

Third Quarter

2016

3

Management's Discussion and Analysis
For the quarter ended September 30, 2016

Intact Financial Corporation

Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

The following MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors for the quarter ended September 30, 2016. This MD&A is intended to enable the reader to assess our results of operations and financial condition for the three and nine-month periods ended September 30, 2016, compared to the corresponding periods in 2015. It should be read in conjunction with our interim Consolidated financial statements, as well as the MD&A and the Consolidated financial statements included in our 2015 Annual Report. All amounts herein are expressed in Canadian dollars. This MD&A is dated November 1, 2016.

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

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Non-IFRS financial measures

We use both IFRS and non-IFRS financial measures to assess our performance. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. See Section 14 – *Non-IFRS financial measures* for the definition and reconciliation to the most comparable IFRS measures. Management analyzes performance based on underwriting ratios such as combined, expense, loss and claims ratios, MCT, and debt-to-capital, as well as other non-IFRS financial measures, namely DPW, Underlying current year loss ratio, Underwriting income, NOI, NOIPS, OROE, ROE, AROE, Non-operating results, AEPS, Cash flow available for investment activities, and Market-based yield. These measures and other insurance-related terms used in this MD&A are defined in the glossary available in the "Investor Relations" section of our web site at www.intactfc.com, and in our Annual Report for the year ended December 31, 2015.

Cautionary note regarding forward-looking statements

Certain of the statements included in this MD&A about the Company's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely", "potential" or the negative or other variations of these words or other similar or comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: the Company's ability to implement its strategy or operate its business as management currently expects; its ability to accurately assess the risks associated with the insurance policies that the Company writes; unfavourable capital market developments or other factors which may affect the Company's investments, floating rate securities and funding obligations under its pension plans; the cyclical nature of the P&C insurance industry; management's ability to accurately predict future claims frequency and severity, including evaluation of losses relating to the Fort McMurray wildfires, catastrophe losses caused by severe weather and other weather-related losses; government regulations designed to protect policyholders and creditors rather than investors; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; the Company's reliance on brokers and third parties to sell its products to clients; the Company's ability to successfully pursue its acquisition strategy; the Company's ability to execute its business strategy; the Company's ability to achieve synergies arising from successful integration plans relating to acquisitions, including its acquisition of Canadian Direct Insurance Inc. ("CDI"), as well as management's estimates and expectations in relation to resulting accretion, internal rate of return and debt-to-capital ratio; the Company's participation in the Facility Association (a mandatory pooling arrangement among all industry participants) and similar mandated risk-sharing pools; terrorist attacks and ensuing events; the occurrence of catastrophe events, including a major earthquake; the Company's ability to maintain its financial strength and issuer credit ratings; access to debt financing and the Company's ability to compete for large commercial business; the Company's ability to alleviate risk through reinsurance; the Company's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); the Company's ability to contain fraud and/or abuse, the Company's reliance on information technology and telecommunications systems and potential failure of or disruption to those systems, including evolving cyber-attack risk; the Company's dependence on key employees; changes in laws or regulations; general economic, financial and political conditions; the Company's dependence on the results of operations of its subsidiaries; the volatility of the stock market and other factors affecting the Company's share price; and future sales of a substantial number of its common shares.

All of the forward-looking statements included in this MD&A are qualified by these cautionary statements and those made in the section entitled *Risk Management* at page 37 to 53 of our MD&A for the year ended December 31, 2015. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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Glossary of abbreviations

Abbreviation	Description	Abbreviation	Description
AEPS	Adjusted EPS	MCT	Minimum capital test
AFS	Available for sale	MD&A	Management’s Discussion and Analysis
AMF	Autorité des marchés financiers	Moody’s	Moody’s Investor Service Inc.
AOCI	Accumulated OCI	MYA	Market yield adjustment
AROE	Adjusted ROE	NCIB	Normal course issuer bid
BVPS	Book value per share	NEP	Net earned premiums
CAD	Canadian Dollar	NOI	Net operating income
CAGR	Compound annual growth rate	NOIPS	NOI per share
CAT	Catastrophe	OCI	Other comprehensive income
DBRS	Dominion Bond Rating Services	OROE	Operating ROE
DPW	Direct premiums written	OSFI	Office of the Superintendent of Financial Institutions
EPS	Earnings per share to common shareholders	PYD	Prior year claims development
Fitch	Fitch Ratings Inc.	ROE	Return on equity
FVTPL	Fair value through profit and loss	S&P	Standard & Poor’s
IFRS	International Financial Reporting Standards	U.S.	United States
LOB	Line of business	USD	U.S. Dollar

Important notes

- Unless otherwise noted, DPW refers to DPW normalized for the effect of multi-year policies, excluding industry pools (referred to as “DPW” in this MD&A and previously referred to as “DPW (underlying)”). This normalized measure is not significantly different from the comparable IFRS-based measure given that the impact of multi-year policies is no longer material to our results. See Table 27 for the reconciliation.
- All underwriting results and related ratios exclude the MYA, but include our share of the underwriting results of jointly held insurance operations, unless otherwise noted.
- The expense and general expense ratios are presented herein net of other underwriting revenues.
- Net investment income includes our share of the net investment results of jointly held insurance operations, unless otherwise noted.
- Catastrophe claims are any one claim, or group of claims, equal to or greater than \$7.5 million, related to a single event.
- A large loss is defined as a single claim larger than \$0.25 million but smaller than the CAT threshold of \$7.5 million.
- A non-catastrophe weather event (“non-CAT weather event”) is a group of claims which is considered significant but that is smaller than the CAT threshold of \$7.5 million, related to a single weather event.
- All references to “total excess capital” in this MD&A include excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries, unless otherwise noted.
- Unless otherwise noted, market share and market related data are based on the latest available data (Q2-2016) from MSA Research Inc. (“MSA”) and excludes Lloyd’s Underwriters Canada, Insurance Corporation of British Columbia, Saskatchewan Government Insurance, Saskatchewan Auto Fund, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company. MSA data excludes certain Quebec regulated entities. Market share and market positioning reflect the impact of announced or completed acquisitions and are therefore presented on a pro forma basis.
- In an effort to maximize disclosure effectiveness, we aim to reduce duplication in our disclosures. As such, we have made a cross reference to the Consolidated financial statements in our MD&A in situations where the information that would have been provided as part of the MD&A would have been substantially the same.
- Certain totals, subtotals and percentages may not agree due to rounding. Not meaningful (nm) is used to indicate that the current and prior year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%.

OVERVIEW

Section 1 – About Intact Financial Corporation

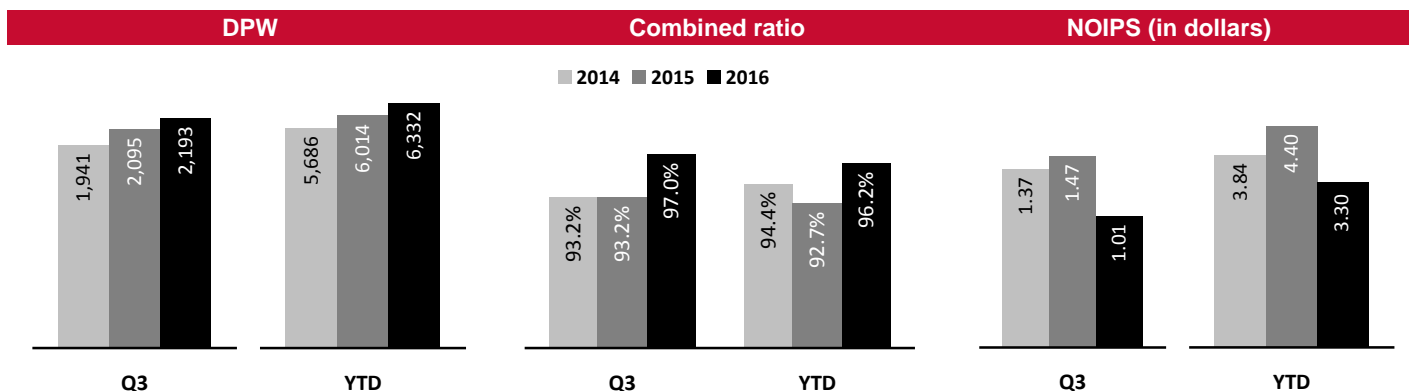


Who we are:

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

Section 2 – Q3-2016 Highlights

- Net operating income per share of \$1.01 despite \$0.93 of catastrophe losses from severe weather
- Solid premium growth of 5% due to growth initiatives and improved market conditions
- Combined ratio of 97.0%, as solid underlying performance was more than offset by 8.1 points of catastrophe losses
- Operating ROE of 13.4% and a 10% increase in book value per share year-over-year



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(in millions of dollars, except as otherwise noted)

PERFORMANCE

Section 3 – Consolidated performance

3.1 Consolidated performance

Table 1 – Consolidated performance

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
DPW¹	2,193	2,095	5%	6,332	6,014	5%
Personal auto	1,032	987	5%	2,963	2,783	6%
Personal property	569	527	8%	1,544	1,412	9%
Commercial P&C	420	421	-	1,302	1,316	(1)%
Commercial auto	172	160	7%	523	503	4%
NEP¹	2,036	1,930	5%	5,903	5,587	6%
Operating income¹						
Underwriting income ¹	61	131	(70)	222	407	(185)
Net investment income	102	105	(3)	310	314	(4)
Finance costs	(19)	(16)	(3)	(54)	(48)	(6)
Distribution income, net	30	28	2	87	82	5
Other income (expense) ²	(2)	2	(4)	(3)	(4)	1
Pre-tax operating income ¹	172	250	(78)	562	751	(189)
NOI¹	137	199	(62)	448	595	(147)
Effective income tax rate	19.9%	18.6%	1.3 pts	19.9%	19.9%	-
Net income	125	131	(6)	370	508	(138)
Combined ratio	97.0%	93.2%	3.8 pts	96.2%	92.7%	3.5 pts
Per share measures, basic and diluted (in dollars)						
NOIPS ¹	1.01	1.47	(31)%	3.30	4.40	(25)%
EPS	0.91	0.95	(4)%	2.70	3.74	(28)%
AEPS ¹	1.01	1.06	(5)%	2.97	4.00	(26)%
Return on equity for the last 12 months						
OROE ¹	13.4%	16.9%	(3.5) pts			
ROE ¹	10.5%	14.2%	(3.7) pts			
AROE ¹	11.4%	15.0%	(3.6) pts			
BVPS (in dollars) ³	41.47	37.84	10%			
Total excess capital	881	389	492			
MCT	215%	195%	20.0 pts			
Debt-to-capital ratio	19.0%	17.3%	1.7 pts			

¹ Refer to Section 14 – Non-IFRS financial measures.

² Tend to fluctuate from quarter to quarter.

³ Refer to Section 17.4 – Book value per share.

Table 2 – Combined ratio by line of business

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
Personal lines	102.7%	95.4%	7.3 pts	98.5%	93.5%	5.0 pts
Personal auto	104.3%	94.4%	9.9 pts	99.5%	94.9%	4.6 pts
Personal property	99.7%	97.4%	2.3 pts	96.4%	90.5%	5.9 pts
Commercial lines	83.5%	88.2%	(4.7) pts	91.0%	91.0%	-
Commercial P&C	81.3%	84.6%	(3.3) pts	90.5%	89.1%	1.4 pts
Commercial auto	88.6%	97.0%	(8.4) pts	92.0%	96.0%	(4.0) pts

Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

	Q3-2016 vs Q3-2015	YTD 2016 vs 2015
DPW growth	<ul style="list-style-type: none"> • Solid premium growth of 5% driven by personal lines and commercial auto, as customers responded positively to new product offerings, improved digital experiences, distribution and branding initiatives. In commercial P&C, growth was impacted by our profitability actions and difficult conditions in Western Canada. 	<ul style="list-style-type: none"> • Solid premium growth of 5% as growth initiatives continued to pay off. Growth was particularly strong in personal lines, while commercial lines continued to experience difficult conditions in Western Canada.
Underwriting performance	<ul style="list-style-type: none"> • We delivered a combined ratio of 97.0%, as strong underlying underwriting performance was offset by 8.1 points of CATs. • Severe weather from hail, wind and rain storms, drove increased CAT losses in personal lines and higher non-CAT weather losses in personal auto. While we anticipate CATs to be higher in the summer months, the losses from these multiple severe storms exceeded our expectations. • Personal auto’s combined ratio of 104.3% was impacted by 6.2 points of CAT losses, 2.3 points of non-CAT weather losses, low favourable PYD, as well as cost inflation. We are accelerating our actions to improve results through rate increases and tighter underwriting rules. • Personal property’s combined ratio of 99.7% included 18.8 points of CAT losses. The strong underlying current year loss ratio of 50.3% was 8.2 points better than last year, largely due to the effectiveness of our profitability actions. • Commercial P&C’s combined ratio was very strong at 81.3% on strong underlying performance driven by our profitability actions. • Commercial auto’s performance improved substantially with a combined ratio of 88.6%, driven by our ongoing profitability actions, favourable PYD and lower large losses. 	<ul style="list-style-type: none"> • We delivered a combined ratio of 96.2%, including 6.2 points of CATs, mostly from Fort McMurray wildfires and Q3 severe storms. These CAT losses more than offset a strong underlying underwriting performance in the property lines. • Personal auto’s combined ratio increased 4.6 points to 99.5%, due to lower favourable PYD and higher CAT losses. • Personal property’s combined ratio of 96.4% included 14.9 points of CATs. The underlying performance in this line remained strong, benefiting from our profitability actions and improved weather in Atlantic Canada. • Commercial P&C’s combined ratio of 90.5% deteriorated 1.4 points, on increased CAT losses from the Fort McMurray wildfires. The underlying current year loss ratio remained solid in this line, having improved 5.4 points on the impact of our profitability actions and milder weather conditions in Atlantic Canada. • Commercial auto’s combined ratio improved 4.0 points to 92.0%, helped by favourable PYD, our profitability actions and milder winter conditions.
Investment income	<ul style="list-style-type: none"> • Net investment income decreased slightly, as expected, as the low rate environment outweighed the positive impact of higher invested assets. 	
Distribution Income	<ul style="list-style-type: none"> • Net distribution income grew to \$30 million, driven by growth in our broker network and improved profitability. 	<ul style="list-style-type: none"> • Net distribution income of \$87 million was \$5 million higher due to growth in our broker network and improved profitability.
NOIPS	<ul style="list-style-type: none"> • Net operating income per share of \$1.01 was down \$0.46 per share essentially from higher CAT losses which increased \$0.47 per share. 	<ul style="list-style-type: none"> • Net operating income per share of \$3.30 decreased due to elevated CAT losses, which amounted to \$1.96 per share.
Net income	<ul style="list-style-type: none"> • Net income of \$125 million decreased slightly, as higher CAT losses were mitigated by the rebound in the equity markets in 2016. 	<ul style="list-style-type: none"> • Net income of \$370 million decreased due to the impact of elevated CAT losses.

Our **OROE remains healthy at 13.4%**, despite elevated CAT losses from severe storms and the Fort McMurray wildfires. Our **BVPS increased 10%** from a year ago to \$41.47. Our **debt-to-capital ratio at September 30, 2016 was 19.0%**, close to our target level of 20%. We ended the quarter in a very strong capital position, with an **MCT of 215% and total excess capital of \$881 million**.

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(in millions of dollars, except as otherwise noted)

Section 4 – Underwriting performance

Table 3 – Consolidated underwriting results

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
NEP, before reinstatement premiums ¹	2,035	1,930	105	5,930	5,585	345
Reinstatement premiums recovery (ceded)	1	-	1	(27)	2	(29)
NEP, as reported	2,036	1,930	5%	5,903	5,587	6%
Net claims:						
Current year claims (excluding CAT claims)	1,278	1,250	28	3,852	3,780	72
Current year CAT claims	166	81	85	351	114	237
Favourable PYD	(71)	(107)	36	(327)	(402)	75
Total net claims¹	1,373	1,224	149	3,876	3,492	384
Commissions, premium taxes and general expenses	602	575	27	1,805	1,688	117
Underwriting income¹	61	131	(70)	222	407	(185)
Underwriting ratios						
Underlying current year loss ratio ¹	62.8%	64.8%	(2.0) pts	64.9%	67.7%	(2.8) pts
CAT loss ratio ²	8.1%	4.1%	4.0 pts	6.2%	2.0%	4.2 pts
Favourable PYD ratio	(3.5)%	(5.5)%	2.0 pts	(5.5)%	(7.2)%	1.7 pts
Claims ratio	67.4%	63.4%	4.0 pts	65.6%	62.5%	3.1 pts
Expense ratio	29.6%	29.8%	(0.2) pts	30.6%	30.2%	0.4 pts
Combined ratio	97.0%	93.2%	3.8 pts	96.2%	92.7%	3.5 pts

¹ Refer to Section 14 – Non-IFRS financial measures. Underlying current year loss ratio is calculated using NEP before reinstatement premiums.

² CAT loss ratio includes current year CAT claims and the impact of reinstatement premiums.

Table 4 – Components of expense ratio

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
Commissions	16.1%	16.2%	(0.1) pts	16.5%	16.4%	0.1 pts
General expenses	9.9%	10.1%	(0.2) pts	10.5%	10.4%	0.1 pts
Premium taxes	3.6%	3.5%	0.1 pts	3.6%	3.4%	0.2 pts
Expense ratio	29.6%	29.8%	(0.2) pts	30.6%	30.2%	0.4 pts

Q3-2016 vs Q3-2015

- **NEP grew 5%**, consistent with the recent growth in DPW.
- **CAT losses** were significantly higher than last year, as severe weather conditions led to eight events involving hail, wind and rain storms that met our CAT threshold of \$7.5 million.
- **Underlying current year loss ratio improved 2.0 points** on the effectiveness of our profitability actions, partly offset by non-CAT weather losses and cost inflation in personal auto.
- **Favourable PYD of 3.5%** was favourable in all lines of business despite being lower than last year's elevated level.
- **Expense ratio improved to 29.6%**, primarily due to lower corporate expenses.
- **Overall, we delivered an underwriting profit of \$61 million.** The decrease of \$70 million was essentially due to \$85 million more in CAT losses in the quarter.

YTD 2016 vs 2015

- **NEP before reinstatement premiums grew 6%**, consistent with the growth in DPW.
- **CAT losses** were elevated due to the Fort McMurray wildfires and severe weather in Q3.
- **Underlying current year loss ratio improved 2.8 points** due to milder winter conditions and our profitability actions.
- **Favourable PYD of 5.5%** was lower than last year's elevated level but remains consistent with historical levels.
- **Expense ratio of 30.6%** was up 0.4 points, mainly from an increase in premium taxes and the impact of reinstatement premiums related to Fort McMurray wildfires.
- **Overall, underwriting income was lower by \$185 million**, due to the impact of elevated CAT losses.

Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

4.1 Personal auto

Table 5 – Underwriting results for personal auto

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
DPW	1,032	987	5%	2,963	2,783	6%
Written insured risks (in thousands)	1,164	1,135	3%	3,430	3,260	5%
NEP	944	903	5%	2,762	2,599	6%
Underwriting income (loss)	(41)	51	(180)%	14	133	(89)%
Underlying current year loss ratio	75.1%	73.0%	2.1 pts	75.9%	75.9%	- pts
CAT loss ratio (including reinst. premiums)	6.2%	3.4%	2.8 pts	2.5%	1.3%	1.2 pts
Favourable PYD ratio	(1.2)%	(6.4)%	5.2 pts	(3.7)%	(7.0)%	3.3 pts
Claims ratio	80.1%	70.0 %	10.1 pts	74.7%	70.2%	4.5 pts
Expense ratio	24.2%	24.4 %	(0.2) pts	24.8%	24.7%	0.1 pts
Combined ratio	104.3%	94.4 %	9.9 pts	99.5%	94.9%	4.6 pts

Q3-2016 vs Q3-2015

- **DPW grew 5%** on a combination of unit growth and rate increases, as our growth initiatives including our telematics offer, improved digital experiences, distribution and branding initiatives continued to pay off.
- **Underlying current year loss ratio deteriorated 2.1 points to 75.1%**, impacted by a mild increase in frequency and severity as a result of non-CAT weather losses and cost inflation. Rate momentum is expected to progressively offset cost pressures early next year.
- **CAT losses of 6.2%** were attributable to multiple severe hail and rain storms across Canada.
- **Favourable PYD of 1.2%** was lower than last year’s level, which was positively impacted by industry pools.

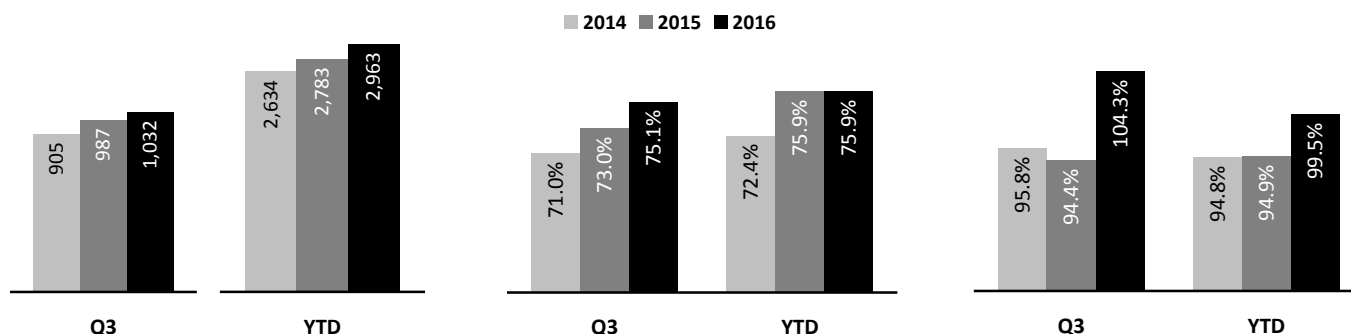
YTD 2016 vs 2015

- **Solid growth of 6%**, with 5 points of organic growth and the remainder from CDI.
- **Underlying current year loss ratio was essentially unchanged at 75.9%**, as the impact of cost inflation, including bodily injury trends in Alberta, was mitigated by the benefits of our claims and pricing actions as well as milder winter conditions.
- **CAT losses of 2.5%** were attributable to the Fort McMurray wildfires and severe summer storms across Canada.
- **Favourable PYD remained healthy at 3.7% but lower than last year.** In 2015, favourable PYD was higher than usual as we had recognized the positive impact of certain auto reforms and industry pools.

DPW

Underlying current year loss ratio

Combined ratio



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(in millions of dollars, except as otherwise noted)

4.2 Personal property

Table 6 – Underwriting results for personal property

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
DPW	569	527	8%	1,544	1,412	9%
Written insured risks (in thousands)	682	651	5%	1,865	1,747	7%
NEP	483	444	9%	1,386	1,283	8%
Underwriting income	2	11	(82)%	50	121	(59)%
Underlying current year loss ratio	50.3%	58.5%	(8.2) pts	52.0%	57.7%	(5.7) pts
CAT loss ratio (including reinst. premiums)	18.8%	6.9%	11.9 pts	14.9%	3.2%	11.7 pts
Favourable PYD ratio	(2.9)%	(1.7)%	(1.2) pts	(5.4)%	(4.5)%	(0.9) pts
Claims ratio	66.2%	63.7%	2.5 pts	61.5%	56.4%	5.1 pts
Expense ratio	33.5%	33.7%	(0.2) pts	34.9%	34.1%	0.8 pts
Combined ratio	99.7%	97.4%	2.3 pts	96.4%	90.5%	5.9 pts

Q3-2016 vs Q3-2015

- **DPW grew 8%**, in continued favourable market conditions, driven by new product offerings, distribution and branding initiatives.
- **Underlying current year loss ratio was strong at 50.3%**, 8.2 points better than last year, mainly driven by the effectiveness of our profitability actions.
- Severe summer storms across Canada drove an **11.9 point increase in CAT losses**.
- **Favourable PYD** remained healthy at 2.9% and in line with prior year.

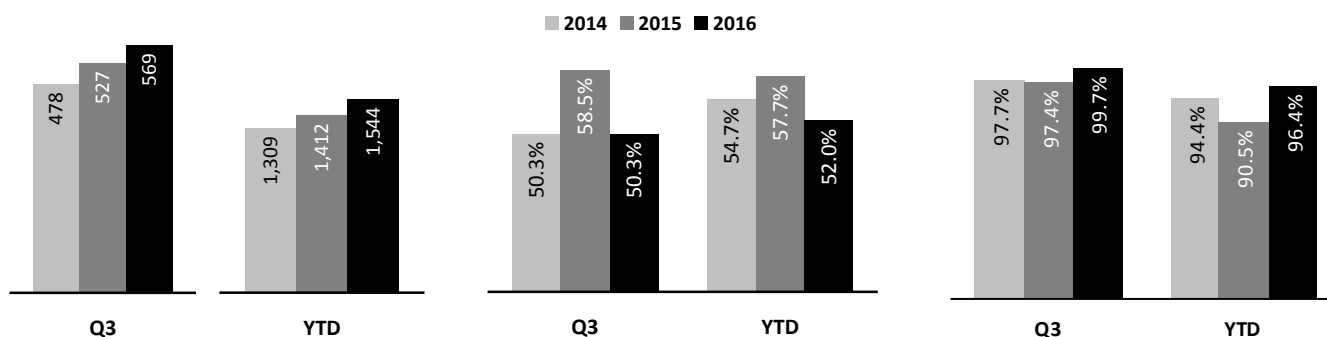
YTD 2016 vs YTD 2015

- **Solid growth of 9%**, with 8 points of organic growth and the remainder from CDI.
- **Underlying current year loss ratio of 52.0%, improved by 5.7 points** due to our profitability actions and improved weather conditions in Atlantic Canada in the first half of the year.
- The Fort McMurray wildfires and severe storms across Canada drove **CAT losses of 14.9%**.

DPW

Underlying current year loss ratio

Combined ratio



Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

4.3 Commercial P&C

Table 7 – Underwriting results for commercial P&C

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
DPW	420	421	-	1,302	1,316	(1)%
Written insured risks (in thousands)	113	108	5%	338	334	1%
NEP	423	417	1%	1,238	1,222	1%
Underwriting income	79	64	23%	117	133	(12)%
Underlying current year loss ratio	50.6%	53.8%	(3.2) pts	55.6%	61.0%	(5.4) pts
CAT loss ratio (including reinst. premiums)	2.9%	3.9%	(1.0) pts	6.6%	3.0%	3.6 pts
Favourable PYD ratio	(10.5)%	(11.4)%	0.9 pts	(11.3)%	(13.6)%	2.3 pts
Claims ratio	43.0%	46.3%	(3.3) pts	50.9%	50.4%	0.5 pts
Expense ratio	38.3%	38.3%	- pts	39.6%	38.7%	0.9 pts
Combined ratio	81.3%	84.6%	(3.3) pts	90.5%	89.1%	1.4 pts

Q3-2016 vs Q3-2015

- **DPW was consistent with last year**, as rate increases were neutralized by headwinds in Western Canada and competitive market conditions.
- **Underlying current year loss ratio improved to a strong 50.6%** due to our profitability actions.
- **CAT losses of 2.9%** were 1.0 point lower than last year.
- **Favourable PYD remained strong at 10.5%**, consistent with prior years.

YTD 2016 vs YTD 2015

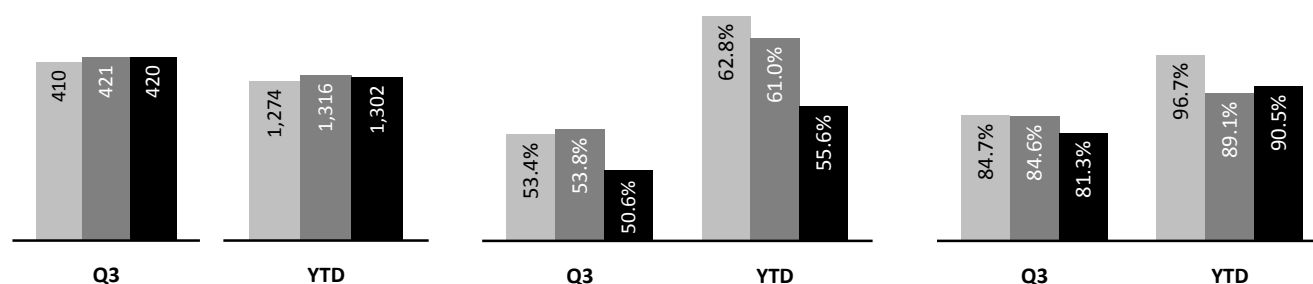
- **DPW declined slightly** as increasing rates were neutralized by difficult conditions in Western Canada.
- Our profitability actions helped drive a **solid underlying current year loss ratio of 55.6%**, 5.4 points better than last year due to the success of our profitability actions, improved weather conditions in Atlantic Canada for the first half of the year, as well as lower large losses.
- **CAT losses of 6.6%** mainly attributable to the Fort McMurray wildfires.
- **Favourable PYD remained strong at 11.3%**, slightly lower than last year’s unusually high level.

DPW

Underlying current year loss ratio

Combined ratio

■ 2014 ■ 2015 ■ 2016



Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

4.4 Commercial auto

Table 8 – Underwriting results for commercial auto

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
DPW	172	160	7%	523	503	4%
Written insured risks (in thousands)	118	127	(7)%	380	398	(5)%
NEP	186	166	12%	517	483	7%
Underwriting income	21	5	320%	41	20	105%
Underlying current year loss ratio	60.7%	63.8%	(3.1) pts	64.3%	66.7%	(2.4) pts
CAT loss ratio (including reinst. premiums)	1.9%	2.5%	(0.6) pts	1.3%	0.9%	0.4 pts
Unfavourable (favourable) PYD ratio	(0.7)%	3.4%	(4.1) pts	(1.9)%	0.5%	(2.4) pts
Claims ratio	61.9%	69.7%	(7.8) pts	63.7%	68.1%	(4.4) pts
Expense ratio	26.7%	27.3%	(0.6) pts	28.3%	27.9%	0.4 pts
Combined ratio	88.6%	97.0%	(8.4) pts	92.0%	96.0%	(4.0) pts

Q3-2016 vs Q3-2015

- **DPW grew 7%**, positively impacted by the introduction of innovative products for the sharing economy, offset in part by our profitability actions.
- **Underlying current year loss ratio improved 3.1 points to 60.7%**, primarily due to profitability actions and lower large losses.
- **CAT losses of 1.9%** were attributable to weather events across Canada.
- **Favourable PYD of 0.7%** represented a 4.1 point improvement over last year’s unfavourable ratio.
- Although results have improved, we continue to implement our action plan including higher rates, improved segmentation and tighter underwriting rules in order to maintain a combined ratio in the low 90s on a full year basis.

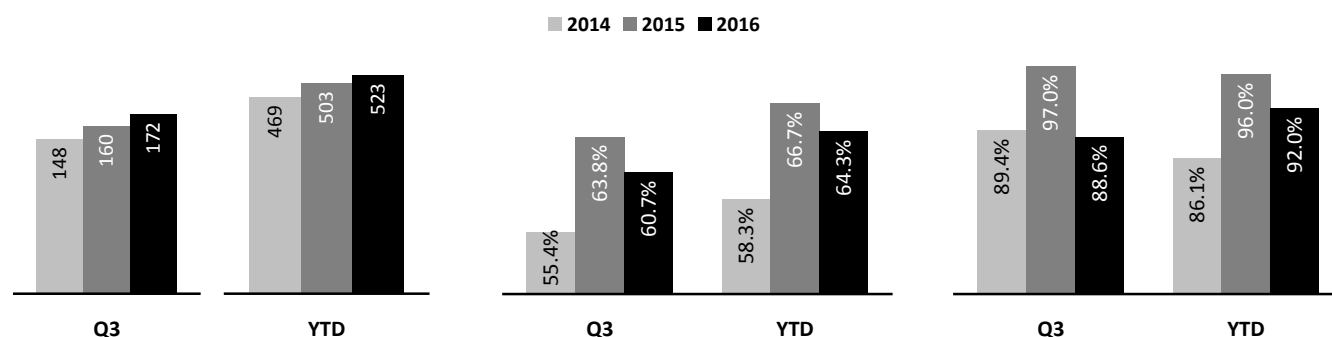
YTD 2016 vs YTD 2015

- **DPW grew 4%**, driven by the launch of innovative products, offset by our profitability actions and difficult conditions in Western Canada.
- **Underlying current year loss ratio improved 2.4 points to 64.3%**, mainly due to profitability actions and milder winter conditions.
- **CAT losses of 1.3%** due to severe summer storms and the Fort McMurray wildfires.
- **Favourable PYD of 1.9%** improved 2.4 points from last year.

DPW

Underlying current year loss ratio

Combined ratio



Management's Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

Section 5 – Investment performance

5.1 Investment policy

Our investment policy and long-term asset mix reflect our objectives to maximize after-tax returns and outperform the P&C industry investment returns over the long-term while ensuring policyholder protection and maintaining strong regulatory capital levels. We manage our investment portfolio and seek to achieve these objectives via appropriate asset allocation and active management of investment strategies. Our objective is to minimize the potential for large investment losses by maintaining diversification through limits on our investment exposures. Such limits are specified in our investment policy and are designed to be consistent with our overall risk tolerance. Management monitors and ensures compliance with our investment policy.

5.2 Net investment income

Table 9 – Net investment income

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
Interest income	66	70	(4)	199	211	(12)
Dividend income	45	45	-	137	131	6
Investment income, before expenses	111	115	(4)	336	342	(6)
Expenses	(9)	(10)	1	(26)	(28)	2
Net investment income	102	105	(3)	310	314	(4)
Average net investments¹	13,613	12,902	6%	13,255	12,944	2%
Market-based yield²	3.27%	3.55%		3.39%	3.52%	

¹ Defined as the mid-month average fair value of net equity and fixed-income securities held during the reporting period.

² Refer to Section 14 – *Non-IFRS financial measures*.

Q3-2016 vs Q3-2015	YTD 2016 vs 2015
<ul style="list-style-type: none"> Net investment income of \$102 million was down \$3 million, as the low rate environment continued to outweigh the positive impact of higher invested assets. Average net investments of \$13.6 billion increased by 6%, due to positive cash flows from the receipt of investment income as well as higher equity values. 	<ul style="list-style-type: none"> Net investment income of \$310 million was lower by \$4 million. The \$12 million decline in interest income reflects lower yields, and was partly offset by an increase in dividend income.

Management's Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

5.3 Net investment gains (losses)

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

Table 10 – Net investment gains (losses)

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
Fixed-income strategies						
Realized and unrealized gains (losses) ¹	(13)	(22)	9	16	10	6
Equity strategies						
Realized and unrealized gains (losses) on: ¹						
Equity securities, net of derivatives	30	(7)	37	29	12	17
Embedded derivatives	(6)	18	(24)	(5)	45	(50)
Net foreign currency gains (losses)	3	3	-	17	15	2
Impairment losses on:						
Common shares	(2)	(42)	40	(37)	(80)	43
Preferred shares	-	(14)	14	-	(38)	38
	25	(42)	67	4	(46)	50
Other gains (losses)²	5	-	5	5	44	(39)
Net investment gains (losses)	17	(64)	81	25	8	17

¹ Excluding foreign currency impact.

² Including net gains on investments in associates and joint ventures related to a change of control.

Our U.S. fixed-income portfolio is hedged using foreign-currency forward contracts, resulting in minimal currency gains or losses on the U.S. fixed-income portfolio.

We own perpetual preferred shares with embedded call options derivatives which give the issuer the right to redeem the shares at a particular price. These embedded derivatives are marked to market through net income, while changes in value of our AFS preferred shares flow through OCI. When preferred share prices increase, the value of these written options also increases, generating a mark-to-market loss. Conversely, when preferred prices decline, the value of these derivatives also falls, resulting in a mark-to-market gain.

The mark-to-market of our investments is fully reflected in our BVPS. As a result, impairment losses have no impact on BVPS. Unrealized gains and losses on AFS investments are recognized in OCI during the year and reported in AOCI until the securities are sold or impaired (see Table 19 – *Net pre-tax unrealized gains (loss) on AFS securities*).

Refer to Note 4.5 – *Net investment gains (losses)* to the accompanying Consolidated financial statements for more details on the components of investment gains and losses.

Q3-2016 vs Q3-2015	YTD 2016 vs YTD 2015
<ul style="list-style-type: none"> Net investment gains were \$17M in Q3-2016. We realized gains of \$30 million on our equity securities. These gains were mostly realized on our AFS equity portfolios and result from ordinary trading activity, reflecting the rebound in equity markets in 2016. The \$64 million of investment losses incurred in Q3-2015 were largely due to high impairment charges resulting from the significant decline in equity markets, particularly the energy and materials sectors. 	<ul style="list-style-type: none"> Net investment gains totalled \$25 million for 2016 and were mainly driven by gains on our equity securities and mark-to-market gains on our FVTPL bond portfolio. Gains on equity securities reflect higher equity markets and currency gains of \$17 million arising on the sale of U.S. equities, offset in part by impairment charges incurred in the first half of the year principally on energy stocks. Mark-to-market gains on our FVTPL bond portfolio result from lower sovereign interest rates and corporate spreads. Net investment gains were \$8 million in 2015, driven by net gains on investments in brokerages and by mark-to-market gains on our embedded derivatives. These gains were offset by impairment charges on our equities, reflecting the weakness in the energy and materials sectors then.

STRATEGY AND OUTLOOK

Section 6 – Canadian P&C insurance industry

6.1 Industry profile

We operate in a highly competitive, fragmented and regulated market.

- The market is relatively mature, with \$47 billion in annual premiums, representing approximately 3% of GDP. The market grew 4% in 2015 and over the last 30 years, the industry has grown at a 6% CAGR.
- The market remains fragmented, although it has experienced consolidation in recent years. In 2015, the top five insurers represented 49% of the market, and the top 20 had a combined market share of 84%.
- In 2015, distribution in the industry was about 64% through brokers and 36% through the direct/agency channel. Brokers continue to control commercial lines and a large share of personal lines in Canada.

6.2 Industry results and outperformance

The Canadian P&C insurance results for H1-2016 are as follows:

Table 11 – Estimated Canadian P&C insurance results

	IFC	P&C industry	Out performance	Industry Benchmark ¹	Out performance
DPW growth	4.6%	1.7%	2.9pts	1.5%	3.1pts
Combined ratio (including MYA)	97.4%	104.8%	7.4pts	104.2%	6.8pts
ROE (last 12 months) ²	11.4%	4.6%	6.8pts	4.5%	6.9pts

Industry data: IFC estimate based on MSA Research Inc. Please refer to Important Notes on page 3 of this MD&A for further information.

¹ Consists of the 20 largest comparable companies in the P&C industry.

² IFC’s ROE corresponds to the AROE, which excludes the after-tax impact of acquisition-related items.

H1-2016

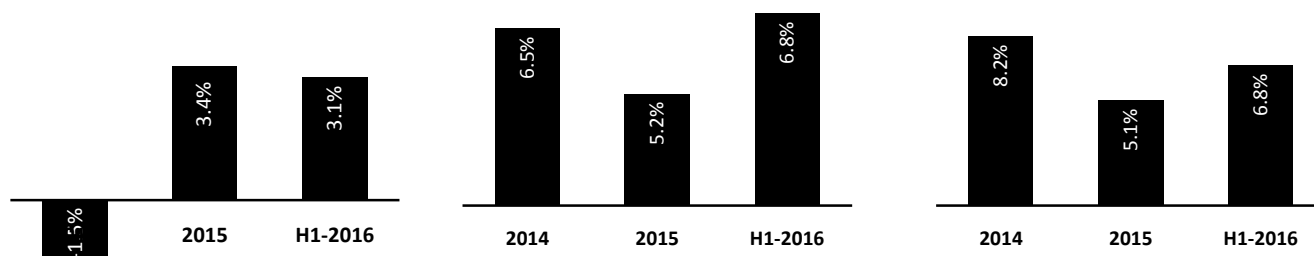
- **Our growth outperformance against our industry benchmark reached 3.1 points**, largely driven by our organic growth initiatives and the acquisition of CDI.
- **Our combined ratio outperformance against our industry benchmark was 6.8 points**, an improvement of 1.6 points over FY 2015’s gap, mainly due to the fact that our exposure to the Fort McMurray wildfires was smaller than our relative market share and to the impact from our profitability actions.
- **Our ROE outperformance of 6.8 points versus the P&C insurance industry is above our objective of 5 points** and increased from the FY 2015 gap of 5.1 points, mainly on better underwriting results.

DPW Growth

Combined ratio (including MYA)

ROE²

■ IFC's outperformance



2014

Management's Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

Section 7 – Operating environment**7.1 Weather conditions**

A persistent high pressure pattern over the U.S. has maintained the jet stream over Canada this summer, resulting in an increased number of storms, causing hail, wind and rain. Western Canada was particularly affected, with frequent precipitation and an elevated number of thunderstorms in Calgary. In Central Canada, overall precipitation amounts were close to normal, but fell in fewer, more intense events, causing water losses. Atlantic Canada was very dry throughout the quarter. Temperatures were slightly higher in Central Canada and more normal in Western Canada, with the dissipation of El Niño.

In Q3-2016, we had eight events that reached the CAT threshold of \$7.5 million, of which only one reached the reinsurance threshold, resulting in CAT losses of \$166 million. This compares to three events in Q3-2015 which resulted in \$81 million of CAT losses. Non-CAT weather losses also impacted personal auto's underlying current year loss ratio, due to an above average number of hail events in Q3-2016, particularly in Western Canada and Quebec.

7.2 Fort McMurray wildfires

On May 3, 2016, wildfires in northern Alberta threatened the town of Fort McMurray, requiring the mandatory evacuation of more than 80,000 occupants. At its height, the fire spanned over 500,000 hectares, resulting in the costliest insured natural disaster in Canadian history according to the July 7, 2016 press release from the Insurance Bureau of Canada ("IBC"), which estimated that total industry insured property damage could reach more than \$3.6 billion.

Within hours of the evacuation, we mobilized our claims and catastrophe response teams to many of the evacuation centres throughout Alberta. We provided customers with support and emergency financial assistance as needed, including temporary relocation. We have had over 160 employees on the ground in Fort McMurray and the surrounding area, and will continue to be present until all the claims are resolved. Approximately 90% of customers are now back in their homes; the balance having experienced total losses or significant partial losses to their homes. Where applicable, the demolition process is nearing completion, and we continue to support our customers with the rebuilding decision making process, ensuring that they are aware of all the options available to them.

While the cost of this CAT before reinsurance was approximately \$400 million, the impact on Intact's financial results from this CAT net of reinsurance is \$173 million, before tax, or \$127 million, after tax, unchanged from the estimate provided in Q2. This translates to \$0.97 per share, net of reinsurance and taxes.

7.3 Catastrophe losses

The table below presents the historical seasonality of net current year CAT claims. See Section 18.2 – *Seasonality of the P&C insurance business* for more details on seasonality.

Table 12 – Seasonal historical average of net current year CAT claims

	2016	2015	2014	2013	2012	Average % of NEP (2012-2015)	Average weight per quarter (2012-2015)
Q1	21	11	75	18	17	0.4%	11%
Q2	164	22	33	143	62	0.9%	24%
Q3	166	81	125	270	150	2.2%	57%
Q4	n/a	2	10	55	16	0.3%	8%
Total	n/a	116	243	486	245		100%
Total % of NEP		1.5%	3.4%	6.9%	3.7%	3.8%	

Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

7.4 Capital markets

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

Table 13 – Selected economic indicators

Market Indicator	Q3-2016	Q3-2015	YTD 2016	YTD 2015
S&P/TSX Composite	5%	(9)%	13%	(9)%
Financials	5%	(4)%	8%	(6)%
Energy	5%	(18)%	23%	(24)%
S&P/TSX Preferred Share Index	3%	(14)%	(3)%	(23)%
5Y Canada Sovereign Index (estimated variance in bps)	-	-	(7) bps	(50) bps
5Y AA Corporate spread (estimated variance in bps)	(3) bps	25 bps	(23) bps	32 bps
Strengthening (weakening) of USD vs CAD	2%	7%	(5)%	15%

Comments on capital markets performance – Q3-2016 vs Q2-2016

The S&P/TSX Composite Index rose by 5% in Q3-2016, led by financials (+5%) and energy (+5%).

During Q3-2016:

- Five-year Canadian sovereign yields were flat.
- Five-year AA Corporate spreads narrowed marginally.

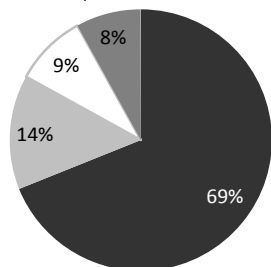
Prices of fixed-rate preferred shares increased in Q3-2016, as did those with fixed-reset features due to attractive valuations which brought back some demand for this type of investment.

During Q3-2016, the value of the USD relative to the CAD was virtually unchanged.

Investment mix

(as at September 30, 2016)

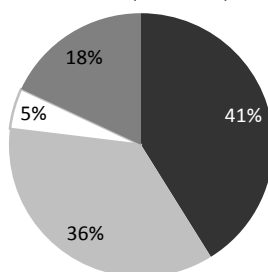
- Fixed-income
- Common shares
- Preferred shares
- Cash, short-term notes and loans



Sector mix

(as at September 30, 2016)

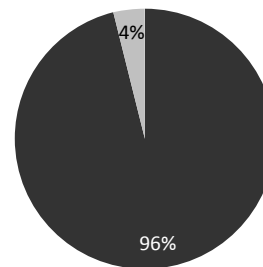
- Government
- Financials
- Energy
- Other (4% or less)



Currency

(as at September 30, 2016)

- CAD
- USD



Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

Section 8 – Recent developments

Q3 developments - At a glance

<p>Business developments</p>	<ul style="list-style-type: none"> On July 5 2016, our wholly-owned subsidiary, BrokerLink, announced that it had acquired Cornerstone Insurance Brokers Ltd., a multi-line, full service brokerage. Through the acquisition, BrokerLink welcomed 90-plus employees and increase its footprint to more than 75 locations in Ontario. As a result of the deal, all four Cornerstone Insurance Brokers’ operating in the Ontario communities of Woodbridge, Markham, Aurora and Barrie will integrate under the BrokerLink brand. Insurance regulators in Ontario approved an insurance product developed by Intact in collaboration with Uber, similar to the Alberta one which was approved in Q2 and put in force in Q3. With this product, every driver operating on the Uber platform in Ontario and their passengers will automatically be covered under Uber’s commercial insurance policy with Intact Insurance from the moment drivers make themselves available to accept a ride request, to the time the passengers have exited the vehicle.
<p>Innovation</p>	<ul style="list-style-type: none"> In September 2016, we reached an important milestone – 1,000,000 quick quotes! Consumers are looking for speed and convenience, and quick quote delivers this with a five-fold reduction in questions needed to generate their auto insurance quote, from 60 questions down to just 12. Our customer-centric approach is a great example of how we embrace change and innovative thinking. Launched on belairdirect.com in January 2015, quick quote is now available in Alberta, British Columbia, Ontario and Quebec for belairdirect, and in Alberta, Ontario and Quebec for Intact insurance. In July, we launched our Intact Service Centre in Ottawa, the second of four Intact Service Centres slated to open. Earlier this year, we opened our Calgary Service Centre, and our Toronto and Montreal locations are set to open later in 2016 and early 2017. Metromile Inc. (“Metromile”), one of our strategic venture investments, announced in September that it had raised USD \$191.5 million in funding, which it used to purchase insurance carrier Mosaic Insurance Alliance to handle the underwriting of its policies and to expand its business to other parts of the U.S. The goal with our investment in Metromile, is to build a relationship that would allow both organizations to strengthen their core competencies in order to enhance the customer experience.
<p>Liquidity and Capital resources</p>	<ul style="list-style-type: none"> On September 30, 2016, the outstanding Non-cumulative Rate Reset Class A Shares Series 3 Preferred Shares reset to an annual dividend rate of 3.332% for a five year period. Holders of 1,594,006 shares (out of the total of 10,000,000 shares) elected to convert their Series 3 shares into Non-Cumulative Floating Rate Class A Shares Series 4 Preferred Shares on a one-for-one basis and will instead receive a floating dividend rate. This floating dividend rate will reset every quarter, and is equal to the sum of the 90-day T-bill rate plus 2.66%.

Subsequent to the quarter

- In October, the **Quebec** government put in place a pilot project for **ride sharing** services provided by Uber. Intact is providing commercial insurance for the pilot project, where our policy provides coverage to all Uber drivers and passengers while they are engaged in ride sharing. This follows the prior approval and launch of our commercial insurance product for Uber in Ontario and Alberta as mentioned above.

Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

Other 2016 developments - At a glance

<p>Business developments</p>	<ul style="list-style-type: none"> In May, we announced the creation of a new national team dedicated to growing our specialty solutions business. We believe this will help accelerate our plan to become the Canadian leader in specialty lines and surety. To support this growth, we will be hiring about 150 professionals across Canada over the coming years. In April, we announced a partnership with Turo Inc. (“Turo”), a peer-to-peer car rental company, concurrent with its first expansion outside the U.S. into Canada. This partnership represents another concrete example of our strategy to look for new growth streams and opportunities to accelerate our learning, while meeting evolving customer needs. Insurance options for the Turo platform will be offered for Intact Insurance and belairdirect customers. In 2016, we invested in Metromile, a pay-per-mile insurance provider in the U.S. This venture is in line with our long-term strategy to invest and partner with emerging and innovative businesses.
<p>Innovation</p>	<ul style="list-style-type: none"> Since we launched our first two Intact Service Centres in Calgary in February and Ottawa in July, Intact Insurance, belairdirect & Jevco customers have now enjoyed a new simpler, faster and more convenient auto claims experience for more than 2,100 claims. We are looking forward to expanding our current daily capacity of 30 new claims per day with our upcoming Toronto and Montreal locations set to open in late 2016 and early 2017, respectively. In February 2016, we launched our Enhanced Water Damage Package for personal property, providing comprehensive coverage for eligible customers. We are among the first insurance providers to start offering coverage for overland and ground water damage, so that customers can have peace of mind in case of such an event. So far, almost 37,000 new business risks purchased this coverage, and almost 357,000 of our existing clients have added this Package to their policy at renewal. We recently introduced our new commercial solution for Unmanned Air Vehicles (UAVs), typically referred to as drones. Our commercial drone insurance product is meant to provide coverage to existing customers who use aerial drones for commercial purposes and to support new P&C business that requires this type of coverage.
<p>Awards and recognitions</p>	<ul style="list-style-type: none"> In June, belairdirect received the highest numerical score in the Quebec and Atlantic/Ontario regions in the J.D Power 2016 Canadian Home Insurance Customer Satisfaction Study, based on 7,738 total responses measuring experiences and perceptions of customers, surveyed March - April 2016. Your experiences may vary. Visit jdpower.com. In our recent biannual survey of brokers across the country, our Broker Satisfaction Index score increased to a record high. Drivers of broker satisfaction included ease of doing business with us, ease of selling Intact Insurance products, and quality of communications. For the third consecutive year, Intact Financial Corporation and its subsidiaries were recognized as one of Canada's Best 50 Corporate Citizens by Corporate Knights, a Toronto-based media and investment advisory company. Our position improved from 35 in 2015 to 30 in 2016. Our Public Accountability Statement, which showcases our Corporate Social Responsibility activities for fiscal year 2015, was released in May. In 2015, we were recognized as an Aon Best Employer – Canada 2016, Platinum level, recognizing IFC for its strong level of employee engagement, leadership, performance culture and employment brand. In 2015, we were recognized as one of Canada's Top 100 Employers by Mediacorp Canada Inc. for 2016, recognizing IFC for its exceptional human resources programs and forward-thinking workplace policies.
<p>Liquidity and capital resources</p>	<ul style="list-style-type: none"> On February 25, 2016, we announced an offering of \$250 million of Series 6 unsecured medium term notes, which was completed on March 1, 2016. Please see further details regarding our Series 6 debt in <i>Section 11.1 – Financing and capital structure</i>. We commenced a NCIB on February 12, 2016. Please see further details regarding our NCIB in <i>Section 17.2 – Outstanding share data and NCIB</i>.

Management’s Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

Section 9 – Outlook and strategy

We are well-positioned to continue outperforming the P&C insurance industry in the current environment due to our pricing and underwriting discipline, claims management capabilities, as well as our prudent investment and capital allocation practices.

		Canadian P&C insurance industry 12-month outlook	Our strategy
Market environment	Personal auto	<ul style="list-style-type: none"> In Ontario, we continue to expect symmetry between rate reductions from reforms and government cost reduction measures recently completed. The performance of personal auto has been challenged as the average industry loss ratio for the first half of 2016 was close to 80%. Overall we expect claims cost inflation will lead to rate increases in all markets. We therefore expect growth at a low to mid single-digit rate for the industry. 	<ul style="list-style-type: none"> We expect that our branding and digital actions in this line of business will continue to help grow our market position. We have robust action plans that address pricing and claims and tackle observed emerging trends.
	Personal property	<ul style="list-style-type: none"> We expect the current firm market conditions to continue, as companies are adjusting to changing weather patterns. We therefore expect growth rate should remain at the mid to upper single digit level. 	<ul style="list-style-type: none"> We are enhancing our home improvement plan to ensure the results are sustainable even in severe weather conditions. We continue to focus on addressing customer needs which support growth (e.g. Lifestyle Advantage™ and the new Enhanced Water Damage Package).
	Commercial lines	<ul style="list-style-type: none"> While these lines of business remain competitive, we believe that the continued low interest rates and elevated loss ratio of the past years support firm market conditions. The economy in Western Canada continues to pressure industry growth. We therefore expect growth at a low single digit rate. 	<ul style="list-style-type: none"> We continue to develop innovative products to address customer needs (e.g. cyber risk coverage and sharing economy). At the same time, our focus on training and service excellence remains. We are strengthening capabilities in specialty lines. We are taking corrective measures in Commercial auto. We are targeting a combined ratio sustainably in the low 90s through better segmentation, rate increases and product changes.
Capital markets	Investments	<ul style="list-style-type: none"> In the current interest rate environment, we estimate that the industry’s pre-tax investment yield will continue to decline slightly, given its asset mix and duration. 	<ul style="list-style-type: none"> We expect a mild reduction in our net investment income over the next 12 months as the low yield environment continues to be challenging.
	Financial strength	<ul style="list-style-type: none"> Industry capital levels could be negatively impacted if volatility resulting from global events puts downward pressure on market values. Global capital requirements are continuing to influence the asset allocation decisions of many companies. 	<ul style="list-style-type: none"> We maintain a strong financial position to capture growth opportunities as they arise and withstand headwinds from volatile capital markets or natural disasters.
Overall	Overall	<ul style="list-style-type: none"> We expect growth at a low to mid single-digit rate. Overall, we expect the industry’s ROE to improve but remain slightly below its long-term average of 10% over the next 12 months. 	<ul style="list-style-type: none"> We continue to invest in brand, digital strategies, customer experience and distribution networks to generate premium growth. We expect that our pricing and underwriting discipline, as well as our claims management capabilities will continue to help us outperform the industry.

Management's Discussion and Analysis for the third quarter of 2016

(in millions of dollars, except as otherwise noted)

FINANCIAL CONDITION

Section 10 – Financial position

September 30, 2016 highlights

BVPS for the last 12 months	Debt-to-capital ratio	Total excess capital	MCT
+10%	19.0%	\$881 million	215%

10.1 Balance sheets

Table 14 – Balance sheets

As at	September 30, 2016	December 31, 2015
Assets		
Investments		
Cash, cash equivalents and short-term notes	623	351
Fixed-income securities	8,646	8,499
Preferred shares	1,271	1,235
Common shares	3,404	2,971
Loans	398	448
Investments	14,342	13,504
Premium receivables	3,054	2,868
Reinsurance assets	508	274
Deferred acquisition costs	760	720
Other assets	1,645	1,417
Intangible assets and goodwill	2,545	2,453
Total assets	22,854	21,236
Liabilities		
Claims liabilities	8,744	8,094
Unearned premiums	4,616	4,390
Financial liabilities related to investments	599	378
Other liabilities	1,577	1,503
Debt outstanding	1,392	1,143
Total liabilities	16,928	15,508
Shareholders' equity		
Common shares	2,083	2,090
Preferred shares	489	489
Contributed surplus	122	119
Retained earnings	3,052	3,051
AOCI	180	(21)
Shareholders' equity	5,926	5,728

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10.2 Investments

Our investments totalled \$14.3 billion as at September 30, 2016, up \$0.8 billion from December 31, 2015. The increase reflects the impact of positive cash flows from operations, investment income received and higher equity markets in 2016. Our investment portfolio is mainly composed of Canadian securities and includes a mix of cash and short-term notes, fixed-income securities, preferred shares, common shares and loans. As a means to provide geographic and sector diversification to our portfolio, we invest in high quality U.S. corporate bonds and U.S. equities.

High-quality investment portfolio

- We invest in corporate and government bonds and nearly 98% of our fixed-income portfolio is rated 'A-' or better as at September 30, 2016.
- We have no exposure to leveraged securities.
- Our asset-backed securities, all rated 'AAA', totalled \$171 million as at September 30, 2016 (\$250 million as at December 31, 2015) and included Canadian credit card receivables (\$154 million as at September 30, 2016, \$230 million as at December 31, 2015) and mortgage-backed securities.
- Our preferred shares portfolio is mainly comprised of Canadian issuers with 85% of our portfolio invested in securities that are highly rated, with at least a 'P2L' credit rating.
- Our common equity exposure is focused on dividend-paying Canadian equities, and is complemented by \$604 million in dividend-paying U.S. equities (\$584 million as at December 31, 2015). We actively manage our portfolio to enhance dividend income throughout the year.

Net exposure

As part of our investment strategies, from time to time we take long/short equity positions in order to maximize the value added from active equity portfolio management, or to mitigate overall equity market volatility. We also use strategies where market risk from long equity positions is reduced through the use of swap agreements or other hedging instruments.

The following tables show our economic exposure after reflecting the impact of hedging strategies and financial liabilities related to investments.

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

As at	September 30, 2016	December 31, 2015
Cash, cash equivalents, and short-term notes	5%	4%
Fixed-income strategies	69%	71%
Preferred shares	9%	9%
Common equity strategies	14%	13%
Loans	3%	3%
	100%	100%

The investment mix as at September 30, 2016 is comparable to December 31, 2015.

Approximately 11% of our fixed-income and 18% of our common share asset portfolios were comprised of USD securities as at September 30, 2016. Foreign currency exposure in USD denominated fixed-income securities is hedged using foreign-currency forward contracts.

Table 16 – Investment portfolio- currency (net exposure)

As at	September 30, 2016	December 31, 2015
CAD	96%	95%
USD	4%	5%
	100%	100%

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Table 17 – Sector mix by asset class, excluding cash, short-term notes and loans (net exposure)

As at	Fixed-income securities	Preferred shares	Common shares		IFC Total	
			IFC	S&P/TSX Weighting	September 30, 2016	Dec 31, 2015
Government	61%	-	-	-	41%	40%
Financials	28%	76%	16%	36%	36%	37%
Energy	2%	13%	20%	21%	5%	5%
Industrials	2%	-	13%	9%	4%	3%
Consumer staples	2%	-	9%	4%	3%	3%
Telecommunication	-	-	7%	5%	1%	1%
Utilities	-	11%	6%	3%	2%	3%
Consumer discretionary	1%	-	8%	5%	2%	2%
Materials	-	-	7%	13%	1%	1%
Information technology	2%	-	10%	3%	3%	3%
Health care	2%	-	4%	1%	2%	2%
	100%	100%	100%	100%	100%	100%

Our fixed-income investment portfolio is mainly concentrated in the government and financial sectors in order to provide liquidity and stability to our balance sheet, and our equity portfolio has a focus on dividend-paying companies.

Portfolio credit quality

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

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

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

As at	September 30, 2016	December 31, 2015
Fixed-income securities¹		
AAA	46%	50%
AA	36%	31%
A	16%	18%
BBB	2%	1%
	100%	100%
Preferred shares¹		
P1	-	1%
P2	85%	81%
P3	15%	18%
	100%	100%

¹ Source: S&P, DBRS and Moody's.

As at September 30, 2016, the weighted-average rating of our fixed-income portfolio was 'AA+', unchanged since December 31, 2015, and the average duration of our fixed-income portfolio was 4.05 years (4.04, net of interest rate derivatives) similar to the duration of 4.03 years as at December 31, 2015 (4.00, net of interest rate derivatives). The weighted-average rating of our preferred share portfolio was 'P2' as at September 30, 2016 and December 31, 2015.

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

In determining the fair value of investments, we rely on quoted market prices. In cases where an active market does not exist, the estimated fair values are based on recent transactions or current market prices for similar securities.

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

As at	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Fixed-income securities	165	166	140	121	118
Preferred shares	(117)	(158)	(184)	(111)	(165)
Common shares	210	142	79	(12)	(74)
Net pre-tax unrealized gain (loss) position	258	150	35	(2)	(121)

September 30, 2016 vs June 30, 2016

- **Our pre-tax unrealized gain position stood at \$258 million, up \$108 million for the quarter.** This increase was driven by improvement in the common share and preferred share markets. See *Section 7.4 - Capital markets* for more details.

September 30, 2016 vs Dec. 31, 2015

- **The favourable development of \$260 million** was driven by higher common share prices as equity markets rose significantly in 2016. See *Section 7.4 - Capital markets* for more details.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions, reflecting our investment strategy which is focused primarily on dividend-paying common equities.

Impairment recognition

Based on our assessment in Q3-2016, we recorded impairment losses amounting to \$2 million in Q3-2016 and \$37 million in the first nine months of 2016. Refer to Table 10 – *Net investment gains (losses)* for more details.

The table below presents the aging of unrealized losses on our AFS common shares.

Table 20 – Aging of unrealized losses on AFS common shares

As at	Sept 30, 2016	June 30, 2016	March 31, 2016	Dec 31, 2015	Sept 30, 2015
Less than 25% below book value	19	39	46	96	113
More than 25% below book value for less than 6 consecutive months	3	3	3	31	52
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	-	1	24	44	19
Unrealized losses on AFS common shares	22	43	73	171	184

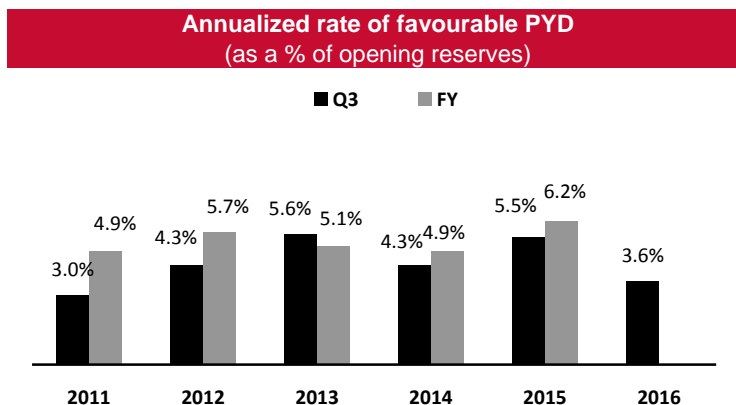
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10.3 Claims liabilities and PYD

Claims liabilities amounted to \$8.7 billion as at September 30, 2016.

- Reserve estimates are evaluated quarterly for redundancy or deficiency.
- The evaluation is based on actual payments in full or partial settlement of insurance contracts and current estimates of claims liabilities for claims still open or claims still unreported.
- PYD can fluctuate from quarter to quarter and year to year and, therefore, should be evaluated against the historical average.
- The historical rate of favourable PYD as a percentage of opening reserves has been approximately 3% to 5% per year over the long term.
- The level of PYD is typically higher in the first quarter compared to other quarters since any prior quarter claims development experienced in the first quarter is reported as PYD.



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

Table 21 – Favourable PYD by line of business

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
By line of business						
Personal auto	11	58	(47)	102	182	(80)
Personal property	14	8	6	75	57	18
Commercial P&C	44	47	(3)	140	166	(26)
Commercial auto	2	(6)	8	10	(3)	13
Total favourable development	71	107	(36)	327	402	(75)
Annualized rate of favourable PYD¹	3.6%	5.5%	(1.9) pts	5.6%	6.9%	(1.3) pts

¹ As a % of opening reserves.

Q3-2016 vs Q3-2015		YTD 2016 vs YTD 2015	
<ul style="list-style-type: none"> Favourable PYD of \$71 million, or 3.6% of opening reserves on an annualized basis, was below the 5.5% recorded in Q3-2015 but in line with historical average. Last year’s personal auto results were positively impacted by the industry pools. 	<ul style="list-style-type: none"> Favourable PYD of \$327 million, or 5.6% of opening reserves on an annualized basis, was below the 6.9% recorded in Q3-2015 but in line with historical average. Last year experienced an elevated level of favourable PYD, reflecting greater comfort with auto reforms and favourable impact from industry pools. 		

Claims liabilities are discounted using a discount rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date. The claims liabilities’ sensitivity to the discount rate has been performed for possible movements in the assumption with all other assumptions held constant. Movements in the assumption may not be linear.

Table 22 - Sensitivity analysis on net income

As at	Change	September 30, 2016	December 31, 2015
Discount rate used		1.37%	1.67%
Net income impact	+ 1%	189	134

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Section 11 – Liquidity and capital resources

11.1 Financing and capital structure

We generate liquidity by collecting and investing premiums in advance of paying claims. We use financing instruments, with a preference for long tenures, to optimize our balance sheet or to support growth initiatives. We believe our optimal capital structure is one where the debt-to-capital ratio is up to 20% and we intend to operate at this level on an ongoing basis. We may exceed this level from time to time to capture market opportunities, but with a goal to return to our target within a reasonable time frame.

We had a debt-to-capital ratio of 19.0% as at September 30, 2016 (16.6% as at December 31, 2015). The increase reflects the issuance in March 2016 of \$250 million of Series 6 medium term unsecured notes, which mature in March 2026.

Series 3 Preferred Shares rate reset

On August 31, 2016, we announced that we did not intend to exercise our right to redeem our non-cumulative Rate Reset Class A Series 3 Preferred Shares (the "Series 3 Preferred Shares") on September 30, 2016. Holders of 1,594,996 of these shares elected to convert their shares into non-cumulative Floating Rate Class A Series 4 Preferred Shares (the "Series 4 Preferred Shares"). Following the conversion, as at September 30, 2016, we now have 8,405,004 Series 3 Preferred Shares and 1,594,996 Series 4 Preferred Shares outstanding.

The annual dividend rate for the Series 3 Preferred Shares for the five-year period from and including September 30, 2016 will be 3.332%. The dividend rate for the Series 4 Preferred Shares for the three-month floating rate period from and including September 30, 2016 will be 0.79733% (3.172% on an annualized basis). The floating quarterly dividend rate will be reset every quarter. Also see *Section 17.2 – Outstanding share data and NCIB*.

Base shelf prospectus and medium-term note supplement

On September 11, 2015, we filed a final short form base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada that will allow us to offer up to \$5.0 billion in any combination of debt, preferred shares or common share securities, subscription receipts, warrants, share purchase contracts and units over the following 25 months. We also filed a supplement to our base shelf prospectus to establish a medium-term note program that would allow us to issue up to \$1.2 billion in unsecured medium-term notes. As at September 30, 2016, the amounts available under the prospectuses were \$4.75 billion and \$950 million, respectively.

Series 6 unsecured medium term notes

On March 1, 2016, we completed an offering of \$250 million of Series 6 unsecured medium term notes. These notes bear interest at a fixed annual rate of 3.77% until maturity on March 2, 2026, payable in semi-annual instalments commencing on September 2, 2016. Further to the issuance of the notes, DBRS, Moody's and Fitch have maintained their respective credit ratings.

Credit facility

We have a \$300-million unsecured revolving term credit facility, which matures on December 5, 2020. This credit facility may be drawn as prime loans or base rate (Canada) advances at the prime or base rate plus a margin, as well as bankers' acceptances or Libor advances at the bankers' acceptance or Libor rate plus a margin. This facility was undrawn as at September 30, 2016 and December 31, 2015.

As part of the covenants of the loans under the credit facility, we are required to maintain certain financial ratios, which were fully met as at September 30, 2016 and December 31, 2015.

Sale and repurchase agreements

We may, from time to time, enter into sale and repurchase agreements consisting of the sale of securities together with an agreement to repurchase them in the short term, at a set price and date, up to a maximum of 1.5% of invested assets. We did not have any securities sold under repurchase agreements as at September 30, 2016 and December 31, 2015.

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11.2 Ratings

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

Table 23 – Ratings

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

On August 31, 2016 Fitch reaffirmed the issuer credit rating of IFC and the insurer financial strength ratings of its principal P&C subsidiaries. The outlook remained stable. On September 14, 2016, DBRS reaffirmed the issuer credit rating of IFC and the insurer financial strength ratings of its principal P&C subsidiaries. The outlook remained stable. Moody's and A.M Best have maintained their ratings for long-term issuer and insurance financial strength.

11.3 Understanding our cash flows

Cash inflows from operating activities mainly consist of insurance premiums and investment income. Cash inflows in excess of required outflows are deployed in our investment portfolio to generate additional investment income in the future.

Table 24 – Cash flows

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
Cash flows from operating activities	507	419	88	772	649	123
Cash flows deployed on:						
CDI acquisition, net of cash acquired	-	1	(1)	-	(187)	187
Equity investments in brokerages and other, net	(72)	(12)	(60)	(237)	(70)	(167)
Purchases of intangibles and P&E, net	(24)	(17)	(7)	(90)	(57)	(33)
Dividends	(81)	(75)	(6)	(244)	(225)	(19)
Share-based payments	-	-	-	(19)	(17)	(2)
NCIB	(5)	-	(5)	(37)	-	(37)
Cash flows generated from:						
Issuance of Series 6 medium term notes	-	-	-	248	-	248
	(182)	(103)	(79)	(379)	(556)	177
Cash flow available for investment activities¹	325	316	9	393	93	300
Net investment sales (purchases)	(362)	(292)	(70)	(397)	3	(400)
Net increase (decrease) in cash and cash equivalents	(37)	24	(61)	(4)	96	(100)

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

We continued to invest in our broker network to develop broker relationships. Business with brokers is expected to support our long-term growth and generate distribution income.

As at September 30, 2016, we repurchased and cancelled 422,200 common shares under our NCIB at an average price of \$87.84 per share for a total consideration of \$37 million.

We consider that we have sufficient capital resources, cash flows from operating activities and borrowing capacity to support our current and anticipated activities, scheduled principal and interest payments on our outstanding debt, the payment of dividends and other expected financial requirements in the near term.

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Section 12 – Capital management

12.1 Capital management objectives

Our objectives when managing capital consist of:

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

We seek to maintain adequate excess capital levels to ensure that the probability of breaching the regulatory minimum requirements is very low. Such levels may vary over time depending on our evaluation of risks and their potential impact on capital. We also keep higher levels of excess capital when we foresee growth or actionable opportunities in the near term. Furthermore, we intend to return excess capital to shareholders through annual dividend increases and, when excess capital levels permit, through share buybacks.

Regulatory capital

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

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

Total capital available and total capital required represent amounts applicable to our P&C insurance subsidiaries and are determined in accordance with prescribed OSFI and AMF rules. Total capital available mostly represents total shareholders’ equity less specific deductions for disallowed assets including goodwill and intangible assets, net of related deferred tax liabilities. Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. It is further increased by an operational risk margin, based on the overall riskiness of a P&C insurer (its capital required) and its premium volume. Capital required is then reduced by a credit for diversification between investment risk and insurance risk.

MCT Guidelines

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

12.2 Capital position

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

Table 25 – Estimated aggregated capital position of our P&C insurance subsidiaries

As at	September 30, 2016	June 30, 2016	Dec 31, 2015 ¹
Total capital available	4,175	4,075	3,840
Total capital required	1,939	1,919	1,889
MCT %	215%	212%	203%
Excess capital at 100%	2,236	2,156	1,951
Excess capital at 150%	1,267	1,196	1,007
Excess capital at 170%	879	813	629

¹ Comparative figures are presented under the MCT guidelines in effect as at December 31, 2015.

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Our estimated aggregate MCT level as at September 30, 2016 remained strong at 215%, up by 3 points from June 30, 2016. The improvement can be explained by the increase of common and preferred equity markets during the quarter. The 12 point improvement from December 31, 2015 reflects the phase-in benefit of the 2015 and 2016 MCT guidelines and our debt issuance in Q1, but was mitigated by the impact of the Fort McMurray wildfires during Q2.

Total excess capital includes excess capital, over a 170% MCT, in our P&C insurance subsidiaries and excess capital outside of the P&C insurance subsidiaries. As at September 30, 2016, total excess capital stood at \$881 million, up by \$24 million from June 30, 2016 consistent with the MCT movement mentioned above. The increase of \$256 million from December 31, 2015, also reflects the improvement in MCT outlined above.

As at September 30, 2016, our P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements, as well as above internal thresholds.

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RISK MANAGEMENT

Section 13 – Sensitivity analyses

Sensitivity analyses are one risk management technique that assist management in ensuring that risks assumed remain within our risk tolerance level. Sensitivity analyses involve varying a single factor to assess the impact that this would have on 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 26 - Sensitivity analysis

For the quarters ended	September 30, 2016			December 31, 2015		
	Net income	OCI	MCT ¹	Net income	OCI	MCT ¹
Equity price risk						
Common share prices (10% decrease) ²	10	(140)	(1) pts	(5)	(110)	(1) pts
Preferred share prices (5% decrease) ³	7	(52)	(2) pts	5	(50)	(2) pts
Interest rate risk⁴ (100 basis point increase)						
Investments (net asset position, when referring to MCT)	6	(146)	(3) pts	7	(159)	(3) pts
Currency risk (strengthening of Can. dollar by 10%)⁵						
Investments (net asset position, when referring to MCT)	2	(46)	- pts	2	(45)	(1) pts
Underwriting profitability						
Combined ratio (3 points increase) ⁶			(10) pts			(10) pts

¹ MCT sensitivity is based on movements in the net asset position caused by the relevant risk.

² Net of any equity hedges, including the impact of any impairment.

³ Including the impact on related embedded derivatives.

⁴ The yield curve experiences an instantaneous parallel shift.

⁵ After giving effect to forward-exchange contracts.

⁶ Combined ratio deteriorates across all lines of business. All resulting claims are outstanding (no payments) and no reinsurance is triggered.

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

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

The above analyses were prepared using the following assumptions:

- The securities in the Company's portfolio are not impaired.
- Shifts in the yield curve are parallel.
- Interest rates, equity prices and foreign currency move independently.
- Credit, liquidity and basis risks have not been considered.
- Impact on the Company's pension plans is not included.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- For FVTPL debt securities, the estimated impact on Net income is assumed to be offset by the market-yield adjustment.
- AFS debt or equity securities in an unrealized loss position, as reflected in AOCI may, at some point in the future, be realized through sale.

See Section 10.3 – Claims liabilities and PYD for a sensitivity analysis of the discount rate on our claims liabilities.

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ADDITIONAL INFORMATION

Section 14 – Non-IFRS financial measures

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

- **DPW** represents the total amount of premiums for new and renewal policies billed (written) during the reporting period, excluding industry pools and normalized for the effect of multi-year policies. This measure matches DPW to the year in which coverage is provided, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.
- **Underlying current year loss ratio** represents our current year claims ratio excluding CAT losses, reinstatement premiums, and PYD. Catastrophe events are not predictable and as such, excluding them provides clearer insight into our analysis of current year performance.
- **NOI, NOIPS and OROE** exclude the impact of net investment gains (losses), the positive (negative) effect of MYA on underwriting, the difference between expected return and discount rate on pension assets, the amortization of intangible assets recognized in business combinations, and integration and restructuring costs. Investment gains and losses as well as the effect of MYA on underwriting arise mostly from changes in market conditions, which can be volatile to earnings. We also exclude the difference between expected return and discount rate on pension assets, as we believe the gap in these measures is not reflective of our internal investment management expertise and management of our pension investment asset portfolio.
- **ROE** excludes the dividends declared on preferred shares.
- **AEPS and AROE** exclude the impact of amortization of intangible assets recognized in business combinations and integration and restructuring costs, all on an after tax basis. We believe that these excluded items are not appropriate in assessing our underlying performance.
- **Cash flow available for investment activities** includes net cash flows from cash and cash equivalents and the investment portfolio. See Section 11.3 – *Understanding our cash flows* for a reconciliation of this non-IFRS financial measure.
- **Market-based yield** represents the annualized total pre-tax investment income (before expenses), divided by the mid-month average fair value of net equity and fixed-income securities held during the reporting period (average net investments). This calculation provides users with a consistent measure of our relative investment performance.

Table 27 – Reconciliation of DPW, DPW (full-term) and DPW growth to DPW, as reported under IFRS

	Q3-2016	Q3-2015	YTD 2016	YTD 2015
DPW, as reported under IFRS	2,170	2,086	6,260	6,003
Exclude impact of industry pools	7	(7)	22	(31)
Add share of the results of jointly held insurance operations	14	13	40	38
DPW (full term)	2,191	2,092	6,322	6,010
Add impact of the normalization for multi-year policies	2	3	10	4
DPW	2,193	2,095	6,332	6,014
DPW growth	5%	8%	5%	6%

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Table 28 – Reconciliation of NEP before reinstatement premiums to NEP and of current year claims to net claims incurred, as reported under IFRS

	Q3-2016	Q3-2015	YTD 2016	YTD 2015
NEP, as reported under IFRS	2,023	1,918	5,867	5,553
Add share of the results of jointly held insurance operations	13	12	36	34
NEP	2,036	1,930	5,903	5,587
Add (deduct) reinstatement premiums ceded (recovered)	(1)	-	27	(2)
NEP, before reinstatement premiums	2,035	1,930	5,930	5,585
Net claims incurred, as reported under IFRS	1,374	1,214	3,912	3,533
Less positive (negative) impact of MYA on underwriting results	(6)	7	(53)	(52)
Less difference between expected return and discount rate on pension assets allocated to net claims incurred	(3)	(2)	(7)	(8)
Add share of the results of jointly held insurance operations	8	5	24	19
Total net claims	1,373	1,224	3,876	3,492
Less current year CAT claims	(166)	(81)	(351)	(114)
Less favourable PYD	71	107	327	402
Current year claims	1,278	1,250	3,852	3,780
NEP, before reinstatement premiums	2,035	1,930	5,930	5,585
Underlying current year loss ratio	62.8%	64.8%	64.9%	67.7%

Table 29 – Reconciliation of NOIPS and OROE to net income

	Q3-2016	Q3-2015	YTD 2016	YTD 2015
Net income	125	131	370	508
Add income tax expense	31	30	92	126
Add net investment losses (gains)	(17)	64	(25)	(8)
Add negative (positive) impact of MYA on underwriting	6	(7)	53	52
Add difference between expected return and discount rate on pension assets	7	8	20	23
Add amortization of intangible assets recognized in business combinations	15	12	41	35
Add integration and restructuring costs	2	4	4	7
Add loss (gain) from other non-operating items	3	8	7	8
Pre-tax operating income	172	250	562	751
Tax impact	(35)	(51)	(114)	(156)
NOI	137	199	448	595
Less preferred share dividends	(6)	(6)	(16)	(16)
NOI to common shareholders	131	193	432	579
Divided by weighted-average number of common shares (in millions)	131.1	131.5	131.3	131.5
NOIPS, basic and diluted (in dollars)	1.01	1.47	3.30	4.40
NOI to common shareholders – last 12 months	692	821		
Average common shareholders' equity, excluding AOCI	5,171	4,871		
OROE for the last 12 months	13.4%	16.9%		

Table 30 – Reconciliation of ROE to net income

	Q3-2016	Q3-2015	YTD 2016	YTD 2015
Net income	125	131	370	508
Less preferred share dividends	(6)	(6)	(16)	(16)
Net income attributable to common shareholders	119	125	354	492
Net income attributable to common shareholders – last 12 months	547	692		
Average common shareholders' equity	5,208	4,886		
ROE for the last 12 months	10.5%	14.2%		

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(in millions of dollars, except as otherwise noted)

Table 31 – Reconciliation of AEPS and AROE to net income

	Q3-2016	Q3-2015	YTD 2016	YTD 2015
Net income	125	131	370	508
Add amortization of intangible assets recognized in business combinations, net of tax	12	11	33	29
Add integration and restructuring costs, net of tax	2	3	3	5
Adjusted net income	139	145	406	542
Less preferred share dividends	(6)	(6)	(16)	(16)
Adjusted net income attributable to common shareholders	133	139	390	526
Divided by weighted-average number of common shares (in millions)	131.1	131.5	131.3	131.5
AEPS, basic and diluted (in dollars)	1.01	1.06	2.97	4.00
Adjusted net income attributable to common shareholders – LTM	592	734		
Average common shareholders' equity	5,208	4,886		
AROE for the last 12 months	11.4%	15.0%		

Table 32 – Reconciliation of underwriting income to underwriting income, as reported under IFRS

	Q3-2016	Q3-2015	YTD 2016	YTD 2015
Underwriting income, as reported under IFRS	48	129	150	330
Add profit (loss) from jointly held insurance operations	-	1	(1)	2
Add difference between expected return and discount rate on pension assets	7	8	20	23
Add impact of MYA on underwriting results	6	(7)	53	52
Underwriting income	61	131	222	407

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Section 15 – Non-operating results

Non-operating results, a non-IFRS financial measure, include elements that are not representative of our operating performance because they relate to special items, bear significant volatility from one period to another, or because they are not part of our normal activities. As a result, these elements are excluded from the calculation of NOI and related non-IFRS financial measures.

Table 33 – Non-operating results

	Q3-2016	Q3-2015	Change	YTD 2016	YTD 2015	Change
Net investment gains (losses)	17	(64)	81	25	8	17
Positive (negative) impact of MYA on underwriting	(6)	7	(13)	(53)	(52)	(1)
Difference between expected return and discount rate on pension assets	(7)	(8)	1	(20)	(23)	3
Integration and restructuring costs	(2)	(4)	2	(4)	(7)	3
Amortization of intangible assets recognized in business combinations	(15)	(12)	(3)	(41)	(35)	(6)
Other	(3)	(8)	5	(7)	(8)	1
Non-operating gains (losses)	(16)	(89)	73	(100)	(117)	17

Impact of MYA on underwriting

Claims liabilities are discounted at the estimated market yield of the assets backing these liabilities. The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets is referred to as MYA. The MYA to claims liabilities is generally offset by gains and losses on FVTPL fixed-income securities with the objective that these items offset each other with a minimal overall impact to net income.

Difference between expected return and discount rate on pension assets

We continue to manage our pension asset investment portfolio with a target asset return based on a target asset allocation. We continue to measure NOI using a pension expense based on the expected return on plan assets to better reflect our operating performance. Any difference between the expected return on pension assets and the return based on the discount rate determined at the beginning of the year is treated as a non-operating item.

Section 16 – Accounting and disclosure matters**16.1 Disclosure controls and procedures**

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

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109") of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the effectiveness of the design and operation of disclosure controls and procedures as at September 30, 2016. Management can therefore provide reasonable assurance that material information relating to the Company and its subsidiaries is reported to it on a timely basis so that it may provide investors with complete and reliable information.

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(in millions of dollars, except as otherwise noted)

16.2 Internal controls over financial reporting

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

Management has evaluated the design effectiveness of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the ICFR were appropriately designed as at September 30, 2016.

In spite of its evaluation, Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

No significant changes were made to our ongoing ICFR during the third quarter of 2016 that have materially affected, or are reasonably likely to materially affect the Company’s ICFR.

Section 17 – Investor information and share capital

17.1 Authorized share capital

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

17.2 Outstanding share data and NCIB

On February 12, 2016, we commenced a NCIB to purchase for cancellation during the next 12 months up to 6,577,156 common shares, representing approximately 5% of our issued and outstanding common shares as at February 1, 2016. As at September 30, 2016, 422,200 common shares had been repurchased and cancelled under the NCIB at an average price of \$87.84 per share for a total consideration of \$37 million.

The following table presents the outstanding share data.

Table 34 – Outstanding share data (number of shares)

As at October 28, 2016	
Common shares	131,096,934
Class A	
Series 1 Preferred Shares	10,000,000
Series 3 Preferred Shares	8,405,004
Series 4 Preferred Shares	1,594,996

Refer to our Annual Information Form for the year ended December 31, 2015, for more detailed information on the rights of shareholders.

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17.3 Dividends declared on common and preferred shares

On November 1, 2016, we declared a quarterly dividend of 58 cents per common share on our outstanding common shares. We also declared a quarterly dividend of 26.25 cents per share on our Class A Series 1, a quarterly dividend of 20.825 cents per share on our Class A Series 3 preferred shares and a quarterly dividend of 19.93325 cents per share on our Class A Series 4 preferred shares.

The following table presents the total dividends declared on each class of shares for the three-month period ended September 30, 2016.

Table 35 – Dividends declared per share

Common shares	0.58
Class A	
Series 1 Preferred Shares	0.2625
Series 3 Preferred Shares	0.2625

17.4 Book value per share

Table 36 – Components of BVPS

As at	Last 12 months	Quarter
BVPS, beginning of period	37.84	40.57
EPS	4.16	0.91
Dividends on common shares	(2.27)	(0.58)
Impact of market movements on AFS securities ¹	2.18	0.62
Net actuarial losses on employee future benefits ¹	(0.34)	(0.07)
NCIB and other	(0.10)	0.02
BVPS, end of period	41.47	41.47
Period-over-period increase	10%	2%

¹ Reported in AOCL.

17.5 Expected release dates of our financial results

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

Q4-2016	Q1-2017	Q2-2017	Q3-2017
February 8, 2017	May 3, 2017	August 2, 2017	November 8, 2017

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Section 18 – Selected quarterly information

18.1 Selected quarterly information

Table 37 – Selected quarterly information

	2016				2015			2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
DPW	2,193	2,458	1,681	1,908	2,095	2,344	1,575	1,775
Written insured risks (in thousands)	2,077	2,371	1,565	1,680	2,021	2,259	1,459	1,595
Total revenues ¹	2,197	2,117	2,041	2,027	2,003	1,975	2,027	1,964
NEP ²	2,036	1,937	1,930	1,948	1,930	1,865	1,792	1,830
Current year CAT losses	166	164	21	2	81	22	11	10
Favourable PYD	(71)	(93)	(163)	(75)	(107)	(106)	(189)	(78)
Underwriting income ²	61	16	145	221	131	158	118	216
Combined ratio	97.0%	99.2%	92.5%	88.6%	93.2%	91.6%	93.4%	88.2%
Net investment income	102	104	104	110	105	104	105	111
NOI ²	137	114	197	265	199	210	186	247
Net income	125	93	152	198	131	199	178	205
Per share measures, basic and diluted (in dollars)								
NOIPS ²	1.01	0.83	1.46	1.97	1.47	1.56	1.37	1.84
EPS	0.91	0.67	1.11	1.46	0.95	1.47	1.32	1.52

¹ Total revenues exclude other underwriting revenues.

² Refer to Section 14 – Non-IFRS financial measures.

18.2 Seasonality of the P&C insurance business

The P&C insurance business is seasonal in nature. While NEP are generally stable from quarter to quarter, underwriting results are mainly driven by weather conditions which may vary significantly between quarters. Historically, the third quarter experienced roughly 50% of the CAT losses for the year, and roughly 75% of CAT losses impacted the personal lines of business. The underlying seasonality in our combined ratio is best illustrated by excluding the impact of CAT losses (see Table 39).

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

Table 38 – Seasonal indicator, including CAT losses

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

Table 39 – Seasonal indicator, excluding CAT losses

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