended December 31,	2019 (in units)	2018 (in units)
Outstanding, beginning of year	1,087,611	774,783
Awarded	411,500	434,583
Net change in estimate of units outstanding	130,264	132,079
Units settled	(271,579)	(253,834)
<b>Outstanding, end of year</b>	<b>1,357,796</b>	<b>1,087,611</b>

**c) LTIP expense recognized in Net income**

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

Table 26.3 – LTIP expense recognized in Net income

For the years ended December 31,	2019	2018
Cash-settled plans	15	4
Equity-settled plans	43	42
	<b>58</b>	<b>46</b>

**26.2 Employee share purchase plan**

**a) Movements in restricted common shares**

Table 26.4 – Movements in restricted common shares

For the years ended December 31,	2019 (in units)	2018 (in units)
Outstanding, beginning of year	131,681	132,491
Accrued	118,508	133,871
Awarded and vested	(129,021)	(129,416)
Forfeited	(5,132)	(5,265)
<b>Outstanding, end of year</b>	<b>116,036</b>	<b>131,681</b>

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### b) ESPP expense recognized in Net income

The ESPP is accounted for as an equity-settled plan. For the years ended December 31, 2019, the ESPP expense was \$14 million (December 31, 2018 – \$13 million).

#### 26.3 Deferred share unit

The DSU is accounted for as a cash-settled plan. For the years ended December 31, 2019, the expense was \$5 million (December 31, 2018 - \$1 million). The DSU provision amounted to \$15 million as at December 31, 2019 (December 31, 2018 - \$10 million).

#### 26.4 Common shares repurchased for share-based payments

The settlement in shares with regards to the Company's LTIP and ESPP plans is presented below.

Table 26.5 – Settlement in shares (LTIP and ESPP plans)

For the years ended December 31,	2019	2018
Value of common shares repurchased for share-based payments	43	36
Less: cumulative cost of the units for the Company	36	32
Excess of market price over the cumulative cost for the Company	7	4
Amount recognized in Retained earnings, net of taxes	5	3

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

The difference between the market price of the shares and the cumulative cost for the Company of these vested units, net of income taxes, was recorded in Retained earnings.

#### Note 27 – Employee future benefits

The Company has funded and unfunded DB pension plans in Canada that provide benefits to members in the form of a guaranteed pension payable for life based on final average earnings and contingent upon certain age and service requirements. In Canada, the Company provides active employees a choice between a DB and a defined contribution pension plan. In the U.S., the Company offers a 401(k) plan to its employees.

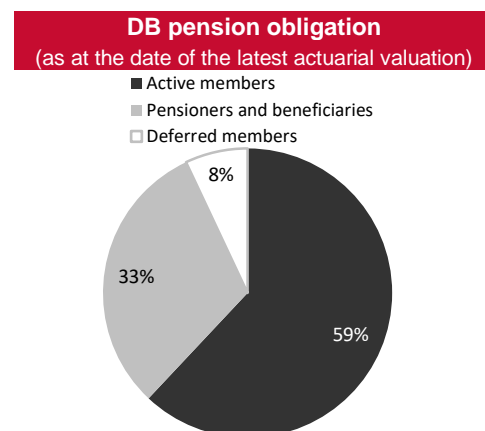
Subject to applicable pension legislation, the Canadian plans are administered either by the Company or by a pension committee, with assets held in a pension fund that is legally separate from the Company. The assets cannot be used for any purpose other than payment of pension benefits and related administrative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

Provincial minimum funding regulations in Canada require special payments from the Company to amortize any shortfall of registered plans' assets relative to the corresponding funding targets. Security in the form of letters of credit is permitted in lieu of those special payments, up to a limit of 15% of the actuarial liability used to determine the funding target.

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

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

The Guarantee sponsors one defined benefit pension plan which has been reflected in this note.



## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 27.1 Funded status

The DB obligation, net of the fair value of plan assets, is recognized on the Consolidated balance sheets as an asset, when the plan is in a surplus position, or as a liability, when the plan is in a deficit position. This classification is determined on a plan-by-plan basis.

Table 27.1 – Movement in the DB obligation

As at December 31,	Pension plans	
	2019	2018
DB obligation	(2,756)	(2,271)
Fair value of plan assets	2,472	2,080
<b>Net DB asset (liability)</b>	<b>(284)</b>	<b>(191)</b>
Reported in:		
other assets – plans in a surplus position	-	-
other liabilities – plans in a deficit position and unfunded plans	(284)	(191)
	<b>(284)</b>	<b>(191)</b>
Funded status – funded plans	<b>94%</b>	<b>96%</b>

The measurement date for the DB pension plans is December 31. The latest actuarial valuations for the DB pension plans were performed as at December 31, 2018 for the Company's pension plans, with exception of The Guarantee's which was performed as at December 31, 2016. The Company's liquidity risk with regards to pension plans is not significant, as inflows from contributions receivable generally outweigh outflows for benefit payments. A large portion of the investments are held in short-term notes and highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements.

#### 27.2 DB obligation

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

Table 27.2 – Movement in the DB obligation

As at December 31,	Pension plans	
	2019	2018
Balance, beginning of year	2,271	2,263
Current service cost	53	76
Interest expense on DB obligation	84	77
Actuarial losses (gains) due to changes in:		
financial assumptions	340	(170)
plan experience	30	55
life expectancy	-	23
Employee contributions	34	27
Benefit payments	(85)	(80)
Business combinations	29	-
<b>Balance, end of year</b>	<b>2,756</b>	<b>2,271</b>

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 27.3 Fair value of plan assets

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

##### a) Movement in the fair value of plan assets

Table 27.3 – Movement in the fair value of plan assets

As at December 31,	Pension plans	
	2019	2018
Balance, beginning of year	2,080	2,128
Employer contributions	47	55
Employee contributions	34	27
Actual return on plan assets		
Interest income on plan assets recognized in Net income	75	71
Actuarial gains (losses) recognized in OCI	299	(117)
Benefit payments	(85)	(80)
Business combinations	26	-
Other	(4)	(4)
<b>Balance, end of year</b>	<b>2,472</b>	<b>2,080</b>

##### b) Composition of pension plan assets

Table 27.4 – Composition of pension plan assets

As at December 31,	2019		2018	
	Fair value	% of total	Fair value	% of total
Cash and short-term notes	4	-	62	3%
Fixed income				
Investment grade				
Government	1,198	49%	823	40%
Corporate	530	21%	460	22%
Asset-backed	2	-	2	-
<b>Debt securities</b>	<b>1,730</b>	<b>70%</b>	<b>1,285</b>	<b>62%</b>
<b>Common shares</b>	<b>891</b>	<b>36%</b>	<b>710</b>	<b>34%</b>
<b>Derivative financial instruments</b>	<b>28</b>	<b>1%</b>	<b>23</b>	<b>1%</b>
<b>Securities sold under repurchase agreements</b>	<b>(181)</b>	<b>(7)%</b>	<b>-</b>	<b>-</b>
	<b>2,472</b>	<b>100%</b>	<b>2,080</b>	<b>100%</b>

Plan assets are essentially all quoted in an active market.

Based on the latest projections of the financial position of all its plans, total cash contributions by the Company are expected to be approximately \$48 million in 2020 compared to actual contributions of \$47 million in 2019. The contributions will vary depending on the number of active members accruing benefits and their level of pensionable earnings, the results of any new actuarial valuations, the impact of any funding rule changes, the use of funding relief measures, if any, and decisions taken by the Company to use or not use letters of credit as permitted by legislation. The Company is also expected to meet the cost of eligible administrative expenses through the pension funds.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 27.4 Employee future benefit expense recognized in Net income

Table 27.5 – Employee future benefit expense recognized in Net income

For the years ended December 31,	Pension plans	
	2019	2018
Current service cost	53	76
Net interest expense		
Interest expense on DB obligation	84	77
Interest income on plan assets	(75)	(71)
Other	4	4
	66	86

#### 27.5 Actuarial gains (losses) recognized in OCI

Table 27.6 – Actuarial gains (losses) recognized in OCI

For the years ended December 31,	Pension plans	
	2019	2018
Remeasurements related to:		
change in discount rate used to determine the DB obligation	(340)	131
actual return on plan assets	299	(117)
changes in life expectancy ( <i>Note 27.6</i> )	-	(23)
change in other financial assumptions	-	39
changes in plan experience	(30)	(55)
	(71)	(25)

#### 27.6 Significant accounting judgments, estimates and assumptions

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

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

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### a) Assumptions used and sensitivity analysis

Table 27.7 – Key weighted-average assumptions used in measuring the Company's pension plans

	Obligation		Expense	
	As at December 31,		For the years ended December 31,	
	2019	2018	2019	2018
<b>Discount rate:</b>				
determination of DB obligation	3.15%	3.86%	n/a	n/a
current service cost	n/a	n/a	3.91%	3.58%
interest expense on the DB obligation	n/a	n/a	3.62%	3.30%
<b>Rate of increase in future compensation:</b>				
next 3 years	2.75%	2.75%	2.75%	2.75%
beyond 3 years	2.34%	2.39%	2.39%	2.68%
<b>Rate of inflation</b>	1.59%	1.64%	1.64%	1.93%
<b>Life expectancy for pensioners at the age of 65:</b>				
male	22.2	22.2	22.2	21.7
female	24.6	24.6	24.6	24.1

The rate of compensation increase was based on financial plans approved by management for the next 3 years, and on inflation and long-term expectations of wage salary increase beyond 3 years.

Assumptions regarding life expectancy for pensioners are based on the standard Canadian private sector mortality table published in 2014 by the Canadian Institute of Actuaries ("CPM2014Priv table"). The assumptions also reflect the results of a mortality experience study conducted in 2018.

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

As at December 31,	Change	2019		2018	
		increase	decrease	increase	decrease
		Discount rates	1%	(461)	618
Rate of increase in future compensation	1%	121	(106)	97	(85)
Rate of inflation	1%	88	(80)	74	(67)
Life expectancy	One year	69	(69)	53	(53)

The effect on the DB pension obligation at the end of the year has been calculated by changing one assumption for the sensitivity but without changing any other assumptions. The impact of a one-year increase in life expectancy has been approximated by measuring the impact of members being one year younger than their actual age on the valuation date.

#### 27.7 Risk management and investment strategy

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

Assumptions which may vary significantly include:

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

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

The DB obligation and the service cost are sensitive to the assumptions made about salary growth levels and inflation, as well as the assumptions made about life expectancy. It is based on estimates of market yields on highly rated corporate bonds.

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

The pension plans investment portfolio is managed by Intact Investment Management Inc., a subsidiary of the Company, in accordance with the SIP&P that focuses on asset diversification and asset-liability matching. The Company regularly monitors compliance with the SIP&P.

#### Asset diversification

The goal of asset diversification is to limit the potential of sustaining significant capital losses.

Debt securities in the pension plans are significantly exposed to changes in interest rates and movements in credit spreads. Investment policies seek a balanced target investment allocation between debt and equity securities, within credit concentration limit. The pension plans' risk management strategy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The adopted SIP&P generally requires minimum credit ratings of 'BBB' for investments in debt securities and limits its concentration in any one investee or related group of investees to 5% of the cost of its total assets for debt securities (except for those that are issued or guaranteed by the Government of Canada or by a province of Canada having at least an 'A' rating). The Company has overall limits on credit exposure that include debt and equity securities, as well as off-balance sheet exposure.

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

The Company also establishes asset allocation limits to ensure sufficient diversification (*see Note 10.4 – Credit risk*).

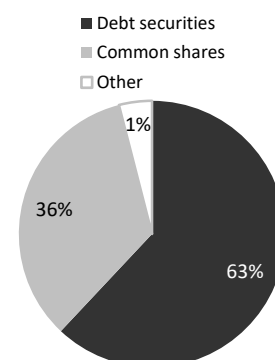
#### Asset-liability matching

One objective established in the SIP&P is to maintain an appropriate balance between the interest rate exposure of the plans' invested assets and the duration of its contractual liabilities. The Company calculates an interest rate hedge ratio as the interest rate duration of the pension asset portfolio divided by the duration of the funded registered pension plans' obligation. A lower interest rate hedge ratio increases the Company's exposure to changes in interest rates. The interest rate hedge ratio was 70% as at December 31, 2019 (December 31, 2018 – 67%).

A portion of the pension plan liabilities contain an indexation provision linked to the consumer price index (CPI). The Company invests in inflation sensitive assets to partially mitigate the risk of an unanticipated increase in inflation. As at December 31, 2019 21% (December 31, 2018 – 10%) of pension plan assets were invested in Canada Government Real Return Bonds.

The Company used repurchase agreements to partly fund the increase of fixed income securities in the pension plan asset mix with the objective to improve its asset-liability matching.

**Pension plan asset mix**  
(as at December 31, 2019)



## Notes to the Consolidated financial statements

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

### Note 28 – Segment information

#### 28.1 Reportable segments

The Company has two reportable segments, in line with its management structure and internal financial reporting which is based on country, and the nature of its activities.

##### Canada

- Underwriting of automobile, home and business insurance contracts to individuals and businesses in Canada distributed through a wide network of brokers and directly to consumers.
- Distribution and other include the results from the Company's wholly-owned subsidiaries (Canada BrokerLink Inc. and Frank Cowan Company Limited) and broker affiliates as well as supply chain operations from On Side.

##### U.S.

- Underwriting of specialty contracts mainly to small and midsize businesses in the United States. The Company distributes insurance through independent agencies, brokers, wholesalers and managing general agencies.

Corporate and Other ("Corporate") consists of investment management, treasury and capital management activities, as well as other corporate activities, including internal reinsurance. The underwriting results of The Guarantee were included in Corporate other income (expense).

#### 28.2 Segment operating performance

All segment operating revenues presented in *Table 28.1 – Segment operating performance* are generated from external customers.

Management measures the profitability of the Company's segments based on pre-tax operating income ("PTOI"). PTOI excludes elements that are not representative of the Company's operating performance because they relate to special items, bear significant volatility from one period to another, or because they are not part of the Company's normal activities. Revenues and expenses not allocated to segments mainly represent non-operating items excluded from PTOI.

The reconciliation of the segment information to the amounts reported in the Consolidated statements of income is presented in *Table 28.2 – Reconciliation of segment information to amounts reported in the Consolidated statements of income*.

As at January 1, 2019, the Company refined the reporting of its segment information and reclassified the comparative information accordingly.

The following summarizes the changes:

- Investment expenses were previously presented at market value with the offset presented in Other expenses and now reflect the actual cost. For the year-ended December 31, 2018, this resulted in a decrease of \$12 million in Investment expenses, with a corresponding offset in Other expenses.
- Net distribution income has been replaced by Distribution EBITA which includes operating income before interest and taxes from both consolidated brokers and broker associates. Broker associates are joint ventures and brokers over which the Company has significant influence. Previously, net distribution income included operating income from consolidated brokers before interest and taxes, and from broker associates after interest and taxes. For the year-ended December 31, 2018, this resulted in an increase of \$18 million in PTOI with a corresponding offset in operating tax expense. There was no impact on NOI.

# INTACT FINANCIAL CORPORATION

## Notes to the Consolidated financial statements

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

Table 28.1 – Segment operating performance

For the years ended December 31,	2019				2018			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Operating income</b>								
NEP	8,775	1,431	5	10,211	8,332	1,380	3	9,715
Investment income	-	-	599	599	-	-	564	564
Other	196	-	50	246	136	-	11	147
<b>Segment operating revenues</b>	<b>8,971</b>	<b>1,431</b>	<b>654</b>	<b>11,056</b>	<b>8,468</b>	<b>1,380</b>	<b>578</b>	<b>10,426</b>
Net claims incurred (before MYA)	(5,950)	(796)	-	(6,746)	(5,538)	(804)	-	(6,342)
Underwriting expenses <sup>1</sup>	(2,462)	(538)	-	(3,000)	(2,394)	(505)	-	(2,899)
Investment expenses	-	-	(23)	(23)	-	-	(23)	(23)
Share of profit from invest. in associates & JV <sup>2,4</sup>	97	-	-	97	82	-	-	82
Finance costs <sup>3,4</sup>	(10)	-	(110)	(120)	(11)	-	(103)	(114)
Other	(84)	-	(73)	(157)	(43)	-	(41)	(84)
<b>PTOI<sup>4</sup></b>	<b>562</b>	<b>97</b>	<b>448</b>	<b>1,107</b>	<b>564</b>	<b>71</b>	<b>411</b>	<b>1,046</b>
Operating income taxes <sup>4</sup>				(202)				(207)
<b>NOI<sup>4</sup></b>				<b>905</b>				<b>839</b>
<b>PTOI is comprised of:</b>								
underwriting income	363	97	5	465	400	71	3	474
net investment income	-	-	576	576	-	-	541	541
distribution EBITA and other	209	-	-	209	175	-	-	175
finance costs	(10)	-	(110)	(120)	(11)	-	(103)	(114)
other income (expense)	-	-	(23)	(23)	-	-	(30)	(30)
<b>Investments</b>	-	-	18,608	18,608	-	-	16,897	16,897
<b>Net claims liabilities (Table 11.1)</b>	<b>8,568</b>	<b>1,422</b>	<b>556</b>	<b>10,546</b>	<b>8,151</b>	<b>1,726</b>	-	<b>9,877</b>

<sup>1</sup> Other underwriting revenues are netted against Underwriting expenses when assessing segment performance, as such, are not included in segment operating revenues.

<sup>2</sup> Represents the Company's share of operating income before interest and taxes from broker associates.

<sup>3</sup> Comprised of finance costs presented in the Consolidated statements of income, plus the Company's share of finance costs from broker associates.

<sup>4</sup> See Section 30 – Non IFRS financial measures of the Company's MD&A for the definition of related operating measures.

Table 28.2 – Reconciliation of segment information to amounts reported in the Consolidated statements of income

For the years ended December 31,	2019	2018
<b>Segment operating revenues (Table 28.1)</b>	<b>11,056</b>	10,426
Add: other underwriting revenues	119	110
Add: NEP from OneBeacon exited lines	32	50
<b>Revenues, as reported</b>	<b>11,207</b>	10,586
<b>Segment PTOI (Table 28.1)</b>	<b>1,107</b>	1,046
<b>Non-operating items:</b>		
net gains (losses)	165	13
positive (negative) impact of MYA on underwriting	(125)	97
amortization of intangible assets recognized in business combinations	(107)	(94)
integration and restructuring costs	(57)	(63)
difference between expected return and discount rate on pension assets	(48)	(49)
underwriting results from OneBeacon exited lines	(66)	(29)
other non-operating costs	(19)	(22)
Pre-tax income, as reported in the MD&A	850	899
Less: income taxes from broker associates	(17)	(13)
<b>Pre-tax income, as reported</b>	<b>833</b>	886

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 28.3 Information by geographic areas

Table 28.3 – Geographic areas

As at December 31,	Revenues		Total assets	
	2019	2018	2019	2018
Canada	9,627	9,060	24,907	22,023
U.S.	1,580	1,526	7,385	6,438
	11,207	10,586	32,292	28,461

Revenues and assets are allocated based on the country where the risks originate. The Company's significant operating subsidiaries by geographic areas of operations are presented below.

Table 28.4 – Significant operating subsidiaries by geographic areas

Operations	Legal entities
<b>Canada</b>	<ul style="list-style-type: none"> <li>Belair Insurance Company Inc.</li> <li>Canada Brokerlink Inc.</li> <li>Equisure Financial Network Inc.</li> <li>Frank Cowan Company Limited</li> <li>Intact Insurance Company</li> <li>IB Reinsurance Inc.</li> <li>Jevco Insurance Company</li> <li>Novex Insurance Company</li> <li>On Side Developments Ltd.<sup>1</sup></li> <li>The Guarantee Company of North America</li> <li>The Nordic Insurance Company of Canada</li> <li>Trafalgar Insurance Company of Canada</li> </ul>
<b>U.S.</b>	<ul style="list-style-type: none"> <li>Atlantic Specialty Insurance Company</li> <li>OneBeacon Insurance Group Holdings; Ltd.</li> <li>OneBeacon U.S. Financial Services Inc.</li> <li>Split Rock Insurance, Ltd.</li> <li>The Guarantee Company of North America USA</li> </ul>

<sup>1</sup> The Company holds 51% of the voting shares and 33% of the participating shares (refer to Note 5 – Business Combinations).

**Notes to the Consolidated financial statements**

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

**Note 29 – Additional information on the Consolidated statements of cash flows**

**29.1 Adjustments for non-cash items**

Table 29.1 – Adjustments for non-cash items

For the years ended December 31,	2019	2018
Depreciation of property and equipment <sup>1</sup>	95	38
Amortization of intangible assets	140	120
Net premiums on debt securities classified as AFS	15	20
DB pension expense	66	86
Share-based payments expense	72	59
Share of profit from investments in associates and joint ventures	(31)	(25)
Other	6	(4)
	363	294

<sup>1</sup>2019 includes depreciation of right-of-use assets of \$56 million (see Note 4.1 – Leases and Note 17 – Property and equipment).

**29.2 Changes in other operating assets and liabilities**

Table 29.2 – Changes in other operating assets and liabilities

For the years ended December 31,	2019	2018
Unearned premiums, net	274	(33)
Premiums receivable, net	(136)	19
Deferred acquisition costs, net	(63)	(13)
Other operating assets	(5)	(13)
Other operating liabilities	35	137
Dividends received from investments in associates and joint ventures	20	15
	125	112

**Note 30 – Related-party transactions**

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

**30.1 Transactions with associates and joint ventures**

Table 30.1 – Transactions with associates and joint ventures

As at December 31,	2019	2018
<b>Income and expenses reported in:</b>		
net investment income	6	7
underwriting expenses	302	266
<b>Assets and liabilities reported in:</b>		
loans and other receivables	144	129
commissions payable	33	35

**30.2 Compensation of key management personnel**

Key management personnel comprise all members of the Board of Directors and certain members of the Executive Committee. The compensation of key management personnel comprises salaries, share-based awards, annual incentive plans and pension value. Total compensation amounted to \$27 million for the year ended December 31, 2019 (\$28 million for the year ended December 31, 2018).

Key management personnel can purchase insurance products offered by the Company in the normal course of business. The terms and conditions of such transactions are essentially the same as those available to clients and employees of the Company.

## INTACT FINANCIAL CORPORATION

### Notes to the Consolidated financial statements

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

#### 30.3 Pension plans

Intact Investment Management Inc., a subsidiary of the Company, manages the investment portfolio of the pension plans' Master Trust in return for investment advisory fees charged to the pension plans, for a total of \$7 million for the year ended December 31, 2019 (\$6 million for the year ended December 31, 2018). The Company made contributions to pension plans of \$47 million for the year ended December 31, 2019 (\$55 million for the year ended December 31, 2018).

#### Note 31 – Commitments and contingencies

##### 31.1 Commitments

The Company has entered into commercial leases mainly related to real estate right-of-use assets, as well as other commitments. The remaining life of these commitments ranges from one to 15 years.

##### a) Lease liabilities

The following table presents lease liabilities by contractual maturity excluding operational costs and variable lease payments. The Company has extension options for its real estate leases. Such extensions were excluded from the measurement of lease liabilities as management concluded that it is not reasonably certain that they will be exercised.

Table 31.1 – Lease liabilities by contractual maturity

As at December 31,	2019
<b>Lease liabilities – undiscounted value</b>	
Less than 1 year	69
From 1 to 5 years	220
Over 5 years	243
<b>Total</b>	<b>532</b>
<b>Discounting</b>	<b>(71)</b>
<b>Lease liabilities (Note 18.2)<sup>1</sup></b>	<b>461</b>

<sup>1</sup> See Note 17 – Property and equipment for details on the related right-of-use assets.

##### b) Other non-cancellable commitments

The following table presents other non-cancellable commitments including operational costs and variable lease payments.

Table 31.2 – Other non-cancellable commitments

As at December 31, 2019	Leases <sup>1</sup>	Other	Total
Less than 1 year	53	56	109
From 1 to 5 years	173	117	290
Over 5 years	218	12	230
	<b>444</b>	<b>185</b>	<b>629</b>

<sup>1</sup> Includes variable lease payments not based on an index or rate, such as property taxes.

##### c) Amounts recognized in the Consolidated statements of income

Table 31.3 – Amounts recognized in the Consolidated statements of income

For the year ended December 31,	2019
Interest expense on lease liabilities	13
Operational costs and variable lease payment expenses	58

## Notes to the Consolidated financial statements

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

### 31.2 Contingencies

In the normal course of operations, various insurance claims and legal proceedings are instituted against the Company. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Company has made adequate provisions for, or has adequate insurance to cover all insurance claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the Company's consolidated future operating results and financial position.

The Company provides indemnification agreements to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements.

## Note 32 – Disclosures on rate regulation

### 32.1 Canada

The Company's Canadian insurance subsidiaries are licensed under insurance legislation in each of the provinces and territories in which they conduct business. Personal and commercial automobile insurance is a compulsory product and is subject to different regulations across the provinces and territories in Canada, including those with respect to rate setting.

Rate setting mechanisms generally fall under three categories:

Table 32.1 – Rate filing categories

Category	Description
File and approve	Insurers must wait for specific approval of filed rates before they may be used.
File and use	Insurers file their rates with the relevant authorities and wait for a prescribed period and then implement the proposed rates.
Use and file	Rates are filed following use.

In Canada, essentially all provinces and territories use a "file and approve" rate setting mechanism except for Quebec, which uses a "use and file" mechanism. Automobile DPW covered by a "file and approve" rate setting mechanism totalled \$3.6 billion, or 75% of the Canadian Company's automobile DPW for the year ended December 31, 2019 (\$3.3 billion, or 74%, for the year ended December 31, 2018).

### 32.2 U.S.

Nearly all states have insurance laws requiring property and casualty insurance companies to file their rates, rules and policy or coverage forms with the state's regulatory authority. In most cases, such rates, rules and forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that rates are not excessive, unfairly discriminatory or used to engage in unfair price competition. The Company's ability to increase rates and the timing of the process are dependent upon the regulatory requirements in each state.

## Notes to the Consolidated financial statements

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

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### Note 33 – Standards issued but not yet effective

#### 33.1 Insurance contracts

In May 2017, the IASB published IFRS 17 – *Insurance Contracts* (“IFRS 17”) a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, which replaces IFRS 4 – *Insurance Contracts* (“IFRS 4”) and introduces consistent accounting for all insurance contracts.

The standard applies to annual periods beginning on or after January 1, 2021. Earlier application is permitted if IFRS 9 is also applied. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with IFRS 9.

In June 2019, the IASB issued an exposure draft which proposes amendments to IFRS 17, including the deferral of the effective date by one year to annual periods beginning on or after January 1, 2022. The exposure draft was subject to public consultation and addresses concerns and implementation challenges raised by stakeholders. The Company continues to monitor developments and industry discussions related to this standard.

IFRS 17 provides a general measurement model for the recognition of insurance contracts, which requires measuring insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. In addition, entities have the option to use a simplified measurement model (premium allocation approach) for short-duration contracts, which is similar to the current approach; this model will be applicable to most property and casualty insurance contracts.

The main features of the standard that would be applicable to property and casualty insurance contracts are as follows:

- the concept of portfolio, which is composed of groups of contracts covering similar risks and managed together as a single pool. The presentation of insurance and reinsurance contracts on the balance sheet is determined at the portfolio level;
- the concept of group, which is composed of sets of contracts with similar profitability issued within the same year. The following are determined at the group level: the measurement model, the revenue pattern, the allocation of deferred acquisition costs, the calculation of risk adjustment, onerous contracts and the application of the discount rate;
- the loss component of onerous contracts measured based on projected profitability will be recognized in Net income as soon as insurance contracts are issued;
- insurance liabilities will be discounted at a rate that reflects the characteristics of the liabilities (as opposed to a rate based on asset returns) and the duration of each portfolio. The effect of changes in discount rates will be recorded either in Net income or in OCI, according to the accounting policy choice;
- changes in balance sheet presentation where the premiums receivable, deferred acquisition costs, claims liabilities, unearned premiums and other related assets and liabilities will be presented together by portfolio on a single line called insurance contract liabilities or assets. Reinsurance assets, reinsurance receivable, deferred acquisition costs ceded, and other related assets and liabilities will be presented together by portfolio on a single line called reinsurance contract assets or liabilities;
- direct premiums written will no longer be presented in statements of income. The new insurance revenue will reflect services that have been provided during the period (similar to the current earned premiums);
- insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately;
- extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The Company has devoted considerable resources and efforts to the implementation of IFRS 17 since its issuance in May 2017. A project governance and plan has been established. A dedicated multi-disciplinary team comprising of representatives from Finance, Actuarial and Information Technology assists project sponsors who report regularly to the Executive Steering Committee.

The Company completed among other activities, a preliminary gap analysis of the differences between IFRS 4 and IFRS 17 as well as data and systems. The Company also began developing technological solutions and formulating initial accounting policies. Throughout 2019, the Company had regular discussions with industry groups and other stakeholders.

In 2020, the Company will primarily continue developing its technological solutions, evaluating the impacts on processes and regulatory changes and formulating its accounting policies.

The Company is currently evaluating the impact that IFRS 17, in conjunction with IFRS 9, will have on its Consolidated financial statements but has not yet determined the impact.

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**33.2 Financial instruments**

IFRS 9 is a three-part standard that will replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) and will be effective for annual periods beginning on or after January 1, 2018. However, the Company meets the eligibility criteria of the temporary exemption from IFRS 9 as provided by IFRS 4 and has elected to defer the application of IFRS 9 until the effective date of the new insurance contracts standards IFRS 17 (see Note 33.1 – *Insurance contracts*). The Company is currently evaluating the impact that IFRS 9, in conjunction with IFRS 17, will have on its Consolidated financial statements but has not yet determined the impact.

**Classification and measurement**

The classification of debt instruments is dependent on the business model and the cash flows characteristics. A debt instrument will be classified in accordance with the table below if its contractual term gives rise on specific dates to cash flows that are solely payments of principal and interest. It would otherwise be classified as FVTPL.

Amortized cost	FVTOCI	FVTPL
Default classification when the objective of the business model is uniquely to receive contractual cash flows of principal and interest.	Default classification when the objective of the business model is equally to receive contractual cash flows of principal and interest and realize cash flows from the sale.	Classification when the debt instrument does not meet the objective of the amortized cost or FVTOCI business models, or election to measure them as FVTPL instead of amortized cost or FVTOCI if doing so eliminates or significantly reduces an accounting mismatch.

Cash and cash equivalents, deposits with financial institutions, and receivables pass the SPPI test and are held at amortized cost, whereby the amortized cost is assumed to approximate fair value due to the short-term nature of the assets.

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

**Expected credit loss**

This new impairment model applies only to financial assets classified as amortized cost and debt securities classified as FVTOCI. Under the expected credit loss model, a loss allowance will be established for all financial assets impaired based on a 12-month expected credit losses or life-time expected credit losses if the credit risk increases significantly.

As an exception from the general requirements, an entity may assume that the criterion for recognizing lifetime expected credit losses is not met if the credit risk on the financial instrument is low (“investment grade”) at the reporting date.

**Hedge accounting**

The new model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures (under IAS 39, hedging non-financial components is not permitted). It will enable more entities to:

- apply hedge accounting to reflect their actual risk management activities; and
- use information produced internally for risk management purposes as a basis for hedge accounting, compared to IAS 39 which imposes eligibility and compliance based on metrics that are designed solely for accounting purposes.

**33.3 Definition of a business**

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – *Business Combinations*. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset. The amendments apply prospectively to acquisitions that occur in annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

## Notes to the Consolidated financial statements

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

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### 33.4 Definition of material

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of “material” across the standards and to clarify certain aspects of the definition. The objective of this amendment is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity’s materiality judgements. The amendments apply prospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.

### 33.5 Conceptual framework for financial reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised Conceptual Framework for Financial Reporting (“Conceptual Framework”), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards.

The revised Conceptual Framework’s effective date is January 1, 2020, with earlier application permitted. The Company does not expect any impact upon its adoption.

### 33.6 Interest rate benchmark reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 – *Financial Instruments: Disclosures*. The objective of these amendments is to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates. The amendments enable entities to use hedge accounting despite the uncertainties surrounding the use of interbank offered rates and require entities to provide additional information about their hedging relationships which are directly affected by these uncertainties.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company will not early adopt the amendments and does not expect a significant impact on its Consolidated financial statements.