

Third Quarter **2018**

3

Interim Consolidated Financial Statements (unaudited)
For the quarter ended September 30, 2018

Intact Financial Corporation

Interim Consolidated financial statements (unaudited)

Table of contents

Interim Consolidated financial statements

Interim Consolidated balance sheets (unaudited).....	2
Interim Consolidated statements of income (unaudited).....	3
Interim Consolidated statements of comprehensive income (unaudited)	4
Interim Consolidated statements of changes in shareholders' equity (unaudited)	5
Interim Consolidated statements of cash flows (unaudited)	6

Notes to the interim Consolidated financial statements (unaudited)

Note 1 – Status of the Company.....	7
Note 2 – Basis of presentation.....	7
Note 3 – Summary of significant accounting policies.....	8
Note 4 – Business combination	9
Note 5 – Investments.....	10
Note 6 – Financial liabilities related to investments	11
Note 7 – Derivative financial instruments	12
Note 8 – Fair value measurement	13
Note 9 – Claims liabilities	14
Note 10 – Reinsurance.....	15
Note 11 – Other assets and other liabilities	16
Note 12 – Debt outstanding.....	17
Note 13 – Preferred shares	17
Note 14 – Capital management.....	18
Note 15 – Net investment income.....	20
Note 16 – Net gains (losses)	20
Note 17 – Income taxes.....	21
Note 18 – Earnings per share.....	22
Note 19 – Share-based payments	23
Note 20 – Employee future benefits	24
Note 21 – Segment information	25
Note 22 – Additional information on the interim Consolidated statements of cash flows	27
Note 23 – Standards issued but not yet effective	28

INTACT FINANCIAL CORPORATION
Interim Consolidated balance sheets (unaudited)

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

As at	Note	September 30, 2018	December 31, 2017
			Restated (see Note 4)
Assets			
Investments	5		
Cash and cash equivalents		\$ 425	\$ 163
Debt securities		11,259	11,229
Preferred shares		1,342	1,409
Common shares		3,650	3,659
Loans		323	393
Investments		16,999	16,853
Premium receivables		3,535	3,351
Reinsurance assets	10	811	822
Income taxes receivable		84	24
Deferred tax assets		102	124
Deferred acquisition costs		928	881
Other assets	11	822	717
Investments in associates and joint ventures		594	550
Property and equipment		153	150
Intangible assets		2,163	2,161
Goodwill		2,349	2,284
Total assets		\$ 28,540	\$ 27,917
Liabilities			
Claims liabilities	9	\$ 10,622	\$ 10,475
Unearned premiums		5,611	5,365
Financial liabilities related to investments	6	308	246
Income taxes payable		22	262
Deferred tax liabilities		247	246
Other liabilities	11	1,655	1,619
Debt outstanding	12	2,189	2,241
Total liabilities		20,654	20,454
Shareholders' equity			
Common shares		2,816	2,816
Preferred shares	13	1,028	783
Contributed surplus		143	128
Retained earnings		3,733	3,520
Accumulated other comprehensive income (loss)			
Available-for-sale securities		118	224
Translation of foreign operations, net of hedges		46	(10)
Other		2	2
Total liabilities and shareholders' equity		\$ 28,540	\$ 27,917

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim Consolidated statements of income (unaudited)

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

For the periods ended September 30,	Note	Three months		Nine months	
		2018	2017	2018	2017
Direct premiums written		\$ 2,684	\$ 2,203	\$ 7,748	\$ 6,447
Premiums ceded		(96)	(47)	(280)	(138)
Net premiums written		2,588	2,156	7,468	6,309
Change in unearned premiums		(117)	(74)	(219)	(179)
Net earned premiums		2,471	2,082	7,249	6,130
Other underwriting revenues		28	28	82	82
Investment income	15				
Interest income		89	65	257	194
Dividend income		53	45	158	144
Other revenues		40	39	108	113
Total revenues		2,681	2,259	7,854	6,663
Net claims incurred	9	(1,548)	(1,273)	(4,716)	(3,986)
Underwriting expenses		(772)	(618)	(2,277)	(1,870)
Investment expenses	15	(9)	(9)	(26)	(27)
Net gains (losses)	16	(24)	(59)	(46)	75
Share of profit from investments in associates and joint ventures		3	3	20	16
Finance costs		(25)	(19)	(76)	(57)
Integration and restructuring costs		(10)	(33)	(49)	(45)
Other expenses		(40)	(31)	(109)	(73)
Income before income taxes		256	220	575	696
Income tax expense	17	(57)	(49)	(112)	(136)
Net income attributable to shareholders		\$ 199	\$ 171	\$ 463	\$ 560
Weighted-average number of common shares outstanding (in millions)	18	139.2	131.2	139.2	131.1
Earnings per common share, basic and diluted (in dollars)	18	\$ 1.34	\$ 1.25	\$ 3.12	\$ 4.14
Dividends paid per common share (in dollars)		\$ 0.70	\$ 0.64	\$ 2.10	\$ 1.92

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim Consolidated statements of comprehensive income (unaudited)

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

For the periods ended September 30,	Note	Three months		Nine months	
		2018	2017	2018	2017
Net income attributable to shareholders		\$ 199	\$ 171	\$ 463	\$ 560
Other comprehensive income (loss)					
Available-for-sale securities:					
net changes in unrealized gains (losses)		25	(21)	(48)	79
income tax benefit (expense)		(10)	4	8	(23)
reclassification of net losses (gains)		(11)	(6)	(92)	(158)
income tax benefit (expense)		7	3	26	41
		11	(20)	(106)	(61)
Cash flow hedges:					
net changes in unrealized gains (losses)		-	(79)	-	(200)
reclassification of net losses (gains)		-	200	-	200
		-	121	-	-
Foreign exchange gains (losses) on:					
translation of foreign operations		(69)	(4)	129	(8)
net investment hedges		31	1	(73)	1
		(38)	(3)	56	(7)
Other		(6)	-	-	-
Items that may be reclassified subsequently to net income		(33)	98	(50)	(68)
Net actuarial gains (losses) on employee future benefits	20	30	67	102	(51)
income tax benefit (expense)		(8)	(17)	(27)	14
Items that will not be reclassified subsequently to net income		22	50	75	(37)
Other comprehensive income (loss)		(11)	148	25	(105)
Total comprehensive income attributable to shareholders		\$ 188	\$ 319	\$ 488	\$ 455

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim Consolidated statements of changes in shareholders' equity (unaudited)

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

	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as at January 1, 2018		\$ 2,816	\$ 783	\$ 128	\$ 3,520	\$ 216	\$ 7,463
Net income attributable to shareholders		-	-	-	463	-	463
Other comprehensive income (loss)		-	-	-	75	(50)	25
Total comprehensive income (loss)		-	-	-	538	(50)	488
Preferred shares issued	13	-	245	-	-	-	245
Dividends declared on:							
common shares		-	-	-	(292)	-	(292)
preferred shares		-	-	-	(29)	-	(29)
Share-based payments	19	-	-	15	(4)	-	11
Balance as at September 30, 2018		\$ 2,816	\$ 1,028	\$ 143	\$ 3,733	\$ 166	\$ 7,886
Balance as at January 1, 2017		\$ 2,082	\$ 489	\$ 129	\$ 3,197	\$ 191	\$ 6,088
Net income attributable to shareholders		-	-	-	560	-	560
Other comprehensive income (loss)		-	-	-	(37)	(68)	(105)
Total comprehensive income (loss)		-	-	-	523	(68)	455
Common shares issued		737	-	-	-	-	737
Preferred shares issued		-	294	-	-	-	294
Common shares repurchased for cancellation		(1)	-	-	(6)	-	(7)
Dividends declared on:							
common shares		-	-	-	(262)	-	(262)
preferred shares		-	-	-	(17)	-	(17)
Share-based payments		-	-	(5)	(5)	-	(10)
Acquisition of non-controlling interests		-	-	-	(14)	-	(14)
Balance as at September 30, 2017		\$ 2,818	\$ 783	\$ 124	\$ 3,416	\$ 123	\$ 7,264

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim Consolidated statements of cash flows (unaudited)

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

For the periods ended September 30,	Note	Three months		Nine months	
		2018	2017	2018	2017
Operating activities					
Income before income taxes		\$ 256	\$ 220	\$ 575	\$ 696
Income tax received (paid), net		-	18	(381)	18
Contributions to the defined benefit pension plans		(15)	(14)	(42)	(45)
Share-based payments		-	-	(4)	(2)
Net losses (gains)	16	24	59	46	(75)
Adjustments for non-cash items	22	72	55	215	149
Changes in other operating assets and liabilities	22	184	146	86	(7)
Changes in net claims liabilities	9	31	(62)	127	24
Net cash flows provided by operating activities		552	422	622	758
Investing activities					
Business combination, net of cash acquired	4	-	(2,139)	-	(2,139)
Proceeds from sale of investments		2,787	3,135	12,131	8,240
Purchases of investments		(2,923)	(2,005)	(12,178)	(7,688)
Purchases of brokerages and other equity investments, net		(60)	(7)	(65)	(83)
Purchases of intangibles and property and equipment, net		(30)	(24)	(81)	(74)
Net cash flows used in investing activities		(226)	(1,040)	(193)	(1,744)
Financing activities					
Proceeds from issuance of debt, net of issuance costs		-	-	-	422
Proceeds from issuance of common shares, net of issuance costs		-	731	-	731
Proceeds from issuance of preferred shares, net of issuance costs	13	-	145	243	292
Amount borrowed (repaid) on the credit facility, net	12	(70)	210	(60)	210
Common shares repurchased for cancellation		-	-	-	(7)
Common shares repurchased for share-based payments	19	(3)	(3)	(32)	(33)
Dividends paid on common shares		(97)	(94)	(292)	(262)
Dividends paid on preferred shares		(13)	(8)	(29)	(17)
Net cash flows provided by (used in) financing activities		(183)	981	(170)	1,336
Net increase in cash and cash equivalents		143	363	259	350
Cash and cash equivalents, beginning of period		287	155	163	168
Exchange rate differences on cash and cash equivalents		(5)	-	3	-
Cash and cash equivalents, end of period		\$ 425	\$ 518	\$ 425	\$ 518
Composition of cash and cash equivalents					
Cash		214	461	214	461
Cash equivalents		211	57	211	57
Cash and cash equivalents, end of period		\$ 425	\$ 518	\$ 425	\$ 518
Other relevant cash flow disclosures – operating activities					
Interest paid		22	22	74	59
Interest received		73	31	239	163
Dividends received		58	49	170	155

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Glossary of abbreviations

AFS	Available for sale	LTIP	Long-term incentive plan
AMF	Autorité des marchés financiers	MBS	Mortgage-backed securities
CAD	Canadian Dollar	MCT	Minimum capital test
CALs	Company action levels	MD&A	Management's Discussion and Analysis
DSU	Deferred share unit	MYA	Market yield adjustment
EPS	Earnings per share to common shareholders	NEP	Net earned premiums
ESPP	Employee share purchase plan	OCI	Other comprehensive income
FVTPL	Fair value through profit and loss	OSFI	Office of the Superintendent of Financial Institutions
IASB	International Accounting Standards Board	P&C	Property and casualty
IBNR	Insurance claims incurred but not yet reported by policyholders	RBC	Risk-based capital
IFRS	International Financial Reporting Standards	U.S.	United States
JV	Joint ventures	USD	U.S. Dollar

Note 1 – Status of the Company

Intact Financial Corporation (the “Company”), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange (TSX: IFC). The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian P&C insurance market and offers specialty insurance products to small and midsize businesses in the United States. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses. On September 28, 2017, the Company acquired all of the issued and outstanding shares of OneBeacon Insurance Group, Ltd. (“OneBeacon”), a leading U.S. specialty insurer. Further details of the acquisition are provided in *Note 4 – Business combination*.

These interim Consolidated financial statements include the accounts of the Company and its subsidiaries.

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

Note 2 – Basis of presentation

2.1 Statement of compliance

These interim Consolidated financial statements are prepared in accordance with International Accounting Standards 34 – *Interim Financial Reporting*. These interim Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on November 6, 2018.

2.2 Preparation and presentation of financial statements

These interim Consolidated financial statements are condensed financial statements and should be read in conjunction with the Company's annual Consolidated financial statements for the year ended December 31, 2017.

The Company presents its interim Consolidated balance sheets broadly in order of liquidity. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, further details are provided in *Note 4 – Business combination*.

2.3 Seasonality

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

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

2.4 Foreign currency translation

Table 2.1 – Exchange rates used in the preparation of the interim consolidated financial statements

	As at		Average rate for the three-month periods ended		Average rate for the nine-month periods ended	
	September 30, 2018	December 31, 2017	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
USD vs CAD	1.29140	1.25730	1.30681	1.25363	1.28754	1.30736

Note 3 – Summary of significant accounting policies

The accounting policies applied during the nine-month period ended September 30, 2018 are the same as those described and disclosed in *Note 2 – Summary of significant accounting policies* of the annual Consolidated financial statements for the year ended December 31, 2017. In addition, on January 1, 2018, the Company adopted the following new standards and amendments to existing standards:

Amendments to IFRS 4 – Insurance Contracts for the application of IFRS 9 – Financial Instruments

The Company has adopted the amendments to IFRS 4 – *Insurance Contracts* (“IFRS 4”) that address concerns of insurers about the different effective dates for IFRS 9 – *Financial Instruments* (“IFRS 9”) and IFRS 17, the new insurance contracts standard. The amendments allow insurance entities to elect one of the two following options:

- the deferral approach provides entities whose predominant activities are to issue contracts within the scope of IFRS 4, a temporary exemption to continue using IAS 39, instead of IFRS 9 until January 1, 2021 (the “deferral approach”).
- the overlay approach can be applied to eligible financial assets and provides an option for all issuers of insurance contracts to reclassify from profit or loss to OCI any additional accounting volatility that may arise from applying IFRS 9 before the new insurance contracts standard.

The Company has opted for the deferral approach and performed an assessment as at September 30, 2017, considering OneBeacon’s acquisition (*see Note 4 – Business combination*). The Company concluded that its activities are predominantly connected with insurance, since the percentage of liabilities connected with insurance contracts over total liabilities is above the 80% threshold.

Therefore, the Company applies the temporary exemption and will continue to apply IAS 39 to its financial assets until January 1, 2021.

IFRS 15 – Revenue from contracts with customers

The Company has adopted the new IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”). The standard supersedes IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and a number of revenue-related interpretations. This new standard specifies how and when to recognize revenue and additional relevant disclosure requirements. IFRS 15 applies to nearly all contracts with customers, except for insurance contracts, financial instruments and leases.

IFRS 15 only applies to the Company’s Other revenues and its adoption had no impact on the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 4 – Business combination

4.1 OneBeacon

On September 28, 2017, the Company completed the acquisition of OneBeacon, a leading U.S. specialty insurer, for a cash consideration of US\$1.7 billion (\$2.3 billion). OneBeacon became a wholly-owned subsidiary of the Company and the results of operations are included in the Consolidated financial statements from that date.

The following table summarizes the consideration paid for OneBeacon, and the amounts recognized for the assets acquired and liabilities assumed (determined in accordance with IFRS) as at the acquisition date. As required by IFRS 3 – *Business Combinations*, the provisional fair values have been reassessed in light of new information obtained during the measurement period following the acquisition and they are now final.

Table 4.1 – Business combination – OneBeacon

As at acquisition date	Final assessment of fair value	
	USD	CAD
Purchase price		
Cash consideration paid	1,702	2,128
Purchase price hedge	-	200
Total purchase price	1,702	2,328
Fair value of assets acquired and liabilities assumed		
Investments ¹	2,706	3,383
Premium receivables	275	343
Reinsurance assets	287	358
Distribution networks and other intangibles	626	782
Other assets	328	410
Claims liabilities	(1,628)	(2,036)
Unearned premiums	(650)	(813)
Deferred tax liabilities	(18)	(21)
Debt outstanding	(292)	(364)
Other liabilities	(431)	(538)
Total identifiable net assets	1,203	1,504
Goodwill	499	824
Exchange rate (CAD/USD) as at the acquisition date		1.25030

¹ Included net cash acquired of US\$151 million.

During the third quarter of 2018, a measurement period adjustment was made which resulted in a decrease to a guaranteed loan reported in Other assets of US\$51 million, a decrease to Deferred tax liabilities of US\$18 million and a resulting increase to Goodwill of US\$33 million. The 2017 comparative balance sheet was restated to reflect these adjustments to the provisional amounts.

The fair value of the acquired distribution networks, trade names and other intangible assets are based on a discounted cash flow analysis. The distribution networks are amortized over a 20 year period. The fair value of the claims liabilities reflected the impact of discounting and risk margin. Goodwill reflects the quality of the acquired business and the synergies expected following the integration of OneBeacon. The goodwill is not deductible for tax purposes.

The integration costs in connection with the acquisition of OneBeacon are reported in Integration and restructuring costs in the interim Consolidated Statements of income.

The Company hedged the purchase price and book value exposure associated with CAD/USD exchange rate fluctuations.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 5 – Investments

5.1 Classification of investments

Table 5.1 – Classification of investments

As at	Fair value			Amortized cost	Total carrying amount
	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, and loans	
September 30, 2018					
Cash and cash equivalents	-	-	-	425	425
Short-term notes	66	-	-	-	66
Fixed income					
Investment grade					
Government	1,955	-	2,949	-	4,904
Corporate	2,054	-	2,179	-	4,233
Asset backed ¹	491	-	219	-	710
Mortgage backed					
Agency ²	186	-	360	-	546
Non agency	339	-	301	-	640
Non rated	160	-	-	-	160
Debt securities	5,251	-	6,008	-	11,259
Investment grade					
Retractable	24	-	-	-	24
Fixed-rate perpetual	286	-	-	-	286
Other perpetual	1,032	-	-	-	1,032
Preferred shares	1,342	-	-	-	1,342
Common shares	2,517	143	990	-	3,650
Loans	-	-	-	323	323
	9,110	143	6,998	748	16,999
December 31, 2017					
Cash and cash equivalents	-	-	-	163	163
Short-term notes	120	97	-	-	217
Fixed income					
Investment grade					
Government	1,775	-	3,432	-	5,207
Corporate	1,505	-	2,368	-	3,873
Asset backed ¹	500	-	487	-	987
Mortgage backed					
Agency ²	90	-	250	-	340
Non agency	109	-	218	-	327
Below investment grade					
Corporate	-	99	18	-	117
Mortgage backed – non agency	-	-	7	-	7
Non rated	122	-	32	-	154
Debt securities	4,221	196	6,812	-	11,229
Investment grade					
Retractable	24	-	-	-	24
Fixed-rate perpetual	285	-	-	-	285
Other perpetual	1,100	-	-	-	1,100
Preferred shares	1,409	-	-	-	1,409
Common shares	2,272	357	1,030	-	3,659
Loans	-	-	-	393	393
	7,902	553	7,842	556	16,853

¹ Consist of credit card receivables and auto loans.

² Consist of publicly traded MBS, which carry the full faith and credit guarantee of the U.S. Government or are guaranteed by a Government sponsored entity.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

5.2 Carrying value of investments

Table 5.2 – Carrying value of investments

As at	FVTPL	Amortized	Unrealized	Unrealized	Other	Total
	investments				investments	investments
	Carrying	cost	gains	losses	Carrying	Carrying
	value				value	value
September 30, 2018						
Cash and cash equivalents	-	425	-	-	425	425
Debt securities	6,008	5,289	14	(52)	5,251	11,259
Preferred shares	-	1,280	78	(16)	1,342	1,342
Common shares	1,133	2,369	230	(82)	2,517	3,650
Loans	-	323	-	-	323	323
	7,141	9,686	322	(150)	9,858	16,999
December 31, 2017						
Cash and cash equivalents	-	163	-	-	163	163
Debt securities	7,008	4,199	43	(21)	4,221	11,229
Preferred shares	-	1,330	95	(16)	1,409	1,409
Common shares	1,387	2,060	263	(51)	2,272	3,659
Loans	-	393	-	-	393	393
	8,395	8,145	401	(88)	8,458	16,853

As at September 30, 2018, approximately 92% of the fixed-income securities were rated 'A-' or better and 85% of the preferred shares were highly-rated with at least a 'P2L' credit rating (December 31, 2017 – 90% and 79% respectively).

5.3 Market neutral equity investment strategy

Table 5.3 – Market neutral equity investment strategy

As at	September 30, 2018		December 31, 2017	
	Fair value	Collateral	Fair value	Collateral
Long positions – common shares	121	-	121	-
Short positions (Table 6.1)	(122)	126	(122)	126

Note 6 – Financial liabilities related to investments

Table 6.1 – Financial liabilities related to investments

As at	September 30, 2018	December 31, 2017
Accounts payable to investment brokers on unsettled trades	109	24
Equities sold short positions (Table 5.3)	122	122
Derivative financial liabilities (Table 7.1)	-	21
Embedded derivatives	77	79
	308	246

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 7 – Derivative financial instruments

7.1 Fair value and notional amount of derivatives

The Company uses derivatives for economic hedging purposes and for the purpose of improving the risk profile of its investment portfolio, as long as the resulting exposures remain within the guidelines of its investment policy. In certain circumstances, these hedges also meet the requirements for hedge accounting. Risk management strategies eligible for hedge accounting have been designated as net investment hedges in foreign operations.

Table 7.1 – Fair value and notional amount of derivatives by nature of risk

As at	September 30, 2018			December 31, 2017		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign currency contracts¹						
Forwards	1,514	22	-	1,852	8	13
Cross currency swaps	260	2	-	-	-	-
Interest rate contracts						
Futures	490	-	-	1,317	-	-
Equity contracts						
Swap agreements	979	15	-	1,022	-	8
Futures	177	-	-	247	-	-
Inflation options						
Options	40	-	-	63	-	-
	3,460	39	-	4,501	8	21
Held for risk management purposes	3,394	39	-	4,337	8	21
Held for trading purposes	66	-	-	164	-	-
	3,460	39	-	4,501	8	21
Term to maturity:						
less than one year	3,301			4,279		
from one to five years	159			222		
	3,460			4,501		

¹ Includes net investment hedges of foreign subsidiaries.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 8 – Fair value measurement

8.1 Categorization of fair values

Table 8.1 – Fair value hierarchy of financial assets and financial liabilities measured at fair value

As at	Level 1 Valued using quoted (unadjusted) market prices	Level 2 Valued using models (with observable inputs)	Level 3 Valued using models (without observable inputs)	Total
September 30, 2018				
Short-term notes	66	-	-	66
Fixed income				
Investment grade				
Government	2,582	2,322	-	4,904
Corporate	-	4,233	-	4,233
Asset backed	-	710	-	710
Mortgage backed				
Agency	-	546	-	546
Non agency	-	640	-	640
Non rated	-	-	160	160
Debt securities	2,648	8,451	160	11,259
Preferred shares	1,265	-	77	1,342
Common shares	3,618	-	32	3,650
Derivative financial assets (Table 7.1)	-	39	-	39
Total financial assets measured at fair value	7,531	8,490	269	16,290
Total financial liabilities measured at fair value	122	-	77	199
December 31, 2017				
Short-term notes	217	-	-	217
Fixed income				
Investment grade				
Government	2,902	2,305	-	5,207
Corporate	-	3,873	-	3,873
Asset backed	-	987	-	987
Mortgage backed				
Agency	-	340	-	340
Non agency	-	327	-	327
Below investment grade				
Corporate	-	117	-	117
Mortgage backed – non agency	-	7	-	7
Non rated	-	43	111	154
Debt securities	3,119	7,999	111	11,229
Preferred shares	1,330	-	79	1,409
Common shares	3,595	35	29	3,659
Derivative financial assets (Table 7.1)	-	8	-	8
Total financial assets measured at fair value	8,044	8,042	219	16,305
Total financial liabilities measured at fair value	122	21	79	222

The fair value of loans presented at amortized cost was \$311 million as at September 30, 2018 (December 31, 2017 – \$384 million).

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 9 – Claims liabilities

Claims liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts earned at the balance sheet date, including IBNR, that have occurred on or before the balance sheet date. The ultimate amount of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the insurance claims incurred. To recognize the uncertainty in establishing this best estimate, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits, actuaries are required to include margins in some assumptions.

9.1 Movements in claims liabilities

Table 9.1 – Movements in claims liabilities

For the three-month periods ended	Direct	Ceded	Net
September 30, 2018			
Balance, beginning of period	10,634	720	9,914
Current period claims	1,656	44	1,612
Unfavourable (favourable) prior year claims development	(25)	(3)	(22)
Increase (decrease) due to changes in discount rate	(45)	(3)	(42)
Total claims incurred	1,586	38	1,548
Claims paid	(1,559)	(42)	(1,517)
Exchange rate differences	(39)	(8)	(31)
Balance, end of period	10,622	708	9,914
September 30, 2017			
Balance, beginning of period	8,589	432	8,157
Current period claims	1,394	8	1,386
Unfavourable (favourable) prior year claims development	(61)	(8)	(53)
Increase (decrease) due to changes in discount rate	(62)	(2)	(60)
Total claims incurred	1,271	(2)	1,273
Claims paid	(1,314)	(34)	(1,280)
Business combination and foreign exchange (Note 4)	1,948	281	1,667
Balance, end of period	10,494	677	9,817
For the nine-month periods ended	Direct	Ceded	Net
September 30, 2018			
Balance, beginning of period	10,475	729	9,746
Current period claims	5,061	92	4,969
Unfavourable (favourable) prior year claims development	(107)	13	(120)
Increase (decrease) due to changes in discount rate	(147)	(14)	(133)
Total claims incurred	4,807	91	4,716
Claims paid	(4,713)	(124)	(4,589)
Business combinations	(2)	-	(2)
Exchange rate differences	55	12	43
Balance, end of period	10,622	708	9,914
September 30, 2017			
Balance, beginning of period	8,536	465	8,071
Current period claims	4,294	50	4,244
Unfavourable (favourable) prior year claims development	(195)	(19)	(176)
Increase (decrease) due to changes in discount rate	(84)	(2)	(82)
Total claims incurred	4,015	29	3,986
Claims paid	(4,005)	(98)	(3,907)
Business combination and foreign exchange (Note 4)	1,948	281	1,667
Balance, end of period	10,494	677	9,817

Notes to the interim Consolidated financial statements (unaudited)

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

Note 10 – Reinsurance

10.1 Company’s reinsurance net retention and coverage limits by nature of risk

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

Table 10.1 – Company’s reinsurance net retention and coverage limits by nature of risk

As at	September 30, 2018	December 31, 2017
Single risk events		
Retentions Canada:		
on property policies	7.5	7.5
on liability policies	5 - 10	3 - 10
Retentions U.S. (USD):		
on property and liability policies	3	3
Multi-risk events and catastrophes		
Retention	100	100
Coverage limits	3,762	3,600

For certain special classes of business or types of risks, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance. For multi-risk events and catastrophes, the Company retains participations averaging 5.6% as at September 30, 2018 (December 31, 2017 – 5.1%), on reinsurance layers between the retention and coverage limit. The coverage limit prudently exceeds the Company’s risk assessment of an earthquake in Western Canada at a 1-in-500 year return period.

Since January 1, 2018, the Company’s U.S. operations are covered by the multi-risk events and catastrophes reinsurance program. Until April 30, 2018, the losses resulting from any single catastrophe above US\$20 million and up to US\$130 million of losses were being reinsured.

In connection with the acquisition of OneBeacon, the Company entered into a reinsurance contract pursuant to which a major reinsurer will assume 80% of negative reserve development with respect to OneBeacon’s claims liabilities for accident years 2016 and prior. The maximum amount recoverable under the reinsurance agreement is US\$200 million and is subject to some exclusions and limitations.

10.2 Components of reinsurance assets

Table 10.2 – Components of reinsurance assets

As at	September 30, 2018	December 31, 2017
Reinsurers’ share of claims liabilities (<i>Table 9.1</i>)	708	729
Reinsurers’ share of unearned premiums	103	93
	811	822

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 11 – Other assets and other liabilities

11.1 Other assets

Table 11.1 – Components of other assets

As at	September 30, 2018	December 31, 2017
Financial assets related to investments	112	34
Industry pools receivable	105	100
Restricted funds	102	111
Other receivables and recoverables	95	112
Accrued investment income	93	76
Investments, at cost	61	54
Prepays	51	43
Pension plans in a surplus position	49	5
Premium and sale taxes receivable	38	38
Guaranteed loan ¹	33	31
Reinsurance receivable	29	60
Other	54	53
	822	717

¹ Recorded at fair value based on a discounted cash flow model using information as of the measurement date and classified in Level 3 of the fair value hierarchy (see Note 4 – Business combination).

During the nine-month period ended September 30, 2018, there were no events or changes in circumstances that indicated that the carrying value of Investments at cost may not be recoverable.

11.2 Other liabilities

Table 11.2 – Components of other liabilities

As at	September 30, 2018	December 31, 2017
Deposits received in connection with insurance contracts ¹	363	197
Premium and sale taxes payable	231	233
Commissions payable	196	199
Accrued salaries and other short-term benefits	138	177
Account payables and accrued expenses	136	175
Pension plans in a deficit position and unfunded plans	104	140
Industry pools payable	100	99
Other post-employment benefits and other post-retirement benefits	51	52
Deposits received from reinsurers	20	25
Other payables and other liabilities	316	322
	1,655	1,619

¹ Unrestricted collateral held by the Company primarily in relation with the surety business.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 12 – Debt outstanding

12.1 Summary of debt outstanding

Table 12.1 – Carrying value of debt outstanding

As at	Maturity date	Initial term (years)	Fixed rate	Coupon (payment)	Principal amount	Carrying value (net of fees)	
						September 30, 2018	December 31, 2017
Term notes							
Series 1	Sept. 2019	10	5.41%	Mar. & Sept.	250	250	250
Series 2	Nov. 2039	30	6.40%	May & Nov.	250	248	248
Series 3	July 2061	50	6.20%	Jan. & July	100	99	99
Series 4	Aug. 2021	10	4.70%	Feb. & Aug.	300	299	299
Series 5	June 2042	30	5.16%	June & Dec.	250	249	249
Series 6	Mar. 2026	10	3.77%	Mar. & Sept.	250	249	249
Series 7	June 2027	10	2.85%	June & Dec.	425	422	422
2012 U.S. Senior Notes	Nov. 2022	10	4.60%	May & Nov.	USD 275	373	365
Credit facility						-	60
						2,189	2,241

The term notes are accounted for at amortized cost which equals their carrying value. They may be redeemed at the option of the issuer, in whole or in part at any time, at a redemption price equal to the greater of a value calculated using the yield on Government of Canada bonds at the date of redemption plus a margin or their par value.

Fair value of debt outstanding amounted to \$2,338 million as at September 30, 2018 (December 31, 2017 – \$2,449 million), and was established using valuation data from a benchmark firm. As at September 30, 2018, the Company was in compliance with all debt covenants.

Note 13 – Preferred shares

13.1 New financing

Series 7 Preferred Shares	<ul style="list-style-type: none"> On May 29, 2018, the Company completed a Class A Series 7 offering of preferred shares (the "Series 7 Preferred Shares") by issuing and selling 10,000,000 Series 7 Preferred Shares, at a price of \$25.00 per share, for aggregate gross proceeds of \$250 million. Share issuance costs of \$7 million (\$5 million after tax), were accounted for as a reduction in preferred shares on the interim Consolidated financial statements. The holders of the Series 7 Preferred Shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, if, as and when declared by the Board of Directors of the Company, on the last day of March, June, September and December in each year at an annual rate equal to \$1.225 per share. The initial dividend of \$0.4162 per share was paid on September 28, 2018. The regular quarterly dividend of \$0.30625 per share, if declared, will be payable on December 31, 2018 to holders as of December 14, 2018. The holders of the Series 7 Preferred Shares will have the right, at their option, to convert their Series 7 Preferred Shares into Non-cumulative Floating Rate Class A Shares, Series 8 (the "Series 8 Preferred Shares"), subject to certain conditions, on June 30, 2023, and on June 30 every five years thereafter. The holders of Series 8 Preferred Shares will be entitled to receive quarterly floating rate non-cumulative preferential cash dividends, as and when declared by the Board of Directors of the Company, on the last day of March, June, September and December in each year at an annualized rate equal to the 90-day Canadian Treasury Bill rate plus 2.55%.
----------------------------------	---

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

13.2 Issued and outstanding shares

Table 13.2 – Issued and outstanding shares

As at	September 30, 2018		December 31, 2017	
	Number of shares	Amount	Number of shares	Amount
Preferred shares - Class A Shares				
Series 1	10,000,000	244	10,000,000	244
Series 3	8,405,004	206	8,405,004	206
Series 4	1,594,996	39	1,594,996	39
Series 5	6,000,000	147	6,000,000	147
Series 6	6,000,000	147	6,000,000	147
Series 7	10,000,000	245	-	-
	42,000,000	1,028	32,000,000	783

Table 13.3 – Reconciliation of number of shares outstanding

As at	Preferred shares Class A shares (in shares)	
	September 30, 2018	December 31, 2017
Balance, beginning of period	32,000,000	20,000,000
Issued	10,000,000	12,000,000
Balance, end of period	42,000,000	32,000,000

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

Note 14 – Capital management

14.1 Capital management objectives

The Company's 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.

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

Regulatory capital

The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements, as well as the Company's internal assessment of capital requirements in the context of its risk profiles, requirements and strategic plans. The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate (referred to as regulator supervisory minimum levels). Regulatory capital guidelines change from time to time and may impact the Company's capital levels. The Company carefully monitors all changes, actual or proposed.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Canada	The Company's federally chartered Canadian P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the <i>Insurance Companies Act</i> , while its Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the <i>Act respecting Insurance</i> . Federal and Québec regulated P&C insurers are required, at a minimum, to maintain a MCT ratio of 100%. OSFI and the AMF have also established a regulator supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.
---------------	---

U.S.	The Company's U.S. insurance operations are subject to regulation and supervision in each of the states where they are domiciled and licensed to conduct business. State insurance departments have established the insurer solvency laws and regulatory infrastructure to maintain accredited status with the National Association of Insurance Commissioners ("NAIC"). A key solvency-driven NAIC accreditation requirement is a state's adoption of RBC requirements. Dividends from our major U.S. insurance subsidiary are subject to the New York Regulator's prior approval for a two year period ending September 30, 2019.
-------------	---

14.2 Capital position

As at September 30, 2018 and December 31, 2017, all the Company's regulated P&C insurance subsidiaries were well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels, as well as CALs. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 14.1 – Estimated aggregate capital position

As at	September 30, 2018			December 31, 2017		
	Canada (MCT)	U.S. (RBC)	IFC Capital margin	Canada (MCT)	U.S. (RBC)	IFC Capital margin
Regulatory capital ratios	196%	384%	-	205%	459%	-
Industry-wide supervisory minimum levels	150%	150%	-	150%	150%	-
CALs	170%	200%	-	170%	200%	-
Capital above CALs (capital margin)	469	381	850	618	438	1,056
Other regulated / unregulated entities ¹	-	-	327	-	-	79
Total capital margin			1,177			1,135

¹ Other regulated entities include Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados).

U.S. capital levels comprise the RBC levels of OneBeacon's U.S. regulated entities consolidated in Atlantic Specialty Insurance Company.

IFC's total capital margin represents the aggregate of capital in excess of CALs in regulated entities as well as unrestricted cash and invested assets in unregulated entities.

INTACT FINANCIAL CORPORATION
Notes to the interim Consolidated financial statements (unaudited)

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

Note 15 – Net investment income

Table 15.1 – Net investment income

For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Interest income from:				
debt securities				
designated or classified as FVTPL	46	36	143	111
classified as AFS	36	22	94	65
loans and cash and cash equivalents	7	7	20	18
Interest income	89	65	257	194
Dividend income (expense) from:				
common shares, net				
designated or classified as FVTPL	16	15	47	46
classified as AFS	24	19	70	61
preferred shares				
classified as AFS	14	13	44	44
equities sold short positions	(1)	(2)	(3)	(7)
Dividend income	53	45	158	144
Expenses	(9)	(9)	(26)	(27)
	133	101	389	311

Note 16 – Net gains (losses)

Table 16.1 – Net gains (losses)

For the three-month periods ended Sept. 30,	2018			2017		
	Fixed income	Equity	Total	Fixed income	Equity	Total
Strategies						
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	(47)	13	(34)	(67)	18	(49)
classified as FVTPL	-	4	4	-	(4)	(4)
classified as AFS	(4)	20	16	(1)	13	12
	(51)	37	(14)	(68)	27	(41)
derivatives ¹ :						
swap agreements	-	(6)	(6)	-	(26)	(26)
futures	(1)	1	-	3	(9)	(6)
forwards	-	-	-	-	2	2
	(1)	(5)	(6)	3	(33)	(30)
Embedded derivatives	-	(7)	(7)	-	(10)	(10)
Net foreign currency gains (losses)	-	-	-	(1)	-	(1)
Impairment losses from common shares	-	(4)	(4)	-	(7)	(7)
	(52)	21	(31)	(66)	(23)	(89)
Currency derivative gain related to book value						
hedge of OneBeacon ²			-			23
Other gains (losses) ³			7			7
			(24)			(59)

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

For the nine-month periods ended Sept. 30,	2018			2017		
	Fixed income	Equity	Total	Fixed income	Equity	Total
Strategies						
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	(130)	(51)	(181)	(107)	(1)	(108)
classified as FVTPL	(3)	2	(1)	-	(4)	(4)
classified as AFS	(17)	136	119	2	133	135
	(150)	87	(63)	(105)	128	23
derivatives ¹ :						
swap agreements	-	39	39	-	(24)	(24)
futures	(2)	5	3	7	(8)	(1)
forwards		(1)	(1)	-	2	2
	(2)	43	41	7	(30)	(23)
Embedded derivatives	-	(13)	(13)	-	(35)	(35)
Net foreign currency gains (losses)	(1)	-	(1)	(1)	32	31
Impairment losses from common shares	-	(26)	(26)	-	(8)	(8)
	(153)	91	(62)	(99)	87	(12)
Currency derivative gain related to book value hedge of OneBeacon ²			-			64
Other gains (losses) ³			16			23
			(46)			75

¹ Excluding foreign currency contracts, which are reported in the line Net foreign currency gains (losses).

² See Note 4 – Business combination for details.

³ Including net gains on investments in associates and joint ventures.

Note 17 – Income taxes

17.1 Income tax expense recorded in Net income

Table 17.1 – Components of income tax expense recorded in Net income

For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Current income tax expense	50	14	104	160
Deferred income tax expense (benefit)	7	35	8	(24)
	57	49	112	136

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

17.2 Effective income tax rate

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

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

Table 17.2 – Effective income tax rate reconciliation

For periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Income tax expense calculated at statutory tax rates	26.9%	26.9%	26.9%	26.9%
Increase (decrease) in income tax rates resulting from:				
non-taxable investment income	(3.6)%	(3.7)%	(5.0)%	(3.8)%
foreign income taxed at different rates	(1.9)%	-	(2.1)%	-
non-taxable income	(0.9)%	(0.8)%	(1.1)%	(0.7)%
non-deductible losses (non-taxable income) from subsidiaries	(0.3)%	(0.4)%	(0.9)%	(0.7)%
non-deductible losses (non-taxable gains)	(0.9)%	(2.9)%	(0.5)%	(3.6)%
adjustments related to the U.S. Corporate Tax reform ¹	3.7%	-	1.6%	-
non-deductible expenses	(0.1)%	2.4%	0.3%	1.1%
other	(0.6)%	0.8%	0.3%	0.3%
Effective income tax rate	22.3%	22.3%	19.5%	19.5%

¹ Income tax expense of \$9 million related to the finalization of the OneBeacon purchase price equation (see Note 4 – Business combination for details). This adjustment was recorded in Q3-2018 with no restatement to the Statement of income for the year ended December 31, 2017.

Note 18 – Earnings per share

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

Table 18.1 – Earnings per share

For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Net income attributable to shareholders	199	171	463	560
Less: dividends declared on preferred shares, net of tax	(13)	(8)	(29)	(17)
Net income attributable to common shareholders	186	163	434	543
Weighted-average number of common shares outstanding (in millions)	139.2	131.2	139.2	131.1
EPS – basic and diluted (in dollars)	1.34	1.25	3.12	4.14

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 19 – Share-based payments

19.1 Long-term incentive plan

Table 19.1 – Movements in LTIP share units

For the periods ended September 30,	Three months		Nine months	
	2018 (in units)	2017 (in units)	2018 (in units)	2017 (in units)
Outstanding, beginning of period	1,013,262	616,008	774,783	702,246
Awarded (forfeited)	(6,565)	(1,575)	437,917	192,917
Net change in estimate of units outstanding	22,260	12,785	70,091	(12,027)
Units settled	-	-	(253,834)	(255,918)
Outstanding, end of period	1,028,957	627,218	1,028,957	627,218

The LTIP expense was \$12 million and \$35 million for the three- and nine-month periods ended September 30, 2018, respectively (\$6 million and \$13 million for the three- and nine-month periods ended September 30, 2017, respectively).

19.2 Employee share purchase plan

Table 19.2 – Movements in restricted common shares

For the periods ended September 30,	Three months		Nine months	
	2018 (in units)	2017 (in units)	2018 (in units)	2017 (in units)
Outstanding, beginning of period	134,991	142,223	132,491	145,368
Accrued	29,999	36,419	101,436	103,136
Awarded and vested	(30,797)	(37,302)	(95,806)	(103,386)
Forfeited	(1,088)	(1,249)	(5,016)	(5,027)
Outstanding, end of period	133,105	140,091	133,105	140,091

The ESPP expense was \$3 million and \$11 million for the three- and nine-month periods ended September 30, 2018, respectively (\$4 million and \$12 million for the three- and nine-month periods ended September 30, 2017).

19.3 Deferred share unit

The DSU provision amounted to \$10 million as at September 30, 2018 and December 31, 2017.

19.4 Common shares repurchased for share-based payments

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

Table 19.3 – Settlement in shares (LTIP and ESPP plans)

For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Value of common shares repurchased for share-based payments	3	3	32	33
Cumulative cost of the units for the Company	3	3	27	26
Excess of market price over the cumulative cost for the Company	-	-	5	7
Amount recognized in Retained earnings, net of taxes	-	-	4	5

The cumulative cost of the units that vested during the period through the plan administrator purchasing common shares on the market and remitting them to the participants was removed from Contributed surplus. The difference between the market price of the shares and the cumulative cost for the Company of these vested units, net of income taxes, was recorded in Retained earnings in the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 20 – Employee future benefits

20.1 Employee future benefit expense recognized in Net income

Table 20.1 – Employee future benefit expense recognized in Net income

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2018	2017	2018	2017
Current service cost	18	16	56	49
Net interest expense				
Interest expense on defined benefit obligation	20	18	58	54
Interest income on plan assets	(18)	(17)	(53)	(52)
Other	1	1	3	3
	21	18	64	54

20.2 Actuarial gains (losses) recognized in OCI

Table 20.2 – Actuarial gains (losses) recognized in OCI

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2018	2017	2018	2017
Re-measurements related to:				
change in discount rate used to determine the benefit obligation	81	143	147	(22)
actual return on plan assets	(51)	(76)	(45)	(29)
	30	67	102	(51)

20.3 Discount rates used

Table 20.3 – Discount rates used

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2018	2017	2018	2017
To determine the defined benefit obligation as at:				
beginning of period	3.7%	3.4%	3.5%	3.8%
end of period	3.9%	3.7%	3.9%	3.7%
Increase (decrease) in discount rate	0.2%	0.3%	0.4%	(0.1)%
To determine the benefit expense for the periods				
Current service cost	3.6%	3.9%	3.6%	3.9%
Interest expense	3.3%	3.3%-3.5%	3.3%	3.3%- 3.5%

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 21 – Segment information

21.1 Reportable segments

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

Canada

- Underwriting of automobile, home and business insurance contracts to individuals and businesses in Canada distributed through a wide network of brokers and directly to consumers.
- Distribution operations, including the results from the Company's wholly-owned subsidiary (BrokerLink) and broker affiliates.

U.S.

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

Corporate and Other ("Corporate") consists of centralized investing, treasury and capital management activities, as well as other corporate activities.

21.2 Segment operating performance

All segment operating revenues presented in *Table 21.1 – Segment operating performance* are generated from external customers.

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

The reconciliation of the segment information to the amounts reported in the interim Consolidated statements of income is presented in *Table 21.2 - Reconciliation of segment information to amounts reported in the interim Consolidated statements of income*. Other underwriting revenues are netted against underwriting expenses when assessing segment performance for MD&A presentation and, as such, are not included in segment operating revenues. Revenues and expenses not allocated to segments mainly represent non-operating items excluded from PTOI.

Table 21.1 – Segment operating performance¹

For the three-month periods ended Sept. 30,	2018				2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Operating income								
NEP	2,114	347	1	2,462	2,082	-	-	2,082
Investment income	-	-	142	142	-	-	110	110
Other	34	-	6	40	27	-	12	39
Segment operating revenues	2,148	347	149	2,644	2,109	-	122	2,231
Net claims incurred (before MYA)	(1,382)	(190)	-	(1,572)	(1,329)	-	-	(1,329)
Underwriting expenses ²	(603)	(135)	-	(738)	(583)	-	-	(583)
Investment expenses	-	-	(9)	(9)	-	-	(9)	(9)
Share of profit from invest. in associates & JV	13	-	-	13	11	-	-	11
Finance costs	-	-	(25)	(25)	-	-	(19)	(19)
Other	(13)	-	(8)	(21)	(8)	-	(13)	(21)
PTOI³	163	22	107	292	200	-	81	281
Comprised of:								
underwriting income	129	22	1	152	170	-	-	170
net investment income	-	-	133	133	-	-	101	101
net distribution income	34	-	-	34	30	-	-	30
finance costs	-	-	(25)	(25)	-	-	(19)	(19)
other income (expense)	-	-	(2)	(2)	-	-	(1)	(1)

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

For the nine-month periods ended Sept. 30,	2018				2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Operating income								
NEP	6,203	1,001	2	7,206	6,130	-	-	6,130
Investment income	-	-	415	415	-	-	338	338
Other	98	-	10	108	86	-	27	113
Segment operating revenues	6,301	1,001	427	7,729	6,216	-	365	6,581
Net claims incurred (before MYA)	(4,205)	(565)	-	(4,770)	(4,055)	-	-	(4,055)
Underwriting expenses ²	(1,794)	(378)	-	(2,172)	(1,767)	-	-	(1,767)
Investment expenses	-	-	(26)	(26)	-	-	(27)	(27)
Share of profit from invest. in associates & JV	42	-	-	42	37	-	-	37
Finance costs	-	-	(76)	(76)	-	-	(57)	(57)
Other	(30)	-	(22)	(52)	(19)	-	(24)	(43)
PTOI³	314	58	303	675	412	-	257	669
Comprised of:								
underwriting income	204	58	2	264	308	-	-	308
net investment income	-	-	389	389	-	-	311	311
net distribution income	110	-	-	110	104	-	-	104
finance costs	-	-	(76)	(76)	-	-	(57)	(57)
other income (expense)	-	-	(12)	(12)	-	-	3	3

¹ See Table 21.2 for the reconciliation to the interim Consolidated statements of income.

² Other underwriting revenues are netted against underwriting expenses when assessing segment performance.

³ See Section 14 – Non IFRS financial measures of the Company's interim MD&A for the definition of related operating measures.

Table 21.2 – Reconciliation of segment information to amounts reported in the interim Consolidated statements of income

For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Segment operating revenues (Table 21.1)	2,644	2,231	7,729	6,581
Add: other underwriting revenues	28	28	82	82
Add: NEP exited lines ¹	9	-	43	-
Revenues, as reported	2,681	2,259	7,854	6,663
Segment PTOI (Table 21.1)	292	281	675	669
Non-operating items:				
net gains (losses)	(24)	(59)	(46)	75
positive (negative) impact of MYA on underwriting integration and restructuring costs	42	60	133	81
amortization of intangible assets recognized in business combinations	(10)	(33)	(49)	(45)
difference between expected return and discount rate on pension assets	(22)	(12)	(65)	(37)
underwriting results from OneBeacon exited lines	(12)	(11)	(37)	(33)
other non-operating costs	(3)	-	(22)	-
	(7)	(6)	(14)	(14)
Pre-tax income, as reported	256	220	575	696

¹ Includes the results of the U.S. Commercial's business lines Programs and Architects and Engineers.

21.3 Selected segment assets and liabilities

Table 21.3 – Selected segment assets and liabilities

As at	September 30, 2018				December 31, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Investments	-	-	16,999	16,999	-	-	16,853	16,853
Net claims liabilities (Table 9.1)	8,252	1,662	-	9,914	8,098	1,648	-	9,746

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

21.4 Information by geographic areas

Table 21.4 – Information by geographic areas

	Revenues				Total assets	
	For the periods ended September 30				As at	
	Three months		Nine months		September 30,	December 31,
	2018	2017	2018	2017	2018	2017
Canada	2,299	2,259	6,740	6,663	22,190	22,093
U.S.	382	-	1,114	-	6,350	5,835
	2,681	2,259	7,854	6,663	28,540	27,928

Revenues and assets are allocated based on the country where the risks originate.

Note 22 – Additional information on the interim Consolidated statements of cash flows

22.1 Adjustments for non-cash items

Table 22.1 – Adjustments for non-cash items

For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Depreciation of property and equipment	8	8	26	25
Amortization of intangible assets	31	18	89	52
Net premiums on debt securities classified as AFS	5	1	15	6
Defined benefit pension expense	21	18	64	54
Share-based payments expense	15	10	46	25
Share of profit from investments in associates and joint ventures	(3)	(3)	(20)	(16)
Other	(5)	3	(5)	3
	72	55	215	149

22.2 Changes in other operating assets and liabilities

Table 22.2 – Changes in other operating assets and liabilities

For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Unearned premiums, net	116	74	218	179
Premium receivables, net	(48)	(25)	(177)	(112)
Deferred acquisition costs, net	(3)	(15)	(44)	(44)
Other operating assets	(15)	(19)	35	(22)
Other operating liabilities	130	128	43	(19)
Dividends received from investments in associates and joint ventures	4	3	11	11
	184	146	86	(7)

Notes to the interim Consolidated financial statements (unaudited)

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

Note 23 – Standards issued but not yet effective

There have been no significant updates to *Note 32 – Standards issued but not yet effective* of the annual Consolidated financial statements for the year ended December 31, 2017, except as described below.

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

In February 2018, the IASB issued amendments to IAS 19 – *Employee Benefits* (“IAS 19”) to specify how companies determine pension expense when changes to a defined benefit pension plan occur. A company now uses updated assumptions from the remeasurement of the net defined benefit asset (liability) to determine the current service cost and net interest for the period. Previously, it would not have updated its calculation of these costs until year-end.

The amendments are to be applied prospectively, effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company will not early adopt the amendments to IAS 19.

23.2 Conceptual framework for financial reporting

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

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