

# Annual Information Form

Intact Financial Corporation  
March 28, 2013



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## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain of the statements included or incorporated by reference in this Annual Information Form 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 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; 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 terms and conditions of, and regulatory approvals relating to, the integration of Jevco Insurance Company ("Jevco"); various other actions to be taken or requirements to be met in connection with the Jevco acquisition and integrating the Company and Jevco; synergies arising from, and the Company's integration plans relating to the AXA Canada Inc. ("AXA Canada") acquisition; management's estimates and expectations in relation to resulting accretion, internal rate of return and debt-to-capital ratio after closing of the AXA Canada and Jevco acquisitions; various other actions to be taken or requirements to be met in connection with the AXA Canada acquisition and integrating the Company and AXA Canada; 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 catastrophic events; 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 larger 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 reliance on information technology and telecommunications systems; the Company's dependence on key employees; changes in laws and 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 or incorporated by reference in this Annual Information Form are qualified by these cautionary statements and those made in the "Risk Management" section of our MD&A for the year ended December 31, 2012 and those made in our other filings with the securities commissions or similar authorities in Canada that are incorporated by reference in this Annual Information Form. 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 or in the documents incorporated herein by reference. 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.

Unless otherwise specified, this Annual Information Form presents information as at December 31, 2012. All amounts are in Canadian dollars.

## **CORPORATE STRUCTURE**

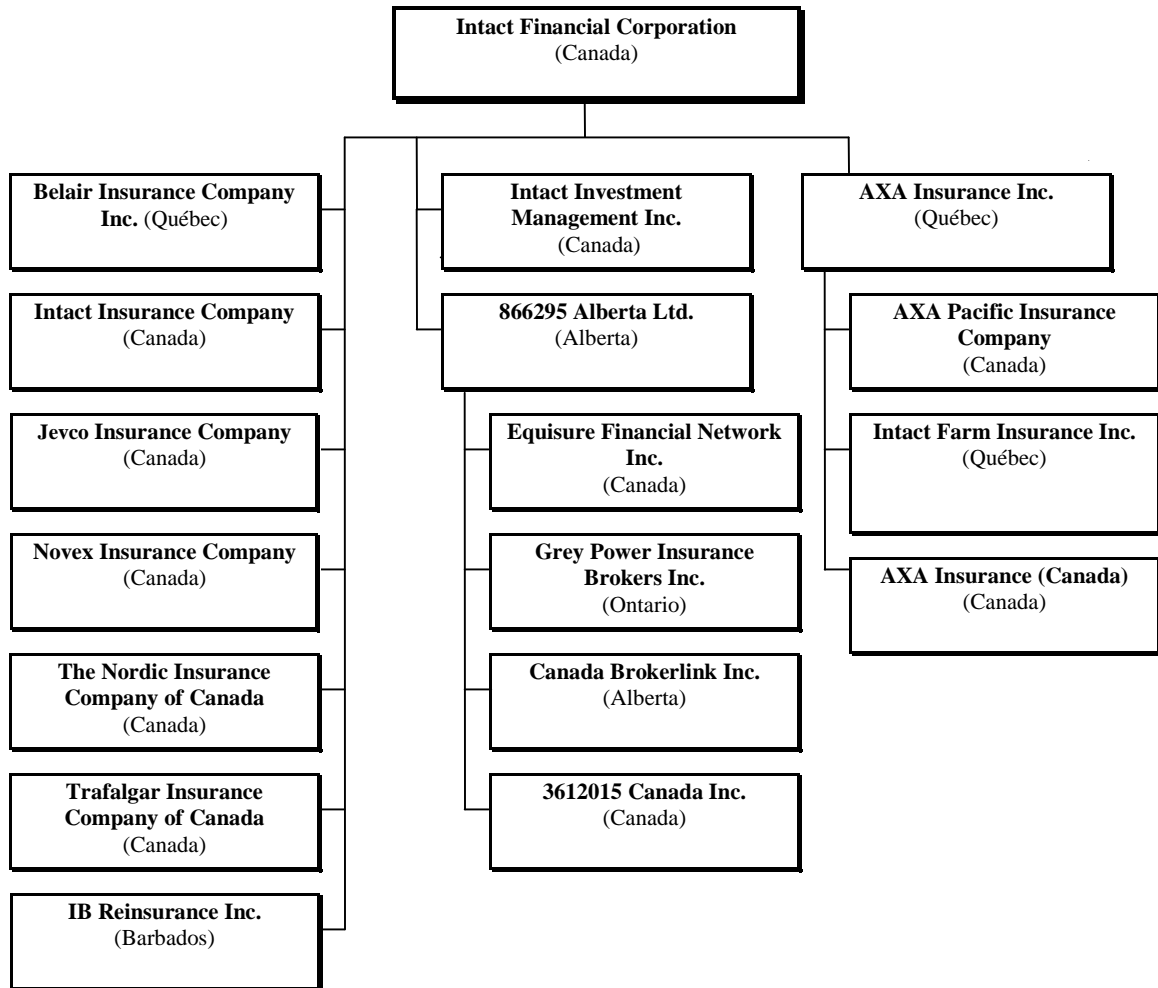
### **Name, Address and Incorporation**

Intact Financial Corporation (“we”, “us” or the “Company”) is a holding company incorporated under the *Canada Business Corporations Act* which, through its operating subsidiaries, provides property and casualty insurance in Canada.

We conduct business throughout Canada through the following subsidiaries: Intact Insurance Company, Novex Insurance Company, The Nordic Insurance Company of Canada, Trafalgar Insurance Company of Canada, Belair Insurance Company Inc., AXA Insurance (Canada), AXA Pacific Insurance Company, AXA Insurance Inc., Intact Farm Insurance Inc., Jevco Insurance Company, Equisure Financial Network Inc., Canada Brokerlink Inc., Grey Power Insurance Brokers Inc., IB Reinsurance Inc. and Intact Investment Management Inc. Our registered and principal business office is located at 700 University Avenue, Suite 1500-A (Legal), Toronto, Ontario, M5G 0A1.

## Intercorporate Relationships

The following chart illustrates our corporate structure as at March 28, 2013, together with the jurisdiction of incorporation of each of our principal subsidiaries. Unless otherwise indicated herein, each subsidiary is directly or indirectly owned 100% by us.



## **GENERAL DEVELOPMENT OF THE BUSINESS**

Our business was founded in 1809, with the formation of The Halifax Fire Insurance Association which later became our first predecessor company: The Halifax Insurance Company, incorporated in 1819. Between 1988 and 2012, the Company successfully completed 13 acquisitions involving the integration of several property and casualty (“P&C”) insurance businesses. As a result of both our acquisitions and organic growth, we have grown in terms of direct premiums written from the eighteenth largest P&C insurer in Canada in 1988 to the largest P&C insurer in Canada with an estimated market share of 17%<sup>1</sup>, as at December 31, 2012, based on 2012 direct premiums written.

Our insurance business is organized into two lines: personal and commercial insurance. Our principal insurance products are automobile, property and liability insurance, which we provide to individuals and small to medium-sized businesses across Canada. Based on the most current industry statistics for direct premiums written, we are the leading private sector P&C insurer in the provinces of Ontario, Québec, Alberta, British Columbia, and Nova Scotia. We distribute our products through several distribution channels and entities: brokers, belairdirect, Grey Power, BrokerLink.

### **Three Year History**

On February 17, 2010, the Company announced its intention to proceed with a Normal Course Issuer Bid (“NCIB”) to purchase for cancellation during the next 12 months up to 5,977,913 of its Common Shares, representing approximately 5% of the public float of the Company at that time. The Company received approval from the Toronto Stock Exchange (the “TSX”) to proceed with the NCIB on February 18, 2010. On August 5, 2010, the Company announced that the board of directors of the Company (the “Board of Directors”) had authorized an increase in the number of shares it could repurchase under its NCIB over the 12-month period that commenced on February 22, 2010, from 5,977,913 shares to 11,955,827 shares, representing approximately 10% of its public float as of February 17, 2010. The NCIB was further amended, effective February 2, 2011, to allow for purchases outside the facilities of the TSX pursuant to exemption orders issued by a securities regulatory authority. This NCIB expired on February 21, 2011. The Company had purchased 9,706,502 Common Shares at the time of its expiry.

On March 23, 2010, the Company completed an additional offering of \$100 million principal amount of unsecured medium term notes first offered in November 2009, pursuant to its medium term note program (the “Series 2 Notes”). The Series 2 Notes bear interest at a fixed annual rate of 6.40% until maturity on November 23, 2039.

On February 9, 2011, the Company announced that the Board of Directors had authorized the renewal of the Company’s NCIB. On February 16, 2011, the Company announced that the TSX had accepted the renewal of its NCIB which began on February 22, 2011, following the expiry of the preceding NCIB. Under the renewed NCIB, the Company was authorized to purchase for cancellation during the 12-month period expiring February 21, 2012 up to 5,523,548 Common Shares, representing approximately 5% of its 110,470,965 issued and outstanding Common Shares as at February 15, 2011. The Company purchased 771,400 Common Shares over the course of this NCIB. The NCIB expired on February 21, 2012 and was not renewed.

On February 9, 2011, the Company also announced the adoption of a shareholder rights plan (the “Shareholder Rights Plan”) by our Board of Directors, which was accepted by the TSX and which was ratified by the shareholders at the Annual and Special Meeting of Shareholders

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<sup>1</sup> Market share is based on overall industry excluding ICBC, SAF, SGI, MPI, Genworth Financial Mortgage Insurance Company Canada and Lloyd’s.

held on May 4, 2011. A copy of the Shareholder Rights Plan Agreement was filed on SEDAR on February 9, 2011 and is available on our SEDAR profile at [www.sedar.com](http://www.sedar.com).

On May 31, 2011, the Company announced that it had signed a definitive agreement (the “Share Purchase Agreement”) with AXA S.A., for the acquisition of all the issued and outstanding shares of AXA S.A.’s wholly owned subsidiary, AXA Canada Inc. for an aggregate consideration of \$2.6 billion in cash plus a contingent consideration of up to \$100 million (the “Acquisition”). The Acquisition was completed on September 23, 2011 and a material change report and business acquisition report in Form 51-102F4 describing the Acquisition were filed on June 9 and September 26, 2011, respectively. Both reports are incorporated by reference into, and are expressly made part of, this Annual Information Form and are available on the Company’s profile at [www.sedar.com](http://www.sedar.com).

On June 2, 2011, the Company filed a supplement to its short form base shelf prospectus dated May 21, 2009, pursuant to which the Company offered 20,125,000 subscription receipts (including the exercised over-allotment option) (the “Subscription Receipts”) at a price of \$47.80 per Subscription Receipt (the “Receipt Offering”). The Subscription Receipts were offered by way of bought deal pursuant to an underwriting agreement dated June 2, 2011 to a syndicate of underwriters for gross proceeds to the Company of \$961,975,000 (including the over-allotment option proceeds). The Receipt Offering closed on June 9, 2011. Each Subscription Receipt entitled the holder to receive, upon closing of the Acquisition, one Common Share of the Company plus an amount equal to the dividends declared on the Common Shares by the Company on June 15, 2011 and September 15, 2011. Upon closing of the Acquisition, the Subscription Receipts were automatically exchanged in accordance with their terms on a one-for-one basis for Common Shares. The material change report dated June 9, 2011 contains a detailed description of the terms of the Subscription Receipts and of the Receipt Offering and is available at [www.sedar.com](http://www.sedar.com).

On July 5, 2011, the Company obtained a receipt for a final short form base shelf prospectus relating to the filings previously made on June 27, 2011. These filings would allow the Company to offer, over a 25-month period, an aggregate of any combination of up to \$2.5 billion in debt, preferred or common share securities, subscription receipts, warrants, share purchase contracts and units. These filings replaced a similar prospectus filed in May 2009. The Company filed a supplement to its base shelf prospectus dated July 5, 2011, establishing a medium term note program that would allow the Company to issue unsecured medium term notes in an amount of up to \$750 million.

On July 8, 2011, the Company announced the closing of its previously announced private placement of \$100 million aggregate principal amount of unsubordinated unsecured notes. The Series 3 unsecured 50-year term notes due July 8, 2061 will bear interest at the rate of 6.20% per annum (the “Series 3 Notes”).

On July 12, 2011, the Company announced the closing of its previously announced bought deal offering of 10,000,000 (including the exercised over-allotment option) Non-cumulative Rate Reset Class A Shares Series 1 (the “Series 1 Preferred Shares”) at a price of \$25.00 per Series 1 Preferred Share, for aggregate gross proceeds of \$250 million (including the over-allotment option proceeds). The Series 1 Preferred Shares were offered pursuant to a short form prospectus filed on July 5, 2011. As part of this offering, the Company created two new series of Class A Shares, the Series 1 Preferred Shares and the Non-cumulative Floating Rate Class A Shares Series 2 (the “Series 2 Preferred Shares”). See Section “Description of Capital Structure”.

On August 11, 2011, the Company filed a supplement to its base shelf prospectus dated July 5, 2011, qualifying for distribution 10,000,000 (including the exercised over-allotment option) Non-cumulative Rate Reset Class A Shares Series 3 (the “Series 3 Preferred Shares”) at a

price of \$25.00 per Series 3 Preferred Share. On August 18, 2011, the Company announced the closing of its bought deal offering of 10,000,000 Series 3 Preferred Shares, for aggregate gross proceeds of \$250 million (including the over-allotment option proceeds). As part of this offering, the Company created two new series of Class A Shares, the Series 3 Preferred Shares and the Non-cumulative Floating Rate Class Shares Series 4 (the “Series 4 Preferred Shares”). See Section “Description of Capital Structure”.

On August 18, 2011, the Company completed an offering of \$300 million principal amount of unsecured medium term notes pursuant to its medium term note program. The Series 4 unsecured medium term notes will bear interest at a fixed annual rate of 4.70% until maturity on August 18, 2021 (the “Series 4 Notes”).

On September 23, 2011, the Company completed the Acquisition. The Acquisition was financed with the proceeds from the issuance of Subscription Receipts, preferred shares and medium term notes in an aggregate amount of approximately \$1.8 billion. The balance was funded from the Company’s excess capital and \$400 million drawn down under the terms of a credit facility arranged in connection with the Acquisition. A Form 51-102F4 *Business Acquisition Report* was filed by the Company in connection with this Acquisition and is available at [www.sedar.com](http://www.sedar.com).

On September 26, 2011, the Company announced that it had entered into a definitive share purchase agreement to sell AXA Canada Inc.’s life insurance business to SSQ, Life Insurance Company Inc. for \$300 million. AXA Life Insurance Inc., a subsidiary of AXA Canada Inc., was acquired by the Company as part of the Acquisition of AXA Canada Inc. AXA Life Insurance Inc. offers health and life insurance products through a vast network of agents. The Company completed the sale of AXA Life Insurance Inc. to SSQ, Life Insurance Company Inc. on January 1<sup>st</sup>, 2012.

On May 2, 2012, the Company entered into a share purchase agreement (the “2012 Share Purchase Agreement”) with The Westaim Corporation for the acquisition of all of the issued and outstanding shares of The Westaim Corporation’s wholly owned subsidiary, Jevco Insurance Company, for \$530 million (the “Jevco Acquisition”). The Jevco Acquisition was completed on September 5, 2012 and a material change report describing the Jevco Acquisition was filed on May 11, 2012. The report is incorporated by reference into, and is expressly made part of, this Annual Information Form and is available on the Company’s profile at [www.sedar.com](http://www.sedar.com).

On May 4, 2012 the Company filed a supplement to its short form base shelf prospectus dated July 5, 2011, pursuant to which the Company offered 3,600,000 subscription receipts (including the exercised over-allotment option) the “2012 Subscription Receipts” at a price of \$62.75 per 2012 Subscription Receipt (the “2012 Receipt Offering”). The 2012 Subscription Receipts were offered by way of bought deal pursuant to an underwriting agreement dated May 4, 2012 to a syndicate of underwriters for gross proceeds to the Company of \$237,195,000 (including the over-allotment option proceeds). The 2012 Receipt Offering closed on May 11, 2012. Each 2012 Subscription Receipt entitled the holder to receive, upon closing of the Jevco Acquisition, one Common Share of the Company plus an amount equal to the dividends declared on the Common Shares by the Company on March 30 and June 29, 2012. Upon closing of the Jevco Acquisition, the 2012 Subscription Receipts were automatically exchanged in accordance with terms on a one-for-one basis for Common Shares. The material change report dated May 11, 2012 contains a detailed description of the terms of the 2012 Subscription Receipts and of the 2012 Receipt Offering and is available at [www.sedar.com](http://www.sedar.com).

On June 15, 2012, the Company completed an offering of \$200 million principal amount of unsecured medium term notes pursuant to its medium term note program. The Series 5 unsecured medium term notes bear interest at a fixed annual rate of 5.16% until maturity on June 16, 2042

(the “Series 5 Notes”). On September 10, 2012, the Company completed an offering of an additional \$50 million principal amount of Series 5 Notes.

On September 5, 2012, the Company completed the Jevco Acquisition. The Jevco Acquisition was financed with the proceeds from the \$237 million subscription receipt issuance, the medium term note offering and a portion of the Company’s excess capital.

### **Reorganization**

AXA Canada Inc., which had been the holding company for the life and P&C businesses of its subsidiaries in Canada, was liquidated into Intact General Insurance Inc. (an insurance company incorporated for the purpose of the Acquisition and a wholly-owned subsidiary of the Company). Intact General Insurance Inc. later amalgamated with AXA Insurance Inc., and continues as AXA Insurance Inc. After the completion of the Acquisition, the Company also moved to integrate the P&C businesses of AXA Canada Inc. with its existing P&C businesses, primarily by transferring the renewal rights associated with AXA Canada Inc.’s subsidiaries’ policies to certain of the Company’s operating insurance subsidiaries.

Effective May 1, 2012, AXA General Insurance and Novex Insurance Company, both insurance subsidiaries of the Company, amalgamated and continued as Novex Insurance Company. The amalgamation is part of the Company’s integration of AXA Canada.

### **DESCRIPTION OF THE INDUSTRY**

The Canadian P&C insurance industry provides insurance to both individuals and businesses covering automobile, personal and commercial property, general liability and other business lines of P&C insurance. In 2011, the Canadian P&C insurance industry recorded approximately \$48.1 billion<sup>2</sup> of direct premiums written and made total claims payments and provisions for claims of approximately \$31.8 billion<sup>2</sup>. In 2012, the Canadian P&C insurance industry recorded approximately \$49.7 billion<sup>2</sup> of direct premiums written and made total claims payments and provisions for claims of approximately \$30.9 billion<sup>2</sup>. Automobile insurance is the largest business line of the Canadian P&C insurance industry while property insurance represents the second largest business line of the Canadian P&C insurance industry (by direct premiums written).

The three distribution channels for the Canadian P&C insurance industry are brokers, direct distribution and captive agents. Brokers act as intermediaries between P&C insurance companies and customers who wish to purchase P&C insurance. Brokers typically distribute insurance policies of multiple insurance companies and act on behalf of customers. Within Canada, brokers are the largest distribution channel for P&C insurance products. In direct distribution, P&C insurance companies sell their insurance policies directly to customers without the use of an intermediary. Most direct distribution is conducted through the internet and call centres. Captive agents are a proprietary sales force that market P&C insurance products exclusively for an insurer.

The financial performance of the Canadian P&C insurance industry is determined by two principal factors: (i) the level of premiums collected in relation to claims and operating costs paid; and (ii) the returns generated by investment portfolios held by insurers.

The Canadian P&C insurance industry is a mature market. From 2008 to 2012, the compound annual growth rate (“CAGR”) of the Canadian P&C insurance industry’s direct premiums written was 3.2%. In 2011 and 2012, the growth rate of direct premiums written for the industry was 3.9% and 3.1%, respectively.

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<sup>2</sup> Based on overall industry results as published by MSA Research Inc.

A key performance measure of the Canadian P&C insurance industry is the combined ratio. The combined ratio is the sum of the claims ratio and the expense ratio. The claims ratio is the sum of claims and claims adjustment expenses incurred, net of reinsurance, expressed as a percentage of net premiums earned. The expense ratio is the sum of expenses including commissions, premium taxes and general and administrative expenses incurred, expressed as a percentage of net premiums earned. A combined ratio of greater than 100% implies that the business recorded an underwriting loss before investment income from investment assets. A combined ratio of less than 100% implies that the underlying business recorded an underwriting profit before investment income on investment assets.

The following table indicates the Canadian P&C insurance industry's combined ratio since 2003.

<b>Year</b>	<b>Combined ratio</b>
2003	99.0%
2004	91.2%
2005	92.7%
2006	91.6%
2007	93.4%
2008	101.8%
2009	101.7%
2010	101.0%
2011	100%
2012	96.1%

From 2003 to 2007, the Canadian P&C insurance industry achieved a steady state of combined ratios, high return on equity ("ROE") and steady investment returns while in 2008, the ROE decreased markedly due to the economic crisis. In 2009, the ROE improved more than 1 point compared to 2008. In 2010, the ROE improved by 0.2 points compared to 2009 and improved again in 2011 by 0.3 points compared to 2010. In 2012, the ROE increased by 3.2 points.

## **DESCRIPTION OF OUR BUSINESS**

### **Lines of Business**

We have two business lines for our insurance products: personal insurance and commercial insurance.

#### ***Personal Insurance***

Based on the most current industry statistics, we are the largest personal insurance provider in Canada (as measured by direct premiums written) for 2012. Over the 12 months ended December 31, 2012, our personal insurance business accounted for \$4.7 billion or 68% of our direct premiums written. Our primary coverages in personal insurance are personal automobile and property insurance.

*Automobile.* Our automobile insurance business, with \$3.1 billion of direct premiums written over the 12 months ended December 31, 2012 and approximately 3.6 million written insured risks, provides coverage to our customers, depending on where they reside in Canada, for their liability, their personal injury (or accident benefits) and damage to their vehicles. Our coverage is also available for motor homes, recreational vehicles, snowmobiles and antique and classic cars.

Claims costs in automobile insurance are primarily a function of the frequency of accidents, the cost of medical care, the cost of automobile repair and replacement, and any cost of litigation associated with claims.

*Property.* Our property insurance business, with \$1.6 billion of direct premiums written over the 12 months ended December 31, 2012 and approximately 2.2 million written insured risks, covers individuals for fire, theft, vandalism, water damage and other damages to both residences and their contents, as well as personal liability coverage. Most home policies in force in Canada are on a guaranteed replacement cost basis. We adjust our coverage to specific segments of the market. Included within our home market is coverage for tenants, condominium owners, non-owner occupied residences and seasonal residences.

Claims costs in property insurance are primarily a function of the frequency and severity of claims. The severity itself is highly influenced by inflation in building supplies, labour costs and household possessions. Most homeowners' policies offer, but do not require, automatic increases in coverage to reflect increases in replacement costs and property values.

The profitability and pricing of homeowners' insurance is also affected by the incidence of natural disasters, particularly severe winter storms, wind, ice, hail and rain storms, earthquakes and hurricanes. We use reinsurance to reduce our exposure to natural disasters.

### ***Commercial Insurance***

We are the largest commercial insurance providers in Canada with \$2.2 billion of direct premiums written in 2012. Over the 12 months ended December 31, 2012, our commercial insurance business accounted for 32% of our direct premiums written. Our commercial insurance products are marketed to businesses and farms.

*Automobile.* Our automobile insurance business, with \$552 million of direct premiums written over the 12 months ended December 31, 2012 and approximately 477,000 written insured risks, provides the same coverage as personal automobile insurance but for different types of risks. Our coverage applies to commercial vehicles, public vehicles, garage risks, fleets of private passenger vehicles and light trucks. Most of the vehicles insured by us are cars and light trucks.

Claims costs in commercial automobile insurance are primarily a function of the frequency of accidents, the cost of medical care, the cost of automobile repair and replacement, and any cost of litigation associated with claims.

*Property.* Our property insurance business also provides coverage to businesses for fire and related lines, multiple peril risks and premises liability as well as niche products and had \$1.7 billion of direct premiums written over the 12 months ended December 31, 2012 with approximately 443,000 written insured risks. We are primarily focussed on offering commercial property insurance to a diversified group of small and medium-sized commercial clients. These clients are typically small businesses, commercial landlords, manufacturers, contractors, wholesalers, retailers, transportation businesses, agricultural businesses and service providers.

*Liability.* Our liability insurance business provides coverage to businesses for general commercial liability, errors and omissions insurance covering directors and officers, as well as liability insurance for products and operations.

*Surety.* Our surety business provides coverage to businesses through contract bonds, administrative bonds and miscellaneous surety bonds. Clients are typically contractors, manufacturers, suppliers, transportation businesses and service providers.

## **Distribution**

Our distribution strategy is designed to meet the challenges of an evolving marketplace and is aimed at maximizing growth while serving the needs of a broader customer demographic. We distribute and market our products through the distribution channels and the entities described below:

*Brokers.* We offer Intact Insurance and Jevco products through more than 2,000 insurance brokerages across Canada. The broker distribution channel (including BrokerLink) represented approximately \$6.0 billion or 88% of our direct premiums written in 2012. Our business success is predicated on continuing to provide competitive rates and products that are best suited for our target customers and to deliver consistently high levels of service to brokers. We provide a technology platform that allows them to transact business with us, we train them on our products and we support their growth by promoting our brand and values.

*belairdirect.* belairdirect has been providing complete home and auto insurance solutions directly to consumers in Ontario and Québec for over 50 years. With belairdirect, consumers have the option of buying coverage over the phone, via the internet, or in person. belairdirect is one of the most recognized direct-to-consumer insurance brands in its markets (approximately \$615 million or 9% of our total direct premiums written in 2012 came through belairdirect).

*Grey Power.* Since 1993, Grey Power has been recognized as a leader in providing insurance to experienced drivers, age 50 or older. Grey Power customers enjoy best-in-class service and discounts for their good driving records. Grey Power accounted for approximately \$187 million or 3% of our total direct premiums written in 2012.

*BrokerLink.* BrokerLink is one of the largest brokerages in Canada. It offers consumers products and services from a number of insurance companies, including Intact Insurance and Jevco. In 2012, approximately \$368 million or 5% of the direct premiums written of Intact Insurance and Jevco came through BrokerLink.

## **Reinsurance**

We use reinsurance to help manage our exposure to losses and liability arising from the insurance risks that we write and to protect our capital resources. We cede a portion of our gross premiums to reinsurers in exchange for the reinsurer's agreement to share a portion of the covered losses. In the ordinary course of business, we reinsure certain risks with other reinsurers to limit our maximum loss in the event of catastrophic events or other significant losses. Our objectives related to ceded reinsurance are: capital protection, reduction in the volatility of results, increase in underwriting capacity, and access to the expertise of reinsurers. See the section under "Risk Management - Reinsurance" on page 47 of our Management's Discussion and Analysis for the year ended December 31, 2012, which pages are incorporated herein by reference.

## **Pricing and Underwriting**

*Personal Insurance.* We believe that pricing and underwriting are inextricably linked. The sophistication of pricing segmentation has a direct influence on the quality of risks that we will assume. Similarly, the sophistication of the risk selection process has a direct impact on the experience that is reflected in our pricing database and hence on our ability to segment and be competitive.

We maintain a detailed proprietary database of our personal insurance business across the provinces and territories of Canada. We believe that the size of this database allows us to have greater insight in the forecasting of expected claims severity and frequency. Our pricing is derived from frequency of claims, severity of claims, expenses associated with writing business, claims administration and settlement costs, and costs of distribution channels through which the business is written.

The selection or underwriting process attempts to quantify the potential risks associated with a customer to determine the eligibility of that customer and the appropriate price that should be charged. This process is highly automated in order to enable brokers and underwriters to apply our underwriting guidelines as consistently as possible. We have developed sophisticated models to identify the relative profitability at the risk or policy level to encourage business with the highest expected profitability.

*Commercial Insurance.* As in personal insurance, product pricing in commercial insurance is generally developed to provide for expected claims frequency and severity in the period when the rates will be in effect. Product pricing takes into account the expenses associated with writing business as well as claims administration and settlement expenses.

We have a disciplined approach to underwriting and risk management in commercial and specialty insurance with an emphasis on profitability. We write business in most sectors of economic activity as well as in all lines of insurance with a focus on the small- to medium-size commercial segment. These two segments make up the large majority of our commercial premiums. Our offer now also includes a sizeable specialty lines business, representing close to 15% of our annual commercial premiums.

### **Claims Management**

Our claims management objective is to provide a claim experience beyond excellence, while controlling claims administration costs and reducing the incidence of fraud. We believe that this can best be achieved by our internal claims staff who are trained to apply our claims management practices.

In 2012, 97% of the claims presented were handled to completion by our internal claims personnel, without the involvement of an external claims adjuster. We believe this result is the desired effect of consistent application of our claims policies and procedures, as well as lower aggregate claims costs and related claims administration costs.

Claims handling is administered by approximately 3,000 of our internal claims professionals located across Canada. The claims handling process includes receipt of notice of loss, coverage verification, reserving for the ultimate potential loss, investigation of circumstances surrounding the claim, assessment of damages, settlement or refusal of settlement as appropriate, payment, completing salvage operations and recuperating under subrogation or reinsurance where applicable. The key elements of our management process are our numerous technical training programs and our quality review processes. We have designed systems and processes that ensure ongoing monitoring, measurement and control of all aspects of the claims resolution process from the time we receive the notice of loss to the final claim settlement.

Most of our claims professionals are regionally based. Their role is to manage the day-to-day operations relating to claims. We believe that this allows us to respond to the customer in a timely manner when a claim situation arises. All of our adjusters have authority limits – magnitudes of claims that they are qualified to process – commensurate with the adjusters' respective level of experience. These authority levels are reviewed on a regular basis and adjusted if warranted.

We handle a large number of insurance claims in the normal course of business which are managed by the claims department. The claims department establishes and, where necessary, adjusts reserves for claims in partnership with our actuaries. These claims and reserves are reviewed by our internal and external auditors and our finance departments, with the support of internal and external legal advice, where appropriate. If these claims are derived from insurance policies that are covered by reinsurance treaties the risk to us is limited to the net retention of the insurance risks and the credit rating of the reinsurer.

### **Facility Association**

As a condition of providing automobile insurance in Canada, our insurance subsidiaries are required to participate in the Facility Association in Alberta, New Brunswick, Newfoundland & Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island and Yukon. Similar arrangements are in place to varying degrees in the rest of the country. The Facility Association consists of mandatory pooling arrangements with all industry participants and provides automobile insurance coverage to individuals or businesses that are otherwise unable to purchase coverage from private insurers. The policies written in the Facility Association are processed and managed by a small number of insurance carriers who receive expense reimbursement for administering the policies. We are one of several carriers that manage the Facility Association's policies. All underwriting results and interest and dividend income resulting from the business processed by these carriers are then pooled and assumed by all industry participants according to their automobile insurance market share.

The size of the Facility Association across jurisdictions varies over time in relation to the profitability of automobile insurance markets as well as the capital available to private insurers. The following table sets out the direct premiums written as well as the net result from operations of the Facility Association:

<b>Year</b>	<b>Direct Premiums Written</b>	<b>Net Results from Operations</b>
2007	\$333 million	\$16 million
2008	\$276 million	(\$102 million)
2009	\$241 million	\$7 million
2010	\$227 million	\$123 million
2011	\$226 million	\$83 million
2012	\$217 million	\$57 million

The Company's share in the results of the Facility Association has been between 0% and 20% during the same period, depending on the province of the Facility Association.

### **Regulatory Matters**

Our insurance subsidiaries are subject to regulation and supervision by the insurance regulatory authorities of the jurisdictions in which they are incorporated and licensed to conduct business. Such regulation and supervision is designed to protect policyholders and creditors rather than investors, and relates to various matters, including rate setting, risk-based capital and solvency standards, restrictions on types of invested assets, the maintenance of adequate reserves for unearned premiums and unpaid claims, the examination of insurance companies by regulatory authorities (including periodic financial and market conduct examinations), the filing of annual

and other reports and returns, the licensing of insurers, agents and brokers, limitations on transactions with affiliates, restrictions on shareholder dividends and capital transactions, restrictions on ownership and regulation of the form of insurance contracts and the sale and marketing of insurance products. We believe that our insurance subsidiaries are in material compliance with all applicable regulatory requirements.

### **Competitive Conditions**

The Canadian P&C insurance industry is highly competitive. In each business line, the market is highly fragmented and there are typically numerous industry participants competing. Our competitors include both foreign and domestic insurers as well as large national insurers, government automobile insurers, smaller local insurers, and mutual and co-operative insurers. In 2011, the top five insurers accounted for almost 44%<sup>3</sup> of the direct premiums written for the private Canadian P&C insurance industry. We believe that the Canadian P&C insurance industry will remain highly competitive for the foreseeable future. We believe that competition in our business lines is based on price, service, distribution channels, commission structure, product features, financial strength and scale, ability to pay claims, ratings, reputation and name or brand recognition. The regional competitive landscape varies slightly from the national picture.

### **Intangible Properties**

In the broker distribution channel, the Company's largest insurance subsidiary is Intact Insurance Company and operates under the Intact Insurance brand name. In the direct personal lines distribution channel, belairdirect has developed a strong awareness among consumers in Québec and Ontario. Similarly, the Grey Power brand has become increasingly well known in Ontario and Alberta. Non-standard automobile insurance in Ontario is distributed under the Jevco brand. Our insurance subsidiaries employ branding and marketing strategies to distinguish and promote their respective brands and offers.

### **Cycles and Seasonality**

Over the past 20 years, returns in the Canadian P&C insurance industry have fluctuated substantially with an average ROE of approximately 10% over that period. We believe that the cyclical nature of the Canadian P&C insurance industry is driven by a number of factors, including capital management, time lags and pricing, industry regulation and, in the case of commercial insurance, a decentralized decision making process.

We further believe that industry performance is driven by supply, not demand. When capital in the industry is in abundance, companies may underprice business to gain market share rapidly. Inadequate pricing reduces underwriting margins. Ultimately, prices need to rise again to recover losses, repeating the cycle. There can be a time lag of several years between when a policy is priced and when the full cost of a claim is known. In provinces where insurance rates are regulated, rate change approvals can take months due to the complexity of the regulatory process, thereby delaying the reflection of the true claims costs in the premium rates. In commercial insurance, individual underwriters and brokers generally have the ability to negotiate premiums, particularly for large accounts, which can cause delays in the recognition of the true claims costs.

Underwriting performance is also subject to seasonal fluctuations, related primarily to automobile claims patterns and winter driving conditions. Severe winter storms, such as the Québec ice storm of 1998, as well as rain, wind and hail can affect property insurance results. Areas with inadequate sewer systems are particularly vulnerable to higher water-related property damages.

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<sup>3</sup> Market share is based on overall industry excluding ICBC, SAF, SGI, MPI, Genworth Financial Mortgage Insurance Company Canada and Lloyd's.

## Employees

As at December 31, 2012, the Company, including our operational units, had approximately 11,159 full-time equivalent employees.

## Investment Management

Our entire invested assets portfolio is managed by our wholly-owned subsidiary Intact Investment Management Inc. (“IIM”). IIM also provides investment management services to our employee pension plans and some third parties.

### *Investment Strategy*

Our primary investment objective is to generate consistent after-tax income while minimizing the potential for extremely large losses. In establishing our asset allocation, we consider a variety of factors including prospective risk and return of various asset classes, the duration of claims obligations, the risk of underwriting activities and the capital supporting our business. Our invested assets consist mostly of Canadian income products.

Our \$13.0 billion portfolio is mainly comprised of Canadian securities and includes a mix of fixed income securities, common and preferred shares, cash and short-term notes. Over the past five years, our portfolio of invested assets generated an average annualized return after-tax of 3.18%, as follows:

Our Subsidiaries <sup>(1)</sup>	Annual Investment Returns				
	2012	2011	2010	2009	2008
<b>Total</b> .....	3.05%	3.74%	5.99%	7.55%	(3.87)%
Fixed Income .....	1.97%	4.88%	3.75%	2.94%	3.62%
Canadian Preferred Equity .....	5.65%	4.76%	9.51%	23.65%	(11.41)%
Canadian Common Equity .....	6.61%	1.26%	14.29%	18.91%	(21.64)%

Note:

(1) Returns are after-tax.

## RISK FACTORS

The risk factors related to the Company and our activities are described in the section under “Risk management – Main risk factors and mitigating actions” on pages 33 to 47 of our Management’s Discussion and Analysis for the year ended December 31, 2012, which pages are incorporated herein by reference.

## DIVIDENDS

As a holding company with no direct operations, we rely on cash dividends and other permitted payments from our subsidiaries and our own cash balances to pay dividends to our shareholders. The amount of dividends payable by our subsidiaries may be limited by applicable corporate and insurance law restrictions.

### *Common Shares*

During the year ended December 31, 2012, we paid four quarterly dividends in an aggregate amount of \$1.60 per Common Share. The payment of dividends is subject to the discretion of our Board of Directors and depends on, among other things, our financial condition, general business conditions, restrictions regarding the payment of dividends to us by our subsidiaries and other factors that our Board of Directors may in the future consider to be relevant.

The following table sets forth the dividends paid per share on the Common Shares in each of the three most recently completed fiscal years:

<b>Common Shares</b>		
<b>Announcement date</b>	<b>Payment date</b>	<b>Dividend amount</b>
February 17, 2010	March 31, 2010	\$0.34
May 5, 2010	June 30, 2010	\$0.34
August 5, 2010	September 30, 2010	\$0.34
November 3, 2010	December 31, 2010	\$0.34
February 9, 2011	March 31, 2011	\$0.37
May 4, 2011	June 30, 2011	\$0.37
August 4, 2011	September 30, 2011	\$0.37
November 2, 2011	December 30, 2011	\$0.37
February 8, 2012	March 30, 2012	\$0.40
May 1, 2012	June 29, 2012	\$0.40
August 1, 2012	September 29, 2012	\$0.40
November 7, 2012	December 31, 2012	\$0.40
February 6, 2013	March 28, 2013	\$0.44

The most recent decision to increase the dividend announced on February 6, 2013 reflects the Company's objective of returning value to shareholders, the strength of the Company's financial position and the quality of the Company's operating earnings. The Company has now increased its dividend for the eighth consecutive year.

***Series 1 Preferred Shares***

The Series 1 Preferred Shares were issued on July 12, 2011 and the first dividend paid was on September 30, 2011. The holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by our Board of Directors on a quarterly basis for the initial fixed rate period ending on December 31, 2017, based on an annual rate of 4.20%. We paid four quarterly dividends in an aggregate amount of \$1.05 per Series 1 Preferred Share during the year ended December 31, 2012.

The following table sets forth the dividends paid per share on the Series 1 Preferred Shares:

<b>Series 1 Preferred Shares</b>		
<b>Announcement date</b>	<b>Payment date</b>	<b>Dividend amount</b>
August 4, 2011	September 30, 2011	\$0.23014
November 2, 2011	December 30, 2011	\$0.2625
February 8, 2012	March 30, 2012	\$0.2625
May 1, 2012	June 29, 2012	\$0.2625
August 1, 2012	September 29, 2012	\$0.2625
November 7, 2012	December 31, 2012	\$0.2625
February 6, 2013	March 28, 2013	\$0.2625

### ***Series 3 Preferred Shares***

The Series 3 Preferred Shares were issued on August 18, 2011 and the first dividend paid was on September 30, 2011. The holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by our Board of Directors on a quarterly basis for the initial fixed rate period ending on September 30, 2016, based on an annual rate of 4.20%. We paid four quarterly dividends in an aggregate amount of \$1.05 per Series 3 Preferred Share during the year ended December 31, 2012.

The following table sets forth the dividends paid per share on the Series 3 Preferred Shares:

<b>Series 3 Preferred Shares</b>		
<b>Announcement date</b>	<b>Payment date</b>	<b>Dividend amount</b>
August 18, 2011	September 30, 2011	\$0.12370
November 2, 2011	December 30, 2011	\$0.2625
February 8, 2012	March 30, 2012	\$0.2625
May 1, 2012	June 29, 2012	\$0.2625
August 1, 2012	September 29, 2012	\$0.2625
November 7, 2012	December 31, 2012	\$0.2625
February, 6, 2013	March 28, 2013	\$0.2625

### **DESCRIPTION OF CAPITAL STRUCTURE**

Our authorized share capital currently consists of an unlimited number of Common Shares and an unlimited number of Class A shares. The following summary of share capital is qualified in its entirety by the Company's articles, by-laws, and the actual terms and conditions of such shares.

As at March 20, 2013, 133,333,665 Common Shares, 10,000,000 Series 1 Preferred Shares and 10,000,000 Series 3 Preferred Shares were issued and outstanding.

## **Common Shares**

Holders of Common Shares are entitled to receive dividends as and when declared by our Board of Directors and, unless otherwise provided by legislation, are entitled to one vote per Common Share on all matters to be voted on at all meetings of shareholders. Upon our voluntary or involuntary liquidation, dissolution or winding-up, the holders of Common Shares are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities. The Common Shares are listed on the TSX.

## **Class A Shares**

The Class A shares are issuable from time to time in one or more series. Our Board of Directors is authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the Class A shares of each series, which may include voting rights. The Class A shares of each series rank equally with the Class A shares of every other series and rank in priority to the Common Shares with respect to dividends and return of capital in the event of our liquidation, dissolution or winding-up.

### ***Series 1 Preferred Shares***

The Series 1 Preferred Shares are a series of Class A Shares limited in number to 10,000,000.

In addition to the rights, privileges, restrictions and conditions attaching to the Class A shares, the following is a summary of rights, privileges, restrictions and conditions attaching to the Series 1 Preferred Shares:

The issue price for each Series 1 Preferred Share is \$25.00.

The holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by our Board of Directors, on a quarterly basis for the initial fixed rate period ending on December 31, 2017, based on an annual rate of 4.20%. The dividend rate will be reset on December 31, 2017 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 1.72%.

The holders of the Series 1 Preferred Shares will have the right, at their option, to convert their Series 1 Preferred Shares into Series 2 Preferred Shares, subject to certain conditions, on December 31, 2017 and on December 31 every fifth year thereafter on the basis of one Series 2 Preferred Share for each Series 1 Preferred Share.

The Company may not redeem any of the Series 1 Preferred Shares prior to December 31, 2017. On December 31, 2017 and on December 31 every fifth year thereafter, but subject to certain conditions, the Company may redeem at any time all or from time to time any part of the Series 1 Preferred Shares then outstanding without the consent of the holders.

Except for specific situations as provided in the articles of incorporation and by legislation, the holders of Series 1 Preferred Shares are not entitled to receive notice of or to attend or to vote at any meeting of shareholders of the Company, unless and until the first time at which the Board of Directors has not declared the dividend in full on the Series 1 Preferred Shares.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company for the purpose of winding up its affairs, the holders of the Series 1 Preferred Shares will be entitled to receive \$25.00 for each Series 1 Preferred Share held by them plus any dividends declared and unpaid. After payment of those amounts, the holders of Series 1 Preferred Shares are not entitled to share in any further distribution of the property or assets of the Company.

Any approval to be given by the holders of the Series 1 Preferred Shares may be given by a resolution signed by all holders of the Series 1 Preferred Shares outstanding or by a resolution passed at a meeting of the holders at which holders of at least 25% of the outstanding Series 1 Preferred Shares are present or represented by proxy and carried by the affirmative vote of not less than 66 $\frac{2}{3}$ % of the votes cast by the holders, except that at an adjourned meeting there is no quorum requirement.

The Series 1 Preferred Shares are listed on the TSX.

### ***Series 2 Preferred Shares***

The Series 2 Preferred Shares are a series of Class A Shares limited in number to 10,000,000.

In addition to the rights, privileges, restrictions and conditions attaching to the Class A shares, the following is a summary of rights, privileges, restrictions and conditions attaching to the Series 2 Preferred Shares:

The Series 2 Preferred Shares are issuable upon conversion of the Series 1 Preferred Shares.

The issue price for each Series 2 Preferred Share is \$25.00.

The holders of Series 2 Preferred Shares will be entitled to receive floating rate non-cumulative preferential cash dividends, as and when declared by our Board of Directors, at a rate equal to the 90-day Canadian Treasury Bill rate plus 1.72%.

The holders of Series 2 Preferred Shares will have the right, at their option, to convert their Series 2 Preferred Shares into Series 1 Preferred Shares, subject to certain conditions, on December 31, 2022 and on December 31 every fifth year thereafter on the basis of one Series 1 Preferred Share for each Series 2 Preferred Share.

After December 31, 2017, but subject to certain conditions, the Company may redeem at any time all, or from time to time any part of, the Series 2 Preferred Shares then outstanding without the consent of the holders.

Except for specific situations as provided in the articles of incorporation and by legislation, the holders of Series 2 Preferred Shares will not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of the Company unless and until the first time at which the Board of Directors has not declared the dividend in full on the Series 2 Preferred Shares.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company, the holders of the Series 2 Preferred Shares will be entitled to receive \$25.00 for each Series 2 Preferred Share held by them plus any dividends declared and unpaid. After payment of those amounts, the holders of Series 2 Preferred Shares are not entitled to share in any further distribution of the property or assets of the Company.

Any approval to be given by the holders of the Series 2 Preferred Shares may be given by a resolution signed by all holders of the Series 2 Preferred Shares outstanding or by a resolution passed at a meeting of the holders at which holders of at least 25% of the outstanding Series 2 Preferred Shares are present or represented by proxy and carried by the affirmative vote of not less than 66 $\frac{2}{3}$ % of the votes cast by the holders, except that at an adjourned meeting there is no quorum requirement.

### ***Series 3 Preferred Shares***

The Series 3 Preferred Shares are a series of Class A Shares limited in number to 10,000,000.

In addition to the rights, privileges, restrictions and conditions attaching to the Class A shares, the following is a summary of rights, privileges, restrictions and conditions attaching to the Series 3 Preferred Shares:

The issue price for each Series 3 Preferred Share is \$25.00.

The holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by our Board of Directors, on a quarterly basis for the initial fixed rate period ending on September 30, 2016, based on an annual rate of 4.20%. The dividend rate will be reset on September 30, 2016 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 2.66%.

The holders of Series 3 Preferred Shares will have the right, at their option, to convert their Series 3 Preferred Shares into Series 4 Preferred Shares, subject to certain conditions, on September 30, 2016 and on September 30 every five years thereafter on the basis of one Series 4 Preferred Share for each Series 3 Preferred Share.

The Company may not redeem any of the Series 3 Preferred Shares prior to September 30, 2016. On September 30, 2016 and on September 30 every fifth year thereafter, but subject to certain conditions, the Company may redeem at any time all or from time to time any part of the Series 3 Preferred Shares then outstanding without the consent of the holders.

Except for specific situations as provided in the articles of incorporation and by legislation, the holders of Series 3 Preferred Shares are not entitled to receive notice of or to attend or to vote at any meeting of shareholders of the Company, unless and until the first time at which the Board of Directors has not declared the dividend in full on the Series 3 Preferred.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company for the purpose of winding-up its affairs, the holders of the Series 3 Preferred Shares will be entitled to receive \$25.00 for each Series 3 Preferred Shares held by them, plus any dividends declared and unpaid. After payment of those amounts, the holders of Series 3 Preferred Shares are not entitled to share in any further distribution of the property or assets of the Company.

Any approval to be given by the holders of the Series 3 Preferred Shares may be given by a resolution signed by all holders of the Series 3 Preferred Shares outstanding or by a resolution passed at a meeting of the holders at which holders of at least 25% of the outstanding Series 3 Preferred Shares are present or represented by proxy and carried by the affirmative vote of not less than 66⅔% of the votes cast by the holders, except that at an adjourned meeting there is no quorum requirement.

The Series 3 Preferred Shares are listed on the TSX.

### ***Series 4 Preferred Shares***

The Series 4 Preferred Shares are a series of Class A Shares limited in number to 10,000,000.

In addition to the rights, privileges, restrictions and conditions attaching to the Class A shares, the following is a summary of rights, privileges, restrictions and conditions attaching to the Series 4 Preferred Shares:

The Series 4 Preferred Shares are issuable upon conversion of the Series 3 Preferred Shares.

The issue price for each Series 4 Preferred Share is \$25.00.

The holders of Series 4 Preferred Shares will be entitled to receive floating rate non-cumulative preferential cash dividends, as and when declared by our Board of Directors, at a rate equal to the 90-day Canadian Treasury Bill rate plus 2.66%.

The holders of Series 4 Preferred Shares will have the right, at their option, to convert their Series 4 Preferred Shares into Series 3 Preferred Shares, subject to certain conditions, on September 30, 2021 and on September 30 in every fifth year thereafter on the basis of one Series 3 Preferred Share for each Series 4 Preferred Share.

After September 30, 2016, but subject to certain conditions, the Company may redeem at any time all, or from time to time any part of, the Series 4 Preferred Shares then outstanding without the consent of the holders.

Except for specific situations as provided in the articles of incorporation and by legislation, the holders of Series 4 Preferred Shares will not be entitled to receive notice of or to attend or to vote at any meeting of shareholders of the Company, unless and until the first time at which the Board of Directors has not declared the dividend in full on the Series 4 Preferred Shares.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company, the holders of the Series 4 Preferred Shares will be entitled to receive \$25.00 for each Series 4 Preferred Share held by them plus any dividends declared and unpaid. After payment of those amounts, the holders of Series 4 Preferred Shares are not entitled to share in any further distribution of the property or assets of the Company.

Any approval to be given by the holders of the Series 4 Preferred Shares may be given by a resolution signed by all holders of the Series 4 Preferred Shares outstanding or by a resolution passed at a meeting of the holders at which holders of at least 25% of the outstanding Series 4 Preferred Shares are present or represented by proxy and carried by the affirmative vote of not less than 66 $\frac{2}{3}$ % of the votes cast by the holders, except that at an adjourned meeting there is no quorum requirement.

The terms and conditions of the Common Shares, of the Class A shares (as a class), of the Series 1 Preferred Shares, of the Series 2 Preferred Shares, of the Series 3 Preferred Shares and of the Series 4 Preferred Shares are available electronically at [www.sedar.com](http://www.sedar.com).

### **Shareholder Rights Plan**

As described above, the Company entered into its Shareholder Rights Plan Agreement dated as of February 9, 2011, with Computershare Investor Services Inc.

#### ***Summary of Shareholder Rights Plan***

The material terms of the Shareholder Rights Plan are summarized below. This summary is qualified in its entirety by reference to the actual provisions of the Shareholder Rights Plan, a copy of which is available on the SEDAR web site at [www.sedar.com](http://www.sedar.com) or upon request from the Office of the Corporate Secretary of the Company. Certain definitions of the Shareholder Rights Plan have been summarized below for ease of reference.

#### ***Issue of Rights***

The Shareholder Rights Plan is effective as of February 9, 2011. One right (a “Right”) attaches in respect of each Common Share outstanding immediately following the close of

business on February 9, 2011 (the “Record Time”). The Company will issue Rights on the same basis for each Common Share issued after the Record Time and before the earlier of the Separation Time and the Expiration Time.

### ***The Rights***

Each Right will entitle the holder, subject to the terms and conditions of the Shareholder Rights Plan, to purchase additional Common Shares after the Separation Time.

### ***Exercise of Rights***

The Rights may not be exercised before the Separation Time.

After the Separation Time and before the Expiration Time, each Right entitles the holder to acquire one Common Share for an exercise price equal to four times the market price of the common shares as determined at the Separation Time (subject to certain anti-dilution adjustments).

If a Flip-in Event occurs before the Expiration Time, each Right (other than the Rights held by an Acquiring Person which become null and void on the occurrence of the Flip-in Event) may be exercised to purchase that number of Common Shares having an aggregate market price equal to twice the exercise price for an amount in cash equal to the exercise price (subject to certain anti-dilution adjustments).

### ***Redemption of Rights***

All (but not less than all) of the Rights may be redeemed by the Company with the prior approval of the shareholders at any time before a Flip-in Event occurs at a redemption price of \$0.00001 per Right (subject to adjustment). In addition, if a Permitted Bid, a Competing Permitted Bid or a bid in respect of which the Board of Directors has waived the operation of the Shareholder Rights Plan is completed, the Company will immediately, and without further formality, redeem the Rights at the redemption price.

### ***Waiver***

The Board of Directors may, at any time before an acquisition of Common Shares under a take-over bid made by a take-over bid circular to all registered holders of Common Shares that would trigger a Flip-in Event, waive the application of the “Flip-in” provisions of the Shareholder Rights Plan to the acquisition. The Board of Directors may, with the prior approval of the shareholders, at any time before any other acquisition of Common Shares that would trigger a Flip-in Event, waive the application of the “Flip-in” provisions of the Shareholder Rights Plan to the acquisition.

### ***Term of Shareholder Rights Plan***

Unless otherwise terminated, the Shareholder Rights Plan will expire at the Expiration Time.

### ***Fiduciary Duties of the Board of Directors***

The Shareholder Rights Plan will not detract from or lessen the duty of the Board of Directors to act honestly and in good faith with a view to the best interests of the Company and its shareholders. The Board of Directors will continue to have the duty and power to take such actions and make such recommendations to the Company’s shareholders as are considered appropriate.

### ***Amending Power***

If the Shareholder Rights Plan is approved by the shareholders of the Company, all amendments to the Shareholder Rights Plan, other than amendments to correct clerical or typographical errors and amendments to maintain the validity of the Shareholder Rights Plan as a result of a change of applicable legislation or applicable rules or policies of securities regulatory authorities, must be approved by a majority of the votes cast by shareholders, other than an offeror under a take-over bid or an Acquiring Person (or any associate or affiliate of the offeror or the Acquiring Person or any other person acting jointly or in concert with the offeror or the Acquiring Person). In addition, all amendments to the Shareholder Rights Plan require the written concurrence of the Rights Agent and prior written consent of the TSX (as applicable).

### ***Definitions***

#### ***Acquiring Person***

Subject to certain exceptions, an Acquiring Person is a person who becomes the Beneficial Owner of 20% or more of the outstanding Common Shares.

#### ***Beneficial Owner***

A person is a Beneficial Owner of Common Shares if the person (or any associate or affiliate of the person or any other person acting jointly or in concert with the person) legally or beneficially owns Common Shares or has the right to acquire (immediately or within 60 days) Common Shares upon the exercise of any convertible securities or pursuant to any agreement, arrangement or understanding.

A person is not a Beneficial Owner of Common Shares if the person is engaged in the management of mutual funds, investment funds or public assets for others (e.g., a fund manager, trust company, pension fund administrator, trustee or a registered broker or dealer administering non-discretionary client accounts), as long as the person:

- (a) holds the Common Shares in the ordinary course of its business for the account of others; and
- (b) is not making a take-over bid or acting jointly or in concert with a person who is making a take-over bid.

#### ***Separation Time***

The Separation Time occurs on the tenth trading day after the earliest of:

- (a) the first date of a public announcement that a person has become an Acquiring Person;
- (b) the date of the commencement or announcement of the intent of a person to commence a take-over bid, other than a Permitted Bid or Competing Permitted Bid; and
- (c) the date on which a take-over bid ceases to be a Permitted Bid or Competing Permitted Bid;

(or, in the case of (b) or (c), such later date as the Board of Directors may determine in good faith).

#### ***Expiration Time***

If the shareholders approve the Shareholder Rights Plan, the Expiration Time will occur on the earliest of:

- (a) the time at which the right to exercise the Rights terminates in accordance with the Shareholder Rights Plan;

(b) immediately after the annual meeting of shareholders to be held in 2014 and every third year thereafter unless the Shareholder Rights Plan is reconfirmed at that meeting; and

(c) the tenth anniversary of the date the Shareholder Rights Plan was adopted by the Board of Directors.

#### *Flip-in Event*

A Flip-in Event occurs when a person becomes an Acquiring Person.

Upon the occurrence of a Flip-in Event, any Rights that are legally or beneficially owned by an Acquiring Person, will become null and void. As a result, the Acquiring Person's ownership interest in Intact Financial Corporation will be greatly diluted if a substantial portion of the Rights are exercised after a Flip-in Event occurs.

#### *Permitted Bid*

A Permitted Bid is a take-over bid that satisfies the following conditions:

- (a) the bid is made to all holders of Common Shares (other than the offeror);
- (b) the offeror agrees that no Common Shares will be taken up or paid for under the bid for at least 60 days following the commencement of the bid;
- (c) the offeror agrees that no Common Shares will be taken up or paid for under the bid unless, at the time of take-up or payment, more than 50% of the outstanding Common Shares held by shareholders, other than the offeror (or any associate or affiliate of the offeror or any other person acting jointly or in concert with the offeror), have been deposited pursuant to the bid and not withdrawn;
- (d) the offeror agrees that the Common Shares may be deposited to and withdrawn from the bid at any time before Common Shares are taken up and paid for; and
- (e) if, on the date specified for take-up and payment, condition (c) is satisfied, the bid will remain open for an additional period of at least 10 business days to permit the remaining shareholders to tender their Common Shares.

#### *Competing Permitted Bid*

A Competing Permitted Bid is a take-over bid that satisfies the following conditions:

- (a) the bid is made after the commencement and before the expiry of a Permitted Bid;
- (b) the bid satisfies all the conditions of a Permitted Bid other than Permitted Bid condition (b); and
- (c) the offeror agrees that no Common Shares will be taken up or paid for under the bid before the close of business on a date that is not earlier than the later of:
  - (i) 35 days after the date of the Competing Permitted Bid, and
  - (ii) the 60th day after the date on which the earliest prior bid was made.

## Ratings

The following table sets out ratings the Company has received for its outstanding securities from approved rating organizations as at March 20, 2013.

Security \ Approved Rating organization	Dominion Bond Rating Service (“DBRS”)	Moody’s Investors Service, Inc. (“Moody’s”)
	<u>Rating and Trend / Outlook</u> (*Description below)	<u>Rating and Trend / Outlook</u> (*Description below)
Series 1 Notes	A (low) / Stable	Baa1 / Stable
Series 2 Notes	A (low) / Stable	Baa1 / Stable
Series 3 Notes	A (low) / Stable	Baa1 / Stable
Series 4 Notes	A (low) / Stable	Baa1 / Stable
Series 5 Notes	A (low) / Stable	Baa1 / Stable
Series 1 Preferred Shares	Pdf-2 (low) / Stable	-
Series 3 Preferred Shares	Pfd-2 (low) / Stable	-

### DBRS Ratings

The rating A (low) rating is the third-highest of the ten rating categories for long-term ratings. According to DBRS, debt securities rated “A” are of satisfactory credit quality and protection of interest and principal is considered substantial, but the degree of strength is less than that of AA rated entities. A reference to “high” or “low” reflects the relative strength within the rating category.

The ranking Pdf-2 (low) is the second-highest of the six categories for preferred shares ratings. According to DBRS, preferred shares rated “Pfd-2” are of satisfactory credit quality and the protection of dividends and principal is still substantial, but the earnings, the balance sheet, and the coverage ratios are not as strong as Pfd-1 rated companies. A reference to “high” or “low” reflects the relative strength within the rating category.

### Moody’s Ratings

The rating Baa1 is the fourth-highest of the nine categories related to long-term ratings. Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. The numerical modifier “1” in the Baa rating reflects a ranking in the higher end of the Baa category, where such numerical modifiers range from 1 in the higher end of the category to 3 at the lower end.

As is customary, the Company paid fees to DBRS and Moody’s to obtain its ratings and expects to pay similar fees in the future. The Company has, or may also have paid fees over the past two years for certain other services offered by these credit rating agencies in the ordinary course of business.

A security rating or a stability rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

## MARKET FOR SECURITIES

Our Common Shares are listed for trading on the TSX under the symbol “IFC”. On March 20, 2013, the closing sale price of a Common Share on the TSX was \$65.00.

Our Series 1 Preferred Shares are listed for trading on the TSX under the symbol “IFC.PR.A”. On March 20, 2013, the closing sale price of a Series 1 Preferred Share on the TSX was \$26.44.

Our Series 3 Preferred Shares are listed for trading on the TSX under the symbol “IFC.PR.C”. On March 20, 2013, the closing sale price of a Series 3 Preferred Share on the TSX was \$26.45.

### Trading Price and Volume

The volume of trading and the price ranges of the Common Shares, of the Series 1 Preferred Shares, of the Series 3 Preferred Shares and of the Subscription Receipts for the periods indicated below are set forth in the following tables.

<b>Common Shares</b>			
	<b>Price Range</b>		
<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
<b>2013</b>			
March (up to and including March 20)	\$66.35	\$63.36	2,907,047
February	\$66.24	\$61.65	6,544,274
January	\$66.82	\$63.40	3,259,541
<b>2012</b>			
December	\$65.13	\$62.76	3,775,093
November	\$64.35	\$60.07	4,469,601
October	\$61.78	\$58.25	4,632,041
September	\$60.78	\$57.61	5,575,371
August	\$64.35	\$59.43	5,080,402
July	\$64.69	\$61.72	3,104,285
June	\$63.74	\$60.00	5,153,745
May	\$65.00	\$62.60	7,121,270
April	\$63.84	\$59.58	5,492,515
March	\$61.34	\$57.37	4,881,792
February	\$61.69	\$58.55	3,712,690
January	\$59.79	\$55.65	4,461,800

<b><u>Series 1 Preferred Shares</u></b>			
	<b><u>Price Range</u></b>		
<b><u>Period</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume</u></b>
<b>2013</b>			
March (up to and including March 20)	\$27.16	\$26.01	108,311
February	\$26.74	\$25.90	338,194
January	\$26.44	\$25.78	288,644
<b>2012</b>			
December	\$26.15	\$25.70	171,614
November	\$25.89	\$25.23	279,809
October	\$25.69	\$25.15	1,053,648
September	\$25.79	\$25.31	133,396
August	\$25.99	\$25.55	119,414
July	\$25.83	\$25.30	157,809
June	\$25.60	\$25.10	213,280
May	\$25.85	\$25.11	225,260
April	\$25.86	\$25.37	295,351
March	\$25.88	\$25.07	217,918
February	\$25.89	\$25.05	162,607
January	\$25.86	\$25.01	400,204

<b>Series 3 Preferred Shares</b>			
<b>Period</b>	<b>Price Range</b>		<b>Volume</b>
	<b>High</b>	<b>Low</b>	
<b>2013</b>			
March (up to and including March 20)	\$27.24	\$26.10	116,935
February	\$26.79	\$26.10	279,983
January	\$26.75	\$25.99	493,279
<b>2012</b>			
December	\$26.59	\$26.01	262,023
November	\$26.25	\$25.52	165,292
October	\$25.95	\$25.52	110,582
September	\$26.08	\$25.50	88,082
August	\$26.20	\$25.74	95,859
July	\$26.09	\$25.52	82,512
June	\$25.90	\$25.41	121,751
May	\$26.14	\$25.55	190,780
April	\$26.20	\$25.45	255,708
March	\$26.23	\$25.31	217,932
February	\$26.17	\$25.20	244,263
January	\$25.99	\$25.17	387,360

<b>Subscription Receipts<sup>4</sup></b>			
<b>Period</b>	<b>Price Range</b>		<b>Volume</b>
	<b>High</b>	<b>Low</b>	
<b>2012</b>			
September (up to and including September 5)	\$60.98	\$60.52	400
August	\$64.20	\$59.59	78,316
July	\$64.55	\$61.98	58,228
June	\$63.50	\$60.03	151,289
May (starting and including May 11)	\$64.44	\$62.00	1,068,310

## **DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets out, for each of our directors and executive officers, their name, municipality of residence, respective position and office held within the Company, principal occupation and, if a director, the date on which the person became a director. Unless otherwise noted, each of the directors of the Company will serve until the Annual Meeting of Shareholders, which is scheduled to be held on May 8, 2013 (the “Annual Meeting”). Each director and executive officer listed has held the principal occupation indicated during the past five years except as otherwise indicated hereunder.

<sup>4</sup> The Subscription Receipts commenced trading on the TSX on May 11, 2012 and were delisted as at the close of business on September 5, 2012 following their conversion on a one-for-one basis into Common Shares of the Company.

<b>Name and Residence</b>	<b>Position with the Company</b>	<b>Principal Occupation</b>	<b>Director of the Company or Predecessors Since</b>
Claude Dussault Québec, Québec, Canada	Director and Chair	President, ACVA Investing Corporation	March 28, 2000
Charles Brindamour <sup>(4)</sup> Toronto, Ontario, Canada	Director and Chief Executive Officer	Chief Executive Officer, Intact Financial Corporation	January 1, 2008
Yves Brouillette <sup>(1),(2)</sup> Montréal, Québec, Canada	Independent Director	Corporate Director and President, Placements Beluca Inc.	October 10, 1989
Paul Cantor <sup>(3),(4)</sup> Toronto, Ontario, Canada	Independent Director	Senior Advisor, Bennett Jones LLP	May 1, 2006
Marcel Côté <sup>(2),(3)</sup> Montréal, Québec, Canada	Independent Director	Strategic Advisor, KPMG-Secor	December 14, 2004
Robert W. Crispin <sup>(1),(4)</sup> Scarborough, Maine, USA	Independent Director	Corporate Director	October 26, 2004
Eileen Mercier <sup>(1),(4)</sup> Toronto, Ontario, Canada	Independent Director	Chair and Board Member, Ontario Teachers' Pension Plan	December 14, 2004
Timothy H. Penner <sup>(2),(3)</sup> Toronto, Ontario, Canada	Independent Director	Corporate Director	May 5, 2010
Louise Roy <sup>(2),(3)</sup> Montréal, Québec, Canada	Independent Director	Chancellor and Chair of the Board, Université de Montréal and invited Fellow, Center for Interuniversity Research and Analysis on Organizations	December 14, 2004
Stephen G. Snyder <sup>(1),(2)</sup> Calgary, Alberta, Canada	Independent Director	Corporate Director	May 13, 2009
Carol Stephenson <sup>(2),(3)</sup> London, Ontario, Canada	Independent Director	Dean, Richard Ivey School of Business, Western University	December 14, 2004
Jean-François Blais, Montréal, Québec, Canada	President, Intact Insurance Company	President, Intact Insurance Company	-
Claude Désilets St-Denis-sur-Richelieu, Québec, Canada	Senior Vice-President and Chief Risk Officer	Senior Vice-President and Chief Risk Officer, Intact Financial Corporation	-
Louis Gagnon Montréal, Québec, Canada	President and Chief Operating Officer	President and Chief Operating Officer, Intact Financial Corporation	-
Françoise Guénette Toronto, Ontario, Canada	Senior Vice-President, Corporate and Legal Services, and Secretary	Senior Vice-President, Corporate and Legal Services, and Secretary, Intact Financial Corporation	-
Marc Provost Mont-Royal, Québec, Canada	Senior Vice-President and Chief Investment Officer	Senior Vice-President, Managing Director and Chief Investment Officer, Intact Investment Management Inc.	-
Mark A. Tullis Toronto, Ontario, Canada	Senior Vice-President and Chief Financial Officer	Senior Vice-President and Chief Financial Officer, Intact Financial Corporation	-

#### Notes

- (1) Denotes member of the Audit and Risk Review Committee
- (2) Denotes member of the Conduct Review and Corporate Governance Committee
- (3) Denotes member of the Human Resources Committee
- (4) Denotes member of the Investment Committee

Descriptions of the respective principal occupations during the five preceding years for our directors listed above, with the exception of Mr. Cantor and Mr. Côté, who will not seek re-election at the Annual Meeting, can be found in the section under “Business of the Meeting – Election of the Board of Directors” at pages 5 to 11 of our Management Proxy Circular dated March 28, 2013, which pages are incorporated herein by reference. Our Management Proxy Circular is also available in the Investor Relations section of our web site ([www.intactfc.com](http://www.intactfc.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)).

#### **Directors of the Company**

**Paul Cantor.** Mr. Cantor is Senior Advisor at Bennett Jones LLP. He is Board Chair of the Global Risk Institute for Financial Services and of Revera Inc. He held previous positions as Board Chair of PSP Investments, Chair of the Board of Governors at York University, Chairman and CEO of National Trust Company, Chair of the Board Risk Committee at ING Bank of Canada and earlier held other senior executive positions in the financial services sector. He has also served on the board of directors of a number of publicly-traded and/or large financial institutions. He was Managing Partner and then Chair of Russell Reynolds Associates Canada. His public sector service includes establishing and serving as the first executive director of the World Bank-Canadian government sponsored Toronto International Leadership Centre for Financial Sector Supervision, as well as serving with the Department of Finance of the Government of Canada. Paul Cantor obtained a Bachelor of Arts from the University of Alberta and a law degree from the University of Toronto. He is also a Fellow of the Institute of Canadian Bankers. Mr. Cantor has been a member of the Company’s Board of Directors since 2006.

**Marcel Côté.** Mr. Côté is the founder of Secor Inc., a Montreal-based consulting firm specializing in business strategy which he founded in 1975, where he was a Senior Partner until July 31, 2012, when it merged with KPMG Canada. Mr. Côté currently serves as strategic advisor and consultant of the firm. He previously served as director of several other public corporations. In 1989 and 1990, he was Director of Strategic Planning and Communication for the Office of the Prime Minister of Canada. From 1986 to 1988, he worked as an economic advisor to the Premier of Québec. Active in the community affairs, Mr. Côté serves on the Board of the Montreal Symphony Orchestra, the McCord Museum, the National Art Center and Compagnie de danse Marie Chouinard, which he chairs. In the past, he has served on the Boards of various public policy think tanks and has chaired the Board of the Public Policy Forum and of the Greater Montreal Community Foundation. Mr. Côté holds an M.Sc. in Economics from the Graduate School of Industrial Administration of Carnegie Mellon University in Pittsburgh, Pennsylvania. He is also a Fellow of the Center for International Affairs of Harvard University. Mr. Côté has also taught at the Université de Sherbrooke and the Université du Québec à Montréal. Mr. Côté was appointed as a member of Intact Financial Corporation’s former Advisory Board in 1999, and was previously a member of our Board of Directors from 1997 to 1999. He has also served as a Director of the Company since 2004.

#### **Officers of the Company**

**Jean-François Blais.** Mr. Blais was named President of Intact Insurance in September 2011 after leading all aspects of AXA’s operations in Canada for seven years as President and Chief Executive Officer and Director. Mr. Blais has been in the insurance business for more than

20 years. He began his career in 1988 as an Actuary with AXA Canada. In 1996, he was appointed Vice President, Underwriting and Personal Lines and, in 2000 Executive Vice President of AXA Assurances in Quebec. In 2004 he became President and Chief Executive Officer of AXA Canada and was also named to the company's Board of Directors. He held these positions until his appointment as President of Intact Insurance. Mr. Blais also sat on the Board of Directors of the Insurance Bureau of Canada from 2004 to 2011. A graduate of Université Laval in Actuarial Science, Mr. Blais is a Fellow of the Casualty Actuarial Society and the Canadian Institute of Actuaries.

**Claude Désilets.** Mr. Désilets joined the Company in November 1989 and has held the position of Appointed Actuary of the P&C Companies at the Company since January 1993. He was named Chief Risk Officer of the Company in January 2007. Before joining the Company, he occupied various actuarial functions for two Canadian property and casualty insurance companies. From 1992 to 1997, Mr. Désilets also taught actuarial science at l'Université de Montréal. Mr. Désilets graduated from l'Université Laval (Québec) in 1982 with a Bachelor of Actuarial Sciences degree and is a Fellow of both the Casualty Actuarial Society and Canadian Institute of Actuaries.

**Louis Gagnon.** Mr. Gagnon was appointed President and Chief Operating Officer of Intact Financial Corporation in September 2011. In this role, Mr. Gagnon oversees claims and information technology, two areas that are key touch points to the customers' and brokers' experience. He is also responsible for the company's investments in distribution and its international growth initiatives. He also oversees strategy development, communications and audit. Before assuming this current role, Mr. Gagnon was President of Intact Insurance from 2008 to 2011. He joined Intact Insurance as Senior Vice-President, Québec division in January 2007. Before joining the Company, he was heading a successful brokerage, with offices in Québec and Ontario, and was active within the provincial and national brokers' associations. After working several years in the banking and consulting businesses, Mr. Gagnon began his insurance career in 1992. Mr. Gagnon was a member of the board of directors of the Regroupement des cabinets de courtage d'assurance du Québec (RCCAQ); he held the position of President of the RCCAQ from 2005 to 2006. During the same period he also acted as Director of the Insurance Brokers Association of Canada. Mr. Gagnon earned a B.A. in Economic Science from the Université de Montréal and an MBA from the University of Ottawa.

**Françoise Guénette.** Ms. Guénette has held her current positions that include compliance since joining the Company in 1997; in addition, she was responsible for Risk Management from 2004 to the beginning of 2007 and is Chair of the Disclosure Committee. She has also chaired the Institutional Litigation and Regulatory Committee since 2001. Prior to joining the Company, Ms. Guénette was the Chief General Counsel and Head of Corporate Services for a number of different corporations, including a large bank and a financial group in Canada. She also taught insurance at l'Université de Montréal. She was Governor of l'Université du Québec from 1988 to 1992 and held various positions at the Conservation and Environmental Board of the Province of Québec between 1988 and 1993, including being Chair from 1992 to 1993. She is currently a director of l'Université de Montréal and a member of the Human Resources Committee and Compliance Committee. Ms. Guénette has a law degree from McGill University, and is a member of the Québec Bar and the Law Society of Upper Canada.

**Marc Provost.** Mr. Provost has been Senior Vice-President, Managing Director and Chief Investment Officer of IIM since 2005. Prior to that, he was Vice-President and Chief Investment Officer of IIM. From 2001 to 2004 he was Vice-President, Canadian Equity Market at the Caisse de dépôt et placement du Québec. Mr. Provost has been involved in the investment industry since 1983. He is a Chartered Financial Analyst. He earned his Bachelor's Degree from Université de Montréal's École des Hautes Études Commerciales (HEC), where he received the Loewen

Ondaatje Scholarship for academic excellence. He received his Institute of Corporate Directors Designation (ICD.D) in 2010. He is also a member of the Audit and Investment Committee of Foundation Echo.

**Mark A. Tullis.** Prior to joining the Company in January 2006, Mr. Tullis was President of Institutional Businesses of ING Americas, and has held several other senior executive positions since joining ING Americas in September 1999. Prior to joining the ING group of companies, Mr. Tullis was Executive Vice-President and Chief Actuary with Primerica, a subsidiary of Citigroup, from 1994 to 1999, where he was responsible for financial reporting, actuarial functions and reinsurance functions in connection with various Primerica companies. Mr. Tullis has more than 30 years experience in senior positions within the insurance industry. Mr. Tullis holds a Bachelor of Mathematical Sciences degree. Mr. Tullis served as a director of the Company’s federal P&C insurance subsidiaries from 2000 to the beginning of 2006.

### Committees of the Board of Directors

Our Board of Directors has established four committees which are described below. They, along with the Board of Directors and the boards of directors of our P&C insurance subsidiaries ensure that the composition of the committees meet applicable statutory independence requirements as well as any other applicable legal and regulatory requirements.

#### *Audit and Risk Review Committee*

The Audit and Risk Review Committee is composed of Eileen Mercier as Chair, Yves Brouillette, Robert W. Crispin and Stephen G. Snyder, each of whom is independent and financially literate. The education and experience of each member is described as part of their respective biographies in the section under “Business of the Meeting – Election of the Board of Directors” at pages 5 to 11 of our Management Proxy Circular dated March 28, 2013, which pages are incorporated herein by reference. The Mandate of the Audit and Risk Review Committee is attached as **Appendix A** to this Annual Information Form.

As part of the Company’s corporate governance practices, the Audit and Risk Review Committee has adopted a policy restricting non-audit services that may be provided by Ernst & Young LLP (“E&Y” or the “External Auditor”) to the Company or its subsidiaries. Prior to the engagement of the External Auditor for non-audit services, the committee must pre-approve the provision of such services with due consideration to avoiding an impact on auditor independence. This includes consideration of applicable regulatory requirements and guidance and the Company’s own internal policies. All services provided by E&Y during the past two years have received the approval of the Board of Directors further to the recommendation of the committee. Fees paid to the External Auditor for 2011 and 2012 are as follows.

#### *External Auditor Service Fees* (in thousands of dollars)

	<u>2012</u>	<u>2011</u>
Audit Fees <sup>(1)</sup> .....	2,026	2,267
Audit-Related Fees <sup>(2)</sup> .....	514	346
Tax Fees <sup>(3)</sup> .....	278	376
All Other Fees <sup>(4)</sup> .....	342	579
<b>Total</b> .....	<b><u>3,160</u></b>	<b><u>3,568</u></b>

\* 2011 fees have been revised against previous disclosure to reflect the same basis on which fees were charged in 2012 and to reflect final figures.

Notes:

- (1) Audit Fees include fees for professional services for the audit of the Company's financial statements and those of its subsidiaries or other services that are normally provided by external auditors in connection with statutory and regulatory filings or engagements, including internal control audit and reviews.
- (2) Audit-Related Fees are for assurance and related services performed by the External Auditor. These services include pension fund audits, accounting consultations in connection with acquisitions and divestitures and interpretation of financial accounting and reporting standards, including IFRS, and other attest services not required by statute or regulation.
- (3) Tax Fees are for assistance with tax compliance, tax planning, and tax advice related to restructurings and tax audits and appeals related thereto.
- (4) All Other Fees include those related to the financing and integration of AXA Canada Inc. and Jevco Insurance Company, as well as to translation services.

***Conduct Review and Corporate Governance Committee***

This committee is composed of independent members of our Board of Directors and is chaired by an independent director. The Conduct Review and Corporate Governance committee (the "CRCG Committee") ensures that management has established procedures to ensure that permitted transactions with "related persons" are on terms and conditions at least as favourable as market. The committee's responsibilities include reviewing applicable procedures and their effectiveness as well as our practices to ensure that related party transactions that may have a material effect on our stability or solvency are identified. The CRCG committee reviews our compliance programs that cover market conduct, the ombudsman office, privacy office, conflict of interest, relationships with clients and brokerages and relationships with regulatory authorities. The committee is the nominating committee for the Board of Directors and assesses the performance of our Board of Directors and its committees. The Committee also reviews practices and approaches in relation to the Company's directors' compensation and makes its recommendation to the Board of Directors in this regard. This committee reports to our Board of Directors on related party transactions and other matters. The committee monitors ongoing developments regarding corporate governance and may seek independent expert advice when appropriate.

***Human Resources Committee***

This committee is composed of independent members of our Board of Directors. Our Human Resources committee (the "HR Committee") reviews and makes recommendations to the Board of Directors regarding the assessment and compensation of our chief executive officer, employee compensation matters, including in respect of pension funds and incentive plans or other compensation plan for our officers, and succession planning. The committee also reviews and assesses management's proposals with respect to human resources policies and major reorganizations of the Company that affect the management structure and composition, and makes recommendations to management and to the Board of Directors in this regard.

***Investment Committee***

This committee is composed of a majority of independent members of our Board of Directors with expertise in capital markets and related areas and is chaired by an independent director. The role of this committee is to advise the Company on the investment strategies that are appropriate in the context of the Company and its subsidiaries' activities. The main functions of this committee are to recommend to the Board of Directors the adoption of investment policies aimed at supporting the Company, its subsidiaries and its pension funds in meeting their financial obligations while achieving added value over time and minimizing the potential for large losses.

### ***Other Committees***

Our Board of Directors has also established three other committees composed of members of senior management that report to our Board of Directors or one of its committees.

These management committees are: the enterprise risk committee; the pension committee, which reports to the HR Committee in respect of pension funds benefits, to the investment committee in respect of the invested assets of the pension funds and to the CRCG committee in respect of its governance framework; and the disclosure committee, which oversees the Company's disclosure practices and procedures, maintains awareness and understanding of corporate disclosure rules and guidelines, educates and informs employees about the Company's disclosure practices, determines whether corporate developments constitute material information and reviews and approves all material disclosure releases or statements of the Company.

Further information is available with respect to the enterprise risk committee in the section under "Risk management – Risk management structure" on page 34 of our Management's Discussion and Analysis for the year ended December 31, 2012, which page is incorporated herein by reference.

### **Shareholdings of Directors and Executive Officers**

To the knowledge of the Company, as at March 20, 2013, our directors and executive officers as a group, beneficially owned, directly or indirectly, or exercised control or direction over 314,606 of the outstanding Common Shares, representing 0.23% of the total number of Common Shares of the Company issued and outstanding.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Company, no director or executive officer of the Company, is, or has been in the last ten years, a director, chief executive officer or chief financial officer of any company that was subject to a cease trade order or similar order or an order that denied the issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days, (a) while that person was acting as a director, chief executive officer or chief financial officer or (b) after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting as a director, chief executive officer or chief financial officer. Further, to the knowledge of the Company, no director or executive officer of the Company, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company is, or has been within the last ten years, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets except for the following:

*Eileen Mercier*, a Director of the Company, served as a director of Shermag Inc. until August 9, 2007. On May 5, 2008, Shermag Inc. announced that it had obtained protection under the CCAA from the Québec Superior Court. Shermag Inc. closed a transaction with Groupe Bermex Inc. and implemented a plan of arrangement in October 2009 allowing it to emerge from the CCAA proceedings. The transaction enabled Groupe Bermex Inc. to take control of Shermag Inc. and to pursue its restructuring and relaunching.

To the knowledge of the Company, no director or executive officer of the Company, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has, within the last ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any

proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

### **Conflicts of Interest**

To the knowledge of the Company, no director or executive officer of the Company has an existing or potential material conflict of interest with the Company or any of its subsidiaries.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

In the normal course of carrying on our business, we become the subject of claims and are involved in various legal proceedings. We are not currently involved in any material legal proceedings, nor are we aware of any pending or threatened proceedings or claims for damages, where we believe the amount would exceed ten per cent of the current assets of the Company or would have a material adverse effect upon our financial condition or results of operations. We believe we have established adequate reserves in respect of legal proceedings to which we are a party.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the knowledge of the Company, no director or officer of the Company, no subsidiary, no insider, no nominee for election as director, no shareholder holding more than 10% of the voting shares of the Company had any interest in transactions since the beginning of the last fiscal year of the Company or in any proposed transaction that has or could have a material effect on the Company or on any of its subsidiaries.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for all existing classes of securities of the Company (common shares, preferred shares and medium term notes) is Computershare Investor Services Inc., at its offices in Vancouver, Calgary, Winnipeg, Toronto, Montreal and Halifax.

### **MATERIAL CONTRACTS**

Except for the following and for the contracts described in the Section “Three Years History” above, there are no contracts, other than contracts entered into in the ordinary course of business, that are material to the Company and that were entered into in the most recently completed financial year, or before the most recently completed financial year but that are still in effect:

The Company entered into a trust indenture dated May 21, 2009 (as amended, the “Trust Indenture”) with Computershare Trust Company of Canada (“Computershare”) setting out the terms of unsecured indebtedness that may be issued by the Company. The aggregate principal amount of unsecured indebtedness that may be authorized, issued and certified under the Trust Indenture is unlimited.

The Company entered into a first supplemental trust indenture to the Trust Indenture dated August 31, 2009 with Computershare providing for the issue of up to \$250,000,000 principal amount of Series 1 Notes and setting out their terms.

The Company entered into a second supplemental trust indenture to the Trust Indenture dated November 23, 2009 with Computershare providing for the issue of up to \$250,000,000 principal amount of Series 2 Notes and setting out their terms.

The Company entered into a third supplemental trust indenture to the Trust Indenture dated July 8, 2011 with Computershare for the purpose of providing for the issue of up to \$200,000,000 principal amount of Series 3 Notes and setting out their terms.

The Company entered into a fourth supplemental trust indenture to the Trust Indenture dated August 18, 2011 with Computershare for the purpose of providing for the issue of up to \$400,000,000 principal amount of Series 4 Notes and setting out their terms.

The Company entered into a fifth supplemental trust indenture to the Trust Indenture dated June 15, 2012 with Computershare for the purpose of providing for the issue of up to \$250,000,000 principal amount of Series 5 Notes and setting out their terms.

As mentioned above, the Company entered into a Share Purchase Agreement dated May 31, 2011 with AXA SA for the acquisition of its affiliate AXA Canada Inc. See “Three Years History” section above.

As mentioned above, the Company entered into a Share Purchase Agreement dated May 2, 2012 with The Westaim Corporation for the acquisition of its wholly owned subsidiary, Jevco Insurance Company. See “Three Years History” section above.

As part of the Jevco Acquisition, the Company and its subsidiary 8181047 Canada Inc. entered into a Voting and Support Agreement with 1523488 Alberta Ltd. and Alberta Investment Management Corporation made as of May 1, 2012 whereby the latter two parties agreed to support and vote in favour of the Company’s acquisition of Jevco Insurance Company from The Westaim Corporation.

The Company and its subsidiary 8181047 Canada Inc. entered into a Voting and Support Agreement with Goodwood Inc. and Goodwood Management Inc. made as of May 1, 2012 whereby the latter two parties agreed to support and vote in favour of the Company’s acquisition of Jevco Insurance Company from The Westaim Corporation.

The Company and its subsidiary 8181047 Canada Inc. entered into a Voting and Support Agreement with several individual shareholders of The Westaim Corporation made as of May 1, 2012 whereby these shareholders agreed to support and vote in favour of the Company’s acquisition of Jevco Insurance Company from The Westaim Corporation.

The Company and its subsidiary 8181047 Canada Inc. entered into a Voting and Support Agreement with Goodwood Inc. and Goodwood Management Inc. made as of May 1, 2012 whereby the latter two parties agreed to support and vote in favour of the Company’s acquisition of Jevco Insurance Company from The Westaim Corporation.

The Company entered into a Subscription Receipt Agreement dated May 11, 2012 with CIBC World Markets Inc., TD Securities Inc. and Computershare for the purpose of providing for the issue of 3,600,000 Subscription Receipts and setting out their terms. The Subscription Receipts were automatically converted on a one-for-one basis for Common Shares upon closing of the Jevco Acquisition on September 5, 2012.

The Company entered into an Amended and Restated Credit Agreement dated as of October 26, 2012 with Canadian Imperial Bank of Commerce and TD Securities and a syndicate of lenders to (i) provide a revolving credit facility in the amount of \$300,000,000, which may be increased up to \$450,000,000 as provided therein; and (ii) add certain additional subsidiaries of Intact Financial Corporation as swingline borrowers.

Copies of these documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **INTERESTS OF EXPERTS**

Ernst & Young LLP is the Auditor of the Company. The Company's consolidated financial statements as at December 31, 2011 and December 31, 2012 have been filed under *National Instrument 51-102* in reliance on the report from Ernst & Young LLP, independent chartered accountants, given on their authority as experts in auditing and accounting.

Ernst & Young LLP has confirmed to the Company that it is independent within the meaning of the Rules of Professional Conduct of the *Ordre des comptables professionnels agréés du Québec*. These rules are equivalent or similar to Rules of Professional Conduct applicable to chartered accountants in the other provinces of Canada.

## **ADDITIONAL INFORMATION**

Additional information on the Company may be obtained from our website at [www.intactfc.com](http://www.intactfc.com) and from the SEDAR website at [www.sedar.com](http://www.sedar.com).

The Management Proxy Circular dated March 28, 2013, enclosed with the Notice of the Annual Meeting of Shareholders dated March 28, 2013 for the meeting scheduled for May 8, 2013, contains additional information including the remuneration and indebtedness of directors and executive officers.

Financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the fiscal year ended December 31, 2012, both of which are contained in the 2012 Annual Report.

To obtain a copy of the aforementioned documents as well as this Annual Information Form, at no cost, please contact the Investor Relations Department of the Company at 700 University Avenue, Suite 1500, Toronto, Ontario, M5G 0A1, by telephone toll-free within North America at 1-866-778-0774 ((416) 941-5336 outside North America), by fax at (416) 941-0006 or by e-mail at [ir@intact.net](mailto:ir@intact.net).

## **SCHEDULE A**

### **Mandate of the Audit and Risk Review Committee**

#### **Intact Financial Corporation and its P&C Insurance Companies (jointly called the “Company”)**

##### **I. Purpose**

The Audit and Risk Review Committee (the “Committee”) is a committee of the Board of Directors (the “Board”) of the Company that is responsible for reviewing the Financial Statements, overseeing the accounting and financial reporting process and, in this regard, reviews, evaluates and oversees such processes; it is also responsible for evaluating the integrity of the Financial Statements and for overseeing the quality and integrity of internal controls; it is also responsible for overseeing the risk management programs of the Company .

##### **II. Membership**

###### **1. Number**

The Board will appoint no fewer than three of its members to the Committee.

###### **2. Composition**

All members of the Committee must be members of the Board and “independent” of Management as that term is defined from time to time in applicable legislation.

###### **3. Qualifications**

All Committee members must be financially literate as that term is defined in applicable legislation. In addition, the composition of the Committee, and qualifications of its members, will comply with such additional requirements as may be imposed by those regulating bodies having jurisdiction over the Company.

###### **4. Chair**

The Board will appoint the Chair of the Committee annually, to be selected from the members of the Committee. If, in any year, the Board does not make such an appointment, the incumbent Chair will continue in office until the Chair’s successor is appointed. In the event the Chair is not able or willing to act as Chair of the Committee for any reason, the Board may appoint another Chair on an interim basis or until the next annual meeting. The Chair is bound to act in accordance with his or her mandate and this Mandate.

###### **5. Tenure**

Each member of the Committee will hold office at the will of the Board or until his or her successor is appointed.

###### **6. Removal and Vacancies**

Any member of the Committee may be removed and replaced at any time by the Board and will automatically cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies by appointing members from among the members of the

Board. If and whenever a vacancy exists, the remaining members may exercise all the powers of the Committee as long as a quorum remains in office.

### **III. Process and Operations**

#### **1. Meetings**

The Committee meets at least four times per year and otherwise as needed. The External Auditors are entitled to receive notice of, attend and be heard at each meeting of the Committee.

#### **2. Private Meeting**

Following each regular meeting, the Committee meets privately without the presence of Management. The Committee may meet in private at its discretion following each non-regular meeting.

#### **3. Quorum**

A quorum at any meeting shall be a simple majority of the members of the Committee.

#### **4. Report to the Board**

Following each meeting, the Committee reports to the Board on matters reviewed by the Committee.

### **IV. Mandate**

#### **1. Responsibility for Financial Statements, Filings, Returns and Disclosures**

In particular, the Committee reviews the Company's annual and interim Financial Statements, the Management's Discussion and Analysis ("MD&A") and any press releases before the Company publicly discloses such financial information as well as the Annual Information Form ("AIF"). The Committee meets with the Internal and the External Auditors and the Chief Actuary of the Company to discuss the Financial Statements and returns, and the Committee approves or recommends such statements and returns to the Board for its approval.

With regards to the Committee's oversight function over financial disclosure, the Committee reviews and approves the policies and procedures in place for the review of financial disclosures prior to their public release, as required by applicable legislation. The Committee also reviews and satisfies itself with the certification process, and reviews the certifications of the CEO and CFO as required by applicable legislation.

In executing its responsibilities, the Committee also oversees the Company's compliance with legal and regulatory requirements related to financial reporting and disclosure.

The Committee reviews the following financial information of the Company:

- Financial Statements, MD&As and related press releases
- any document that contains financial information not yet published

- reports of the Internal Auditor
- reports of the External Auditors
- reports of the Chief Actuary and external review of Chief Actuary’s reports
- returns of the P&C companies as specified by the federal and provincial insurance regulators
- investments, transactions and any situations or events that could adversely affect the well-being of the Company and its financial situation as the Internal Auditor, External Auditors or any Officer of the Company may bring to the attention of the Committee
- reports of actual or threatened litigation that may significantly affect the Financial Statements
- reports of improprieties or suspected improprieties with respect to accounting and other matters that may affect financial reporting
- any other report that by law or practice, or under specific circumstance, must be submitted to the Committee.

## **2. Responsibility for Internal Controls and Procedures**

The Committee oversees the quality and integrity of the Company’s internal controls and procedures. The Committee requires Management to design, implement and maintain internal controls and procedures appropriate to the Company and to make periodic reports to the Committee on the status of such controls and procedures. The Committee meets with the Chief Internal Auditor, or the Employee acting in this capacity, and with Management to discuss the effectiveness of the internal controls and procedures established for the Company. The Committee receives Management’s reports on such controls and procedures, and it reviews, evaluates and approves such controls and procedures periodically.

The Committee also establishes procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by Employees of the Company for concerns regarding accounting or auditing matters.

## **3. Risk Management**

The Committee oversees the Company’s risk management policy and procedures which identify principal risks and ensure the implementation of appropriate systems and processes to manage these risks and the Company’s compliance to such policy and procedures. The Committee reviews the risk management program and practices, including a review of the Company’s trends and principal risk positions and exposures. The Committee receives a list on key risks and reports to the Board on Risk Management on a periodic basis.

## **4. Relationship with External Auditors and Other Experts**

In order to facilitate the Committee’s oversight function over the Company’s financial reporting and disclosure, internal controls and risk management programs and procedures, the Committee has direct access to the Chief Internal Auditor, the External Auditors, the Chief Actuary, the Risk Management Officers, the Chief Compliance Officer and other experts and may have private meetings with any of them.

The External Auditors report directly to the Committee. The Committee directly oversees the work of the External Auditors engaged in preparing or issuing an auditor report or related work; the Committee oversees the resolution of disagreements between Management and the External Auditors regarding financial reporting.

The Committee recommends to the Board to recommend to the Shareholders the appointment of the External Auditors responsible for preparing and issuing an auditor report or performing other audit, review or attest services provided to the Company; the Committee recommends to the Board for approval the compensation of the External Auditors. The Committee ensures the qualifications, performance and independence of the External Auditors.

The Committee pre-approves all non-audit related services and fees to be provided to the Company by the External Auditors; however, this pre-approval function may be delegated to one of more independent members of the Committee. Where such function is delegated to a member of the Committee, that member will present such pre-approval at the next scheduled meeting of the Committee.

The Committee reviews and approves the Company's policies for hiring partners, employees and former partners and employees of the Company's present and former External Auditors.

## **5. Independent Consultants**

Regarding audit services, the Committee may retain or appoint, at the Company's expense, such other consultants, experts and advisors as it deems necessary or advisable to carry out its duties.

Regarding non-audit services, the Committee may retain or appoint, at the Company's expense, consultants, experts and advisors as it deems necessary or advisable to carry out its duties. In case of differences of opinion between the members of the Committee or with Management in relation to the hiring of such consultants, experts and advisors, the Board may decide on the issue or delegate the review of such issue to the Conduct Review and Corporate Governance Committee.

## **6. Self-Assessment**

On an annual basis, the Committee evaluates and reviews the assessment reports on the adequacy of the Committee, its Chair and each of its members.

## **7. Committee Mandate**

On an annual basis, the Committee reviews this mandate and recommends any changes, if any, to the Board.

Reviewed by the Audit and Risk Review Committee on November 9, 2009.

**Approved by the Board of Directors of Intact Financial Corporation and its subsidiaries on November 10, 2009.**



**Intact Financial Corporation**

700 University Ave.

Toronto, Ontario

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