Second Quarter 2019

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Management's Discussion and Analysis
For the quarter ended June 30, 2019

Intact Financial Corporation

INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the second quarter of 2019

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

The following MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors (or "Board") for the quarter ended June 30, 2019. This MD&A is intended to enable the reader to assess our results of operations and financial condition for the three- and six-month periods ended June 30, 2019, compared to the corresponding periods in 2018. It should be read in conjunction with our interim Consolidated financial statements, as well as the MD&A and the Consolidated financial statements included in our 2018 Annual Report. This MD&A is dated July 30, 2019.

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

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Non-IFRS financial measures

We use both IFRS and non-IFRS financial measures to assess our performance. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures used by other companies in our industry. The non-IFRS measures included in this MD&A are: change or growth in constant currency, direct premiums written (DPW), underwriting income (loss), combined ratio, net earned premiums (NEP), total net claims, underlying current year loss ratio, PYD and PYD ratio, underwriting expenses and expense ratio, distribution EBITA, finance costs, other income (expense), total income taxes, income before income taxes, net operating income (NOI), net operating income per share (NOIPS), operating return on equity (OROE), adjusted net income, adjusted earnings per share (AEPS) and adjusted return on equity (AROE). ***See Section 16 – Non-IFRS financial measures for the definition and reconciliation to the most comparable IFRS measures.*** These measures and other insurance-related terms used in this MD&A are defined in the glossary available in the "Investors" section of our web site at www.intactfc.com.

Important notes

- Effective in Q1-2019, we improved the way we report the performance of our distribution channel and investment/other expenses, to better align our reporting with how management views the results of our business. We have reclassified comparative figures in order to ensure comparability and consistency with this new presentation. ***For further details, see Section 14 – Presentation changes.***
- Unless otherwise noted, DPW refer to DPW normalized for the effect of multi-year policies, excluding industry pools, fronting and exited lines (referred to as "DPW" in this MD&A). ***See Section 15 for details on exited lines and Table 23 for the reconciliation to DPW, as reported under IFRS.*** All underwriting results and related ratios exclude the MYA and the results of our U.S. Commercial exited lines, unless otherwise noted. The expense and general expense ratios are presented herein net of other underwriting revenues.
- When relevant, we present changes in constant currency, which exclude the impact of fluctuations in foreign exchange rates from one period to the other, to enhance the analysis of our results with comparative periods. ***See Section 16 – Non-IFRS financial measures.***
- Regulatory Capital Ratios refer to MCT (as defined by OSFI and the AMF in Canada) and RBC (as defined by the NAIC in the U.S.). All references to "total capital margin" in this MD&A include the aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC and other CALs in other jurisdictions) plus available cash in unregulated entities.
- Unless otherwise noted, market share and market related data for P&C Canada are based on the latest available data (Q1-2019) from MSA Research Inc. ("MSA") and excludes Lloyd's Underwriters Canada, Insurance Corporation of British Columbia, Saskatchewan Government Insurance, Saskatchewan Auto Fund, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company. MSA data excludes certain Québec regulated entities. Market share and market positioning reflect the impact of announced or completed acquisitions and are therefore presented on a *pro forma* basis.
- Certain totals, subtotals and percentages may not agree due to rounding. Not meaningful (nm) is used to indicate that the current and prior year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%.

Cautionary note regarding forward-looking statements

Certain of the statements included in this MD&A about the Company's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely", "potential" or the negative or other variations of these words or other similar or comparable words or phrases, are intended to identify forward-looking statements. Unless otherwise indicated, all forward-looking statements in this MD&A are made as at June 30, 2019, and are subject to change after that date.

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors:

- the Company's ability to implement its strategy or operate its business as management currently expects;
- its ability to accurately assess the risks associated with the insurance policies that the Company writes;
- unfavourable capital market developments or other factors which may affect the Company's investments, floating rate securities and funding obligations under its pension plans;
- the cyclical nature of the P&C insurance industry;
- management's ability to accurately predict future claims frequency and severity, including in the personal auto line of business;
- 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 and provide services to the Company;
- the Company's ability to successfully pursue its acquisition strategy;
- the Company's ability to execute its business strategy;
- the Company's ability to achieve synergies arising from successful integration plans relating to acquisitions;
- the Company's profitability following the acquisition (the "Acquisition") of OneBeacon Insurance Group, Ltd. ("OneBeacon");
- the Company's ability to improve its Combined Ratio in the United States in relation to the Acquisition;
- the Company's ability to retain business and key employees in the United States in relation to the Acquisition;
- undisclosed liabilities in relation to the Acquisition;
- 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 and frequency of catastrophe events, including a major earthquake;
- catastrophe losses caused by severe weather and other weather-related losses, as well as the impact of climate change;
- the Company's ability to maintain its financial strength and issuer credit ratings;
- the Company's access to debt and equity financing;
- the Company's ability to compete for large commercial business;
- the Company's ability to alleviate risk through reinsurance;
- the Company's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers);
- the Company's ability to contain fraud and/or abuse;
- the Company's reliance on information technology and telecommunications systems and potential failure of or disruption to those systems, including in the context of evolving cybersecurity risk;
- the impact of developments in technology and use of data on the Company's products and distribution;
- the Company's dependence on and ability to retain key employees;
- changes in laws or regulations;
- general economic, financial and political conditions;
- the Company's dependence on the results of operations of its subsidiaries and the ability of the Company's subsidiaries to pay dividends;
- the volatility of the stock market and other factors affecting the trading prices of the Company's securities;
- the Company's ability to hedge exposures to fluctuations in foreign exchange rates;
- future sales of a substantial number of its common shares; and
- changes in applicable tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof.

All of the forward-looking statements included in this MD&A and the quarterly earnings press release dated July 30, 2019 are qualified by these cautionary statements and those made in the section entitled Risk management **(Sections 19-24)** of our MD&A for the year ended December 31, 2018. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Glossary of abbreviations

	Description		Description
AEPS	Adjusted EPS	**MCT**	Minimum capital test (Canada)
AFS	Available for sale	**MD&A**	Management's Discussion and Analysis
AMF	Autorité des marchés financiers	**MYA**	Market yield adjustment
AOCI	Accumulated OCI	**NAIC**	National Association of Insurance Commissioners
AROE	Adjusted ROE	**NEP**	Net earned premiums
BVPS	Book value per share	**NOI**	Net operating income
CAD	Canadian Dollar	**NOIPS**	NOI per share
CAGR	Compound annual growth rate	**OCI**	Other comprehensive income
CAL	Company action level	**OROE**	Operating ROE
CAN	Canada	**OSFI**	Office of the Superintendent of Financial Institutions
CAT	Catastrophe	**P&C**	Property & Casualty
DPW	Direct premiums written	**PTOI**	Pre-tax operating income
EPS	Earnings per share to common shareholders	**PYD**	Prior year claims development
F/S	Financial Statements	**RBC**	Risk-based capital (U.S.)
FVTPL	Fair value through profit and loss	**ROE**	Return on equity
IFRS	International Financial Reporting Standards	**U.S.**	United States
KPI	Key performance indicator	**USD**	U.S. Dollar

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

Definitions of selected key terms used in our MD&A:

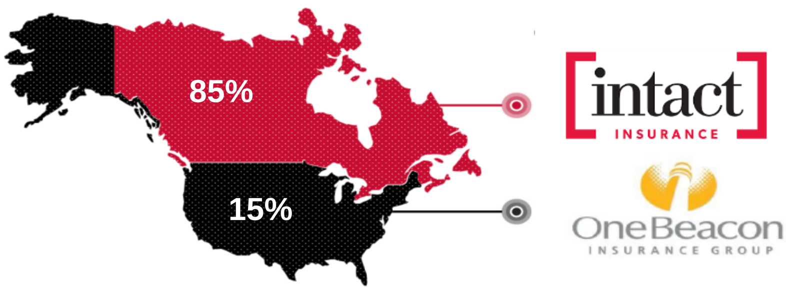
- Catastrophe claims are any one claim, or group of claims, equal to or greater than $7.5 million for P&C Canada (US$5 million for P&C U.S.) related to a single event (referred to as the "CAT threshold"), and can either be weather-related or not weather-related ('other than weather-related').
- A non-catastrophe weather event is a group of claims, which is considered significant but that is smaller than the CAT threshold, related to a single weather event.
- A large loss is defined as a single claim larger than $0.25 million for P&C Canada (US$0.25 million for P&C U.S.) but smaller than the CAT threshold.
- Non-CAT weather-related losses represent claims which we attribute to weather conditions. We estimate the impact of weather on our results by matching increases in frequency with specific weather events, and also by considering the underlying cause of claims.

These measures and other insurance-related terms used in this MD&A are defined in the glossary available in our 2018 Annual report, as well as the "Investors" section of our web site at www.intactfc.com.

OVERVIEW

Section 1 – Overview of Intact Financial Corporation

1.1 Building a world-class P&C insurer

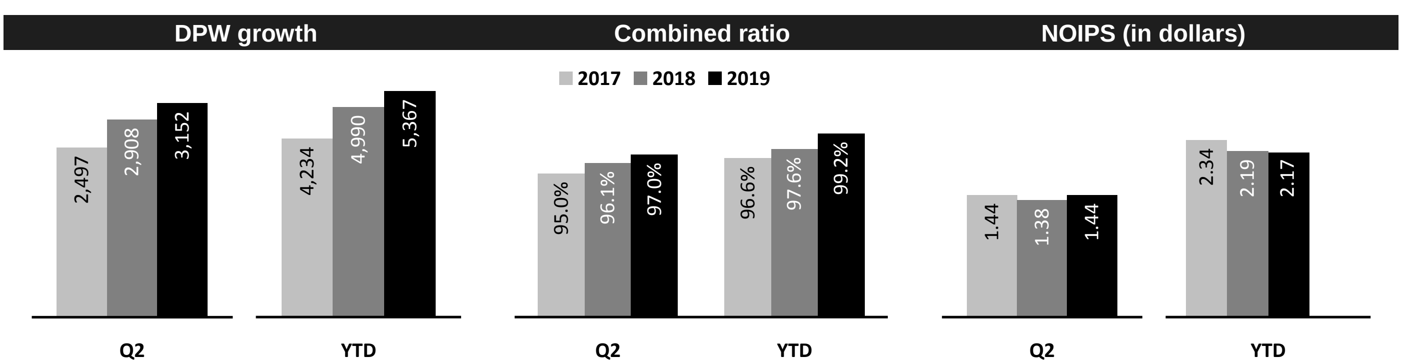


2018 DPW by segment

- Largest provider of P&C insurance in Canada and a leading provider of specialty insurance in North America, with over $10 billion in annual DPW.
- Approximately 14,000 full- and part-time employees who serve more than five million personal, business and public sector customers through offices in Canada and the U.S.
- In Canada, we distribute insurance under the Intact Insurance brand through a wide network of brokers, including our wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect. In the U.S., OneBeacon, a wholly-owned subsidiary, provides specialty insurance products through independent agencies, brokers, wholesalers and managing general agencies.
- We are a proven industry consolidator with a track record of 16 successful P&C acquisitions since 1988.

1.2 Q2-2019 Highlights

- **Net operating income per share increased 4% to $1.44,** with strong investment and distribution results
- **Strong premium growth of 8%** was fuelled by improving market conditions, strong growth in commercial lines across North America and accelerating growth in personal lines
- **Combined ratio of 97.0%** reflects strong underlying performance in personal auto offset by 3.7 points from an increase in reserves for prior years; solid results in commercial lines in Canada and the U.S.
- Strong financial position with **$1.3 billion of total capital margin** and **operating ROE of 12%**



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

1.3 Our business segments

We report our financial results by business segment. The composition of our segments is aligned with our management structure and internal financial reporting based on geography and the nature of our activities.

Intact Financial Corporation		
Canada (CAN)	**U.S.**	**Corporate and other (Corporate)**
Underwriting (P&C Canada) and distribution activities in Canada	**Underwriting activities in the U.S. (P&C U.S.)**	**Activities managed at the Corporate level and Other**
Section 2	*Section 3*	*Section 4*

We measure our consolidated performance mainly based on NOIPS and our business segment performance based on PTOI.

Table 1 - Operating performance by segment [1,2]

For the quarters ended June 30,	2019				2018			
	CAN	U.S.	Corporate	Total	CAN	U.S.	Corporate	Total
DPW	**2,727**	**425**	**-**	**3,152**	2,534	374	-	2,908
NEP	**2,155**	**343**	**2**	**2,500**	2,069	340	1	2,410
Operating income								
Underwriting income	**55**	**18**	**2**	**75**	71	21	1	93
Net investment income			**148**	**148**	-	-	137	137
Distribution EBITA	**72**	**-**	**-**	**72**	62	-	-	62
Finance costs	**(2)**	**-**	**(28)**	**(30)**	(3)	-	(26)	(29)
Other income (expense)	**-**	**-**	**(5)**	**(5)**	-	-	(12)	(12)
Pre-tax operating income (PTOI)	**125**	**18**	**117**	**260**	130	21	100	251
Net operating income (NOI)				**212**				201
NOIPS (in dollars)				**1.44**				1.38

For the six-month periods ended June 30,	2019				2018			
	CAN	U.S.	Corporate	Total	CAN	U.S.	Corporate	Total
DPW	**4,580**	**787**		**5,367**	4,295	695	-	4,990
NEP	**4,239**	**696**	**3**	**4,938**	4,089	654	1	4,744
Operating income								
Underwriting income	**(4)**	**39**	**3**	**38**	75	36	1	112
Net investment income	**-**	**-**	**288**	**288**	-	-	262	262
Distribution EBITA	**108**			**108**	92	-	-	92
Finance costs	**(5)**		**(57)**	**(62)**	(6)	-	(51)	(57)
Other income (expense)			**(6)**	**(6)**	-	-	(16)	(16)
Pre-tax operating income (PTOI)	**99**	**39**	**228**	**366**	161	36	196	393
Net operating income (NOI)				**325**				321
NOIPS (in dollars)				**2.17**				2.19

[1] *See Section 14 – Presentation changes.*
[2] *See Section 16 – Non-IFRS financial measures.*

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

1.4 Consolidated performance

Table 2 – Consolidated performance[1,2]

	Section	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
DPW *(growth in constant currency)*		**3,152**	2,908	8%	**5,367**	4,990	7%
Canada	*2.1*	**2,727**	2,534	8%	**4,580**	4,295	7%
U.S.	*3*	**425**	374	10%	**787**	695	9%
NEP		**2,500**	2,410	4%	**4,938**	4,744	4%
Operating income							
Underwriting income		**75**	93	(19)%	**38**	112	(66)%
Net investment income	*4.3*	**148**	137	8%	**288**	262	10%
Distribution EBITA		**72**	62	16%	**108**	92	17%
Finance costs		**(30)**	(29)	nm	**(62)**	(57)	nm
Other income (expense)		**(5)**	(12)	nm	**(6)**	(16)	nm
PTOI		**260**	251	4%	**366**	393	(7)%
NOI		**212**	201	5%	**325**	321	1%
Pre-tax non-operating gains (losses)	*15*	**(62)**	(46)	nm	**(29)**	(66)	nm
Net income		**168**	161	4%	**327**	264	24%
Effective income tax rates							
Operating		**18.4%**	19.9%	(1.5) pts	**11.2%**	18.3%	(7.1) pts
Total		**15.0%**	21.5%	(6.5) pts	**3.0%**	19.3%	(16.3) pts
Per share measures, basic and diluted (in dollars)							
NOIPS		**1.44**	1.38	4%	**2.17**	2.19	(1)%
EPS		**1.13**	1.10	3%	**2.19**	1.78	23%
BVPS	*18.4*	**49.90**	48.64	3%			
Return on equity for the last 12 months							
OROE		**12.0%**	11.9%	0.1 pts			
ROE		**10.6%**	10.0%	0.6 pts			
Total capital margin		**1,269**	1,243	26			
Debt-to-total capital ratio		**21.6%**	22.5%	(0.9) pts			

[1] ***See Section 14 – Presentation changes.***
[2] ***See Section 16 – Non-IFRS financial measures.***

Table 3 – Underwriting ratios

	Section	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
Claims ratio		**67.1%**	65.7%	1.4 pts	**69.5%**	67.4%	2.1 pts
Expense ratio		**29.9%**	30.4%	(0.5) pts	**29.7%**	30.2%	(0.5) pts
Combined ratio		**97.0%**	96.1%	0.9 pts	**99.2%**	97.6%	1.6 pts
Canada	*2.1*	**97.4%**	96.6%	0.8 pts	**100.1%**	98.2%	1.9 pts
U.S.	*3*	**94.8%**	93.8%	1.0 pts	**94.4%**	94.5%	(0.1) pts

Constant currency

With the acquisition of OneBeacon, approximately 15% of our premiums are written in USD. The impact of fluctuations in foreign exchange rates was not material to our consolidated performance for the quarter ended June 30, 2019. ***See Section 3 – U.S. for the impact on our U.S. results.***

Management's Discussion and Analysis for the second quarter of 2019
(in millions of Canadian dollars, except as otherwise noted)

	Q2-2019 vs Q2-2018	YTD 2019 vs YTD 2018
DPW growth ***in constant currency***	• **Premiums grew 8% in the quarter and 7% year-to-date**, reflecting strong growth across all lines of business and geographies. • **In Canada, premiums grew 8%,** supported by continued improvement in market conditions. Strong double-digit growth in commercial lines and accelerating growth in personal lines are fueling topline momentum. • **In the U.S., growth of 10% in the quarter and 9% year-to-date** was driven by strong new business, rate increases and strong retention levels.	• **In Canada, YTD premium growth was 7%,** bolstered by double-digit growth in commercial lines and growing momentum in personal lines.
Underwriting performance	• **Overall combined ratio of 97.0%** included 3.7 points from increasing personal auto reserves for prior years ***(see Section 2.3 – Personal auto)***. Underlying personal auto performance was strong, and commercial lines results were solid across North America. • **Combined ratio for Canada of 97.4%** deteriorated by 0.8 points, as improved underlying performance in personal auto and lower CAT losses were more than offset by unfavourable PYD in personal auto. • **Solid combined ratio in the U.S. of 94.8%** deteriorated by 1.0 point, driven by higher large losses.	• **Overall combined ratio of 99.2%** reflected challenging results in Canada and a solid performance in the U.S. • **Combined ratio for Canada of 100.1%** deteriorated by 1.9 points, as adverse PYD in personal auto and higher large losses in personal property and commercial lines were partially offset by a 4.1-point improvement in personal auto underlying performance. **CAT losses of $198 million** remained elevated and above expectations, driven by severe weather conditions in Q1-2019. • **The U.S. combined ratio was solid at 94.4%** and reflected a strong performance in lines not undergoing profitability improvement plans. We remain committed to our goal of achieving a sustainable combined ratio in the low-90s by the end of 2020.
Net investment income	• **Net investment income was particularly strong at $148 million and up 8%,** driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, timing of dividends, as well as higher invested assets.	• **Net investment income was up 10% to $288 million,** driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, as well as higher invested assets. We still expect mid-single digit growth in 2019.
Distribution EBITA[1]	• **Distribution EBITA was strong at $72 million in the quarter and $108 million year-to-date,** driven by growth and improved profitability in our broker network. We now expect high-single digit growth in 2019.	
NOIPS	• **NOIPS increased 4% to $1.44**, after reflecting $0.49 impact from increasing personal auto reserves for prior years, with strong contribution from investment and distribution activities.	• **NOIPS of $2.17** was down 1%, as continued strong growth in net investment income and distribution EBITA was more than offset by challenging underwriting results in Canada.
Effective income tax rates[2]	• **Operating effective income tax rate of 18.4%** reflected a lower proportion of Canadian underwriting income over total pre-tax income. • **Total effective income tax rate of 15.0%** remained lower than expected, driven by higher non-taxable investment gains.	• **Operating effective income tax rate of 11.2%** reflected a lower proportion of Canadian underwriting income over total pre-tax operating income, and an income tax benefit of $17 million in Q1-2019. • **Total effective income tax rate of 3.0%** included the impact of a non-taxable $72 million broker gain in Q1-2019.
EPS	• **EPS of $1.13** was up 3%, driven by improved operating performance.	• **EPS of $2.19** was up 23%, mainly due to a non-operating broker gain in Q1-2019.
Return on equity	• **Operating ROE for the last 12 months of 12.0%** was impacted by challenges in personal auto in 2019, as well as severe weather. Our ROE remains well above the industry, with an outperformance close to 10 points in Q1-2019, though below our mid-teens historical track record.	
Financial condition	• **BVPS increased 3% from a year ago to $49.90**, mainly driven by our earnings, net of common share dividends. • **Our debt-to-total capital ratio was 21.6%** as at June 30, 2019. We expect to achieve our goal of 20% by the end of the year. • **We ended the quarter in a strong financial position, with $1.3 billion of total capital margin.**	

[1] ***See Section 2.6 – Presentation change for our distribution channel of our Q1-2019 MD&A for details.***
[2] ***See Note 13.2 – Effective income tax rate of the accompanying Consolidated financial statements for further details.***

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

SEGMENT PERFORMANCE

Section 2 – Canada

2.1 P&C Canada

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

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
DPW	**2,727**	2,534	8%	**4,580**	4,295	7%
NEP	**2,155**	2,069	4%	**4,239**	4,089	4%
Current year claims (excluding CAT claims)	**1,345**	1,283	62	**2,792**	2,750	42
Current year CAT claims	**70**	142	(72)	**198**	178	20
(Favourable) unfavourable PYD	**70**	(34)	104	**52**	(105)	157
Total net claims	**1,485**	1,391	94	**3,042**	2,823	219
Underwriting expenses	**615**	607	8	**1,201**	1,191	10
Underwriting income (loss)	**55**	71	(16)	**(4)**	75	(79)
Underwriting ratios						
Underlying current year loss ratio	**62.5%**	62.0%	0.5 pts	**65.9%**	67.2%	(1.3) pts
CAT loss ratio	**3.2%**	6.8%	(3.6) pts	**4.7%**	4.5%	0.2 pts
(Favourable) unfavourable PYD ratio	**3.2%**	(1.6)%	4.8 pts	**1.2%**	(2.6)%	3.8 pts
Claims ratio	**68.9%**	67.2%	1.7 pts	**71.8%**	69.1%	2.7 pts
Commissions	**15.4%**	16.0%	(0.6) pts	**15.3%**	15.5%	(0.2) pts
General expenses	**9.4%**	9.7%	(0.3) pts	**9.4%**	9.8%	(0.4) pts
Premium taxes	**3.7%**	3.7%	- pts	**3.6%**	3.8%	(0.2) pts
Expense ratio	**28.5%**	29.4%	(0.9) pts	**28.3%**	29.1%	(0.8) pts
Combined ratio	**97.4%**	96.6%	0.8 pts	**100.1%**	98.2%	1.9 pts

[1] *See Section 16 – Non-IFRS financial measures.*

Table 5 – Performance by line of business – Canada

	Section	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
DPW growth							
Personal auto	*2.3*	**1,204**	1,137	6%	**2,000**	1,929	4%
Personal property	*2.4*	**679**	640	6%	**1,118**	1,063	5%
Commercial lines	*2.5*	**844**	757	12%	**1,462**	1,303	12%
		2,727	2,534	8%	**4,580**	4,295	7%
Combined ratio							
Personal auto	*2.3*	**99.5%**	95.6%	3.9 pts	**100.7%**	100.9%	(0.2) pts
Personal property	*2.4*	**99.6%**	102.7%	(3.1) pts	**99.7%**	95.6%	4.1 pts
Commercial lines	*2.5*	**92.8%**	92.9%	(0.1) pts	**99.6%**	96.1%	3.5 pts
		97.4%	96.6%	0.8 pts	**100.1%**	98.2%	1.9 pts

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

Q2-2019 vs Q2-2018	YTD 2019 vs YTD 2018
• **In Canada, premiums grew 8%,** supported by continued improvement in market conditions. Strong double-digit growth in commercial lines and accelerating growth in personal lines are fueling topline momentum.	• **DPW growth of 7%,** bolstered by double-digit growth in commercial lines and growing momentum in personal lines.
• **Underlying current year loss ratio of 62.5%** reflected a strong performance in personal auto, offset by higher non-CAT weather and fire losses in personal property and increased large losses in commercial lines.	• **Underlying current year loss ratio of 65.9**% improved 1.3 points, driven by significant progress in personal auto.
• **CAT losses of $70 million** were lower than last year's elevated level, while in line with expectations.	• **CAT losses in both years were elevated** and driven by severe weather conditions in Central Canada.
• **PYD ratio was unfavourable at 3.2% for the quarter and 1.2% year-to-date,** driven by an increase in personal auto reserves for prior years. PYD ratio was favourable in all other lines of business.	
• **Expense ratio of 28.5% for the quarter and 28.3% year-to-date** improved across all lines of business and remained lower than our historical averages, mainly driven by our expense management initiatives.	
• **Combined ratio of 97.4%** was higher than expected mainly due to a 4.3-point increase in personal auto reserves for prior years.	• **Combined ratio of 100.1%,** included elevated level of CAT losses (4.7 points) and unfavourable PYD in personal auto, obscuring an improved underlying performance and lower expenses.

2.2 Weather in Canada

At a glance

2019	• **In Q2-2019, a rapid snow melt and extreme wind and rain** led to elevated property damage from water infiltration and flooding, mostly in Central Canada. These events drove CAT losses of $70 million, in line with our expectations for a second quarter. • In Q1-2019 the **winter was particularly difficult** with heavy snowfall, freezing rain, and rain while snow and ice were on the ground, which led to elevated property damage from water infiltration and a record number of roof collapses, mostly in eastern Canada. Freezing rain and intense cold also led to higher-than-expected frequency of auto collisions. These events lead to CAT losses of $128 million and 3 points of higher-than-expected non-CAT weather-related losses in Q1-2019.
2018	• **In Q2-2018**, **three events in Central Canada involving ice, rain and wind**, led to elevated CAT losses. These included an event in early May, where wind gusts with speeds up to 120 km/hour blasted through Ontario and Québec, causing roof and siding damage on properties. These events led to CAT losses of $142 million. • In Q1-2018 the winter was characterized by an active jet stream, which resulted in several major shifts in weather conditions in Canada. In Central Canada, frequent changes in temperature caused freezing and thawing, as well as rain falling on snow. In Western Canada, temperatures were much colder than average throughout the season, while Québec saw increases in rain with snow accumulation and winter storms. This resulted in **severe winter weather conditions in Q1-2018**, leading to higher-than-expected non-CAT weather-related losses.

2.3 Personal auto

Table 6 – Underwriting results for personal auto

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
DPW	**1,204**	1,137	6%	**2,000**	1,929	4%
Written insured risks (in thousands)	**1,310**	1,318	(1)%	**2,156**	2,206	(2)%
NEP	**939**	935	-%	**1,849**	1,854	-%
Underwriting income (loss)	**4**	42	(90)%	**(13)**	(17)	24%
Underlying current year loss ratio	**66.8%**	69.7%	(2.9) pts	**71.8%**	75.9%	(4.1) pts
CAT loss ratio	**0.4%**	0.9%	(0.5) pts	**0.3%**	0.4%	(0.1) pts
(Favourable) unfavourable PYD ratio	**9.9%**	2.3%	7.6 pts	**6.1%**	1.5%	4.6 pts
Claims ratio	**77.1%**	72.9%	4.2 pts	**78.2%**	77.8%	0.4 pts
Expense ratio	**22.4%**	22.7%	(0.3) pts	**22.5%**	23.1%	(0.6) pts
Combined ratio	**99.5%**	95.6%	3.9 pts	**100.7%**	100.9%	(0.2) pts

Q2-2019 vs Q2-2018

- **DPW were up 6%,** driven by average rate increases of 8% in hard market conditions, supported by strong rate momentum across all regions. Our improving competitiveness is also driving unit momentum.

YTD 2019 vs YTD 2018

- **DPW were up 4%,** driven by rate increases. Our competitive position is improving as competitors are increasing rates in hard market conditions.

- **Underlying current year loss ratio improved to a strong 66.8% in the quarter and 71.8% year-to-date,** driven by rate increases and lower claims frequency as a result of our profitability actions.
- **Unfavourable PYD ratio of 9.9% in the quarter and 6.1% year-to-date** was mostly due to increased claims activity on Alberta and pre-reform Ontario files. This led to reserve increases representing approximately 2% of personal auto reserves or 2% of annual personal auto DPW.

Q2-2019 vs Q2-2018

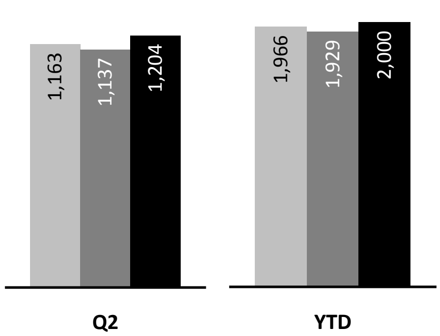
- **Combined ratio of 99.5%** was elevated but this line remained profitable, after absorbing 9.9 points of unfavourable PYD. The continued improvement in underlying performance is a testament to the effectiveness of our profitability actions.

YTD 2019 vs YTD 2018

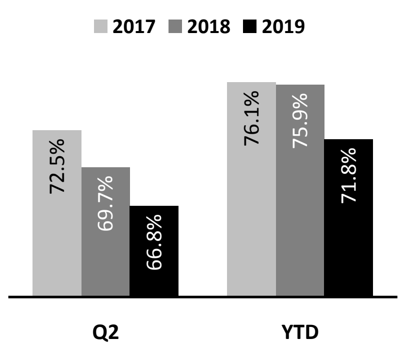
- **Combined ratio was elevated at 100.7%,** reflecting a strong underlying performance and 6.1 points of unfavourable PYD.

- Our profitability actions, combined with strong rate momentum in hard market conditions, position us well to capture growth opportunities as our competitive position continues to improve.

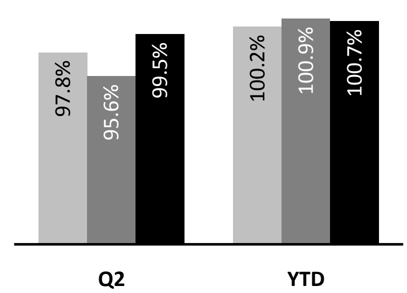
DPW



Underlying current year loss ratio



Combined ratio



2.4 Personal property

Table 7 – Underwriting results for personal property

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
DPW	**679**	640	6%	**1,118**	1,063	5%
Written insured risks (in thousands)	**704**	694	1%	**1,165**	1,159	1%
NEP	**537**	521	3%	**1,063**	1,033	3%
Underwriting income	**2**	(14)	114%	**3**	46	(93)%
Underlying current year loss ratio	**59.0%**	53.7%	5.3 pts	**58.4%**	56.0%	2.4 pts
CAT loss ratio	**9.1%**	18.1%	(9.0) pts	**11.7%**	11.4%	0.3 pts
(Favourable) unfavourable PYD ratio	**(0.6)%**	(2.7)%	2.1 pts	**(1.8)%**	(4.5)%	2.7 pts
Claims ratio	**67.5%**	69.1%	(1.6) pts	**68.3%**	62.9%	5.4 pts
Expense ratio	**32.1%**	33.6%	(1.5) pts	**31.4%**	32.7%	(1.3) pts
Combined ratio	**99.6%**	102.7%	(3.1) pts	**99.7%**	95.6%	4.1 pts

Q2-2019 vs Q2-2018 | **YTD 2019 vs YTD 2018**

- **DPW growth was strong at 6% in the quarter and 5% year-to-date,** driven by rate increases and accelerating unit growth supported by hardening market conditions.

Q2-2019 vs Q2-2018:

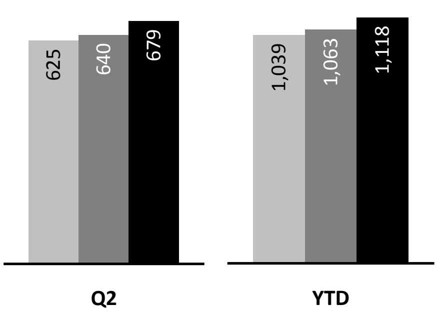
- **Underlying current year loss ratio of 59.0%** deteriorated from last year's strong performance mainly due to higher non-CAT weather and fire losses.
- **CAT loss ratio of 9.1%** was lower than last year, though in line with expectations for a second quarter.

YTD 2019 vs YTD 2018:

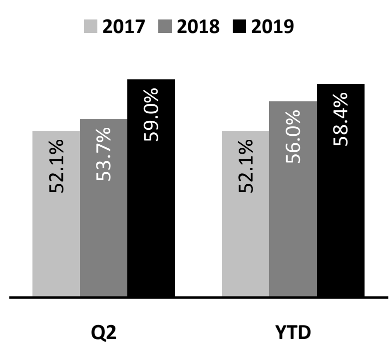
- **Underlying current year loss ratio of 58.4%** deteriorated from last year's solid performance mainly due to higher fire losses.
- **CAT loss ratio of 11.7%** remained above expectations. CAT losses in both years were driven by weather events in Central Canada.

- **Favourable PYD ratio of 0.6% in the quarter and 1.8% year-to-date** was lower than last year and historical averages.
- **Combined ratio of 99.6% in the quarter and 99.7% year-to-date remained higher than expected**. Despite the severe weather experienced so far this year, the fundamentals of this business remain solid and the hardening market conditions position us well for the future.

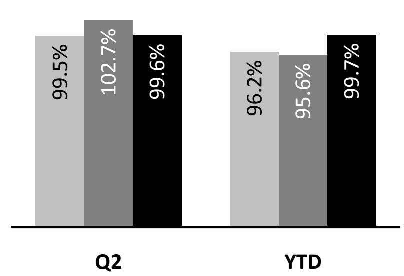
DPW



Underlying current year loss ratio



Combined ratio



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

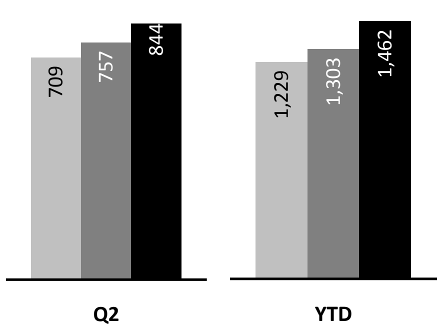
2.5 Commercial lines

Table 8 – Underwriting results for Commercial lines Canada, including Commercial P&C and Commercial auto

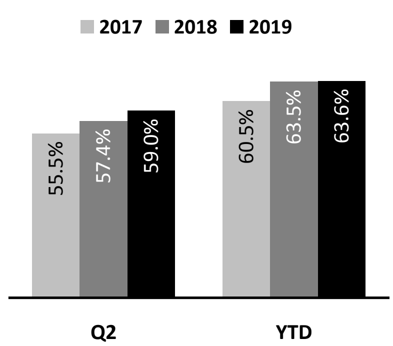
	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
DPW	**844**	757	11%	**1,462**	1,303	12%
Commercial P&C	**566**	517	9%	**985**	893	10%
Commercial auto	**278**	240	16%	**477**	410	16%
NEP	**679**	613	11%	**1,327**	1,202	10%
Underwriting income (loss)	**49**	43	14%	**6**	46	(87)%
Underlying current year loss ratio	**59.0%**	57.4%	1.6 pts	**63.6%**	63.5%	0.1 pts
CAT loss ratio	**2.6%**	6.6%	(4.0) pts	**5.2%**	4.4%	0.8 pts
(Favourable) unfavourable PYD ratio	**(3.0)%**	(6.9)%	3.9 pts	**(3.2)%**	(7.2)%	4.0 pts
Claims ratio	**58.6%**	57.1%	1.5 pts	**65.6%**	60.7%	4.9 pts
Expense ratio	**34.2%**	35.8%	(1.6) pts	**34.0%**	35.4%	(1.4) pts
Combined ratio	**92.8%**	92.9%	(0.1) pts	**99.6%**	96.1%	3.5 pts

Q2-2019 vs Q2-2018	YTD 2019 vs YTD 2018
• **Strong DPW growth of 11% in the quarter and 12% year-to-date** with contributions from all segments, led by rate increases deployed in hard market conditions. Growth in specialty lines continued to be very strong.	
• **Underlying current year loss ratio of 59.0%** deteriorated by 1.6 points from last year's solid performance due to increased large losses, which were below historical average in 2018 .	• **Underlying current year loss ratio of 63.6%** was in line with last year, as the impact of higher earned rates was offset by increased large losses and non-CAT weather-related losses.
• **CAT loss ratio of 2.6%** was lower than last year's elevated level.	• **CAT loss ratio of 5.2%** was well above expectations and higher than last year, mainly due to water damage and roof collapses from severe winter weather.
• **Favourable PYD ratio of 3.0% in the quarter and 3.2% year-to-date** was lower than historical averages.	
• **Combined ratio was solid at 92.8%**, despite elevated large losses.	• **Combined ratio of 99.6%** reflected elevated weather-related losses, and a lower level of favourable PYD. The underlying fundamentals of this business remain strong, supported by hard market conditions and a high-quality portfolio.

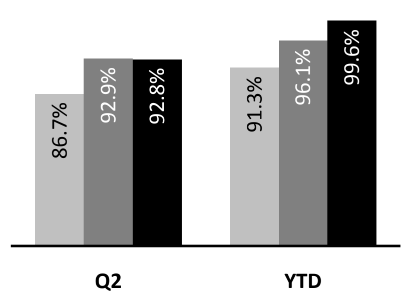
DPW



Underlying current year loss ratio



Combined ratio



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

Section 3 – P&C U.S.

All figures in the table below are shown in CAD, using an average exchange rate of 1.34 for Q2-2019 and 1.33 for YTD 2019. Percentage changes reported in constant currency exclude the impact of currency fluctuations. *See Section 16 – Non-IFRS financial measures.*

Table 9 – Underwriting results for P&C U.S. [1]

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
DPW	**425**	374	14%	**787**	695	13%
Growth in constant currency			*10%*			*9%*
NEP	**343**	340	1%	**696**	654	6%
Growth in constant currency			(2)%			2%
Current year claims (excluding CAT claims)	**198**	192	6	**394**	377	17
Current year CAT claims	**-**	-	-	**-**	-	-
(Favourable) unfavourable PYD	**(6)**	2	nm	**(2)**	(2)	-
Net claims incurred	**192**	194	(2)	**392**	375	17
Underwriting expenses	**133**	125	8	**265**	243	22
Underwriting income	**18**	21	(3)	**39**	36	3
Underwriting ratios[2]						
Underlying current year loss ratio	**57.8%**	56.5%	1.3 pts	**56.6%**	57.7%	(1.1) pts
CAT loss ratio	**-**	-	- pts	**-**	-	- pts
(Favourable) unfavourable PYD ratio	**(1.6)%**	0.5%	(2.1) pts	**(0.3)%**	(0.3)%	- pts
Claims ratio	**56.2%**	57.0%	(0.8) pts	**56.3%**	57.4%	(1.1) pts
Commissions	**16.9%**	15.1%	1.8 pts	**16.2%**	15.6%	0.6 pts
General expenses	**20.1%**	19.6%	0.5 pts	**20.2%**	19.4%	0.8 pts
Premium taxes	**1.6%**	2.1%	(0.5) pts	**1.7%**	2.1%	(0.4) pts
Expense ratio	**38.6%**	36.8%	1.8 pts	**38.1%**	37.1%	1.0 pts
Combined ratio	**94.8%**	93.8%	1.0 pts	**94.4%**	94.5%	(0.1) pts

[1] Excluding the results of exited lines *(see Section 15 – Non-operating results and Section 16 – Non-IFRS financial measures)*.
[2] The impact of currency fluctuations on underwriting ratios is minimal and is not considered significant.

Q2-2019 vs Q2-2018	YTD 2019 vs YTD 2018

- **Premiums of $425 million in the quarter and $787 million year-to-date** reflected strong growth of 10% in the quarter and 9% year-to-date on a constant currency basis. Strong new business, rate increases and high retention levels drove double-digit growth in lines not undergoing profitability improvement plans. Market conditions are improving across most business lines.
- **Underlying current year loss ratio of 57.8%** deteriorated by 1.3 points, driven by higher large losses.
- **Underlying current year loss ratio of 56.6%** improved by 1.1 points, mainly due to the impact of our profitability improvement plans and improved business mix.
- **PYD ratio was favourable at 1.6% in the quarter and 0.3% year-to-date** after the impact of the adverse development cover.
- **Expense ratio increased to 38.6% in the quarter and 38.1% year-to-date,** reflecting the mix and seasonality of our operations, as well as growth in profitable lines with higher commission rates. The expense ratio was in line with expectations, though it can vary from quarter to quarter.
- **Combined ratio was solid at 94.8% in the quarter and 94.4% year-to-date** and reflected a strong performance in lines not undergoing profitability improvement plans. We remain committed to our goal of achieving a sustainable combined ratio in the low-90s by the end of 2020.

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

Section 4 – Corporate and other

4.1 Corporate and other

Table 10 – Corporate and other (operating performance)

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
Underwriting income[1]	**2**	1	1	**3**	1	2
Net investment income *(see Section 4.3)*	**148**	137	11	**288**	262	26
Finance costs[2]	**(28)**	(26)	(2)	**(57)**	(51)	(6)
Other income (expense)[3]	**(5)**	(12)	7	**(6)**	(16)	10
Corporate and other	**117**	100	17	**228**	196	32

[1] Reflected the impact of our internal catastrophe reinsurance treaty.

[2] Reflected the impact of IFRS 16 (Leases), which increased finance costs by approximately $3 million in Q2-2019 and $6 million year-to-date. Finance costs presented in the table above do not include those related to our broker associates, which are presented in the Canada segment *(see Table 1)*.

[3] Includes general corporate expenses and income, consolidation adjustments, regulatory fees related to our public company status, special projects and other operating items. These can fluctuate from quarter to quarter.

4.2 Capital markets

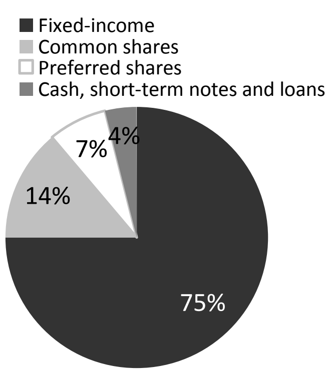
While the correlation between the performance of capital markets and the performance of our investment portfolio is not perfect, the following market indicators may be useful in understanding the overall performance of our investment portfolio. ***See Section 4.3 – Net investment income, Section 4.4 – Net gains (losses) and Section 9 – Investments for further details.***

Table 11 – Selected market indicators

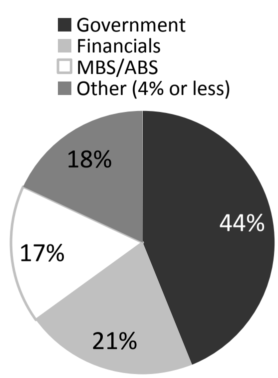
Selected market Indicators	Q2-2019	Q2-2018	YTD 2019	YTD 2018
S&P/TSX Composite	**2%**	6%	**14%**	-%
S&P/TSX Financials	**2%**	1%	**12%**	(3)%
S&P/TSX Preferred Share Index	**(3)%**	- %	**(4)%**	(2)%
5Y Canada Sovereign Index (estimated variance in bps)	**(12) bps**	11 bps	**(46) bps**	23 bps
5Y AA Corporate spread (estimated variance in bps)	**(13) bps**	11 bps	**(34) bps**	15 bps
DJ Dividend 100 Composite (U.S.)	**2%**	-%	**13%**	(4)%
5Y U.S. Sovereign Index (estimated variance in bps)	**(47) bps**	18 bps	**(75) bps**	53 bps
Strengthening (weakening) of USD vs CAD	**(2)%**	2%	**(4)%**	4%

Our net exposure as at June 30, 2019 (after reflecting the impact of hedging strategies related to investments and foreign subsidiaries) is outlined below and essentially unchanged since year-end.

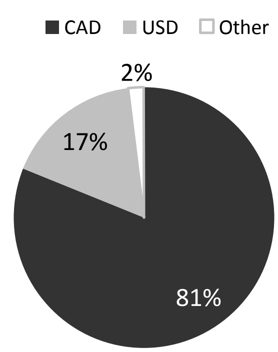
Total portfolio
Investment mix



Fixed-income strategies
Sector mix



Total portfolio
Currency



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

4.3 Net investment income

Table 12 – Net investment income

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
Interest income	**94**	85	9	**188**	168	20
Dividend income	**60**	57	3	**112**	105	7
Investment income, before expenses	**154**	142	12	**300**	273	27
Expenses	**(6)**	(5)	(1)	**(12)**	(11)	(1)
Net investment income	**148**	137	11	**288**	262	26
Average net investments[1]	**17,089**	16,235	5%	**16,976**	16,273	4%
Market-based yield[2]	**3.62%**	3.51%	11 bps	**3.55%**	3.37%	18 bps

[1] Defined as the mid-month average fair value of net equity and fixed-income securities held during the reporting period.
[2] Represents the annualized total pre-tax investment income (before expenses) divided by the average net investments.

Q2-2019 vs Q2-2018

- **Net investment income was particularly strong at $148 million and up 8%,** driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, timing of dividends, as well as higher invested assets.

YTD 2019 vs YTD 2018

- **Net investment income was up 10% to $288 million,** driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, as well as higher invested assets.

- **Average net investments increased by 5% quarter-over-quarter and 4% year-over-year,** mainly reflecting net inflows from operations.
- **Market-based yields increased for the quarter and year-to-date** mainly driven by the benefit of higher bond rates captured in 2018 through our portfolio trading. ***See Section 4.2 – Capital markets*.**

4.4 Net gains (losses)

Net gains (losses) are reported in Non-operating results and included the following items:

Table 13 – Net gains (losses)

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
Realized and unrealized gains (losses) on:						
AFS bonds, net of derivatives	**1**	(8)	9	**2**	(15)	17
Equity securities, net of derivatives	**4**	15	(11)	**9**	98	(89)
Embedded derivatives	**7**	(4)	11	**6**	(6)	12
Impairment losses on common shares	**(12)**	(3)	(9)	**(18)**	(22)	4
Other gains (losses)[1]	**1**	3	(2)	**76**	9	67
Gains (losses) excluding FVTPL bonds	**1**	3	(2)	**75**	64	11
Realized and unrealized gains (losses) on FVTPL bonds	**59**	(30)	89	**159**	(86)	245
Net gains (losses)	**60**	(27)	87	**234**	(22)	256

[1] Includes a $72 million broker gain in Q1-2019 related to a change in control. ***See Note 12 – Net gains (losses) of the accompanying interim Consolidated financial statements for further details.***

2019 vs 2018

- **Net gains excluding FVTPL bonds of $75 million in H1-2019** included a broker gain of $72 million in Q1-2019. Net gains excluding FVTPL bonds of $64 million in H1-2018 reflected gains from ordinary trading activities.
- **Realized and unrealized gains on our FVTPL bonds of $59 million in Q2-2019 and $159 million in H1-2019** were driven by declining interest rates in 2019 in both Canada and the U.S. ***(see Section 4.2 – Capital markets)***. These gains were mostly offset by the negative impact of lower rates used to discount our claims liabilities (MYA) ***(see Section 15 – Non-operating results)***.

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

ENVIRONMENT & OUTLOOK

Section 5 – Insurance industry Q1-2019 update

5.1 P&C insurance in Canada

Industry data below represents IFC's estimate of its outperformance (underperformance) based on MSA. The industry benchmark consists of the 20 largest comparable companies in the P&C industry based on industry data. ***Refer to Important notes on page 2 for further details.***

Table 14 – Canadian P&C Industry – IFC outperformance (underperformance) [1]

	Q1-2019	Full year 2018	Full year 2017	Full year 2016	Full year 2015
ROE (for the last 12 months)[2] vs P&C Industry	**9.8 pts**	8.9 pts	6.9 pts	5.8 pts	5.1 pts
DPW growth (including industry pools) vs Industry benchmark	**(2.8) pts**	(4.4) pts	(2.4) pts	2.4 pts	3.4 pts
Combined ratio (including MYA) vs Industry benchmark	**3.2 pts**	8.3 pts	6.2 pts	4.7 pts	5.2 pts

[1] AMF (Québec) chartered insurance companies are not required to report on Q1 and Q3 results. As such, we have included estimates for non-reporters in our Industry benchmark group, based on publicly available information. Actual results may vary.

[2] IFC's ROE corresponds to the AROE.

- **Our ROE outperformance of 9.8 points versus the P&C insurance industry** was well above our objective of 5 points mainly due to **our strong underwriting performance.**
- **Our growth underperformance against our industry benchmark** improved as competitors are increasing rates, driven by positive momentum in units supported by hard market conditions.
- **Combined ratio outperformance against our industry benchmark** narrowed to 3.2 points, reflecting a lower level of favourable PYD for IFC compared to the industry.

For additional information on the Canadian P&C insurance industry and the U.S. specialty insurance industry as a whole, ***refer to our MD&A for the quarter ended March 31, 2019***.

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

Section 6 – Outlook

6.1 P&C insurance industry 12-month outlook

- For the Canadian P&C industry, we expect mid-to-upper single-digit premium growth. Market conditions are hard as weak industry profitability in all lines of business continues to put upward pressure on rates.
- In U.S. commercial, the pricing environment remains competitive with improving upward trends continuing. We expect mid single-digit growth.
- Overall, the Canadian industry's ROE is expected to improve but remain below its long-term average of 10% over the next 12 months.

	P&C insurance industry 12-month outlook	Our response
Personal auto	• Industry growth exceeded 6% in 2018 and accelerated further in the first quarter of 2019. • Industry profitability continues to be challenged with a combined ratio estimated above 100% in 2018, while the impact of the severe winter deteriorated results further in the first quarter. • The market is hard with rate actions continuing, tightening of capacity and further increases in residual market volumes. • We expect growth at a mid-to-upper single-digit level over the next 12 months.	• Our actions continue on pricing, underwriting and claims to tackle trends. • We are focused on sustaining our mid-90's combined ratio performance in 2019. • We continue to price our products appropriately, while our competitive position is improving steadily. • Our brand investments and focus on customer driven digital leadership will continue to help selectively grow this business. We are also investing in telematics, big data, and artificial intelligence to maintain our advantage in data and segmentation.
Personal property	• Industry growth exceeded 5% in 2018 and we expect the severe winter weather will lead to further hardening of market conditions. • We expect growth at a mid-to-upper single-digit level over the next 12 months.	• Product enhancements and pricing actions taken over time have positioned this business very well for the future. • We expect to continue to capitalize on market conditions with rate increases to ensure our results remain sustainable even with severe weather.
Commercial lines Canada	• Industry growth continued in the double-digit range in Q1-2019. • Estimated Industry combined ratios were above 100% in 2018 and Q1-2019. Market conditions are hard. • We expect growth at an upper single-digit to low-double digit level over the next 12 months.	• In this favourable environment we are focused on improving profitability through discipline on pricing and underwriting of each risk. • We continue to capture opportunities where we see market inefficiencies while our focus on loss prevention and service excellence remains. • We have strengthened our capabilities and product suite in specialty lines, and we continue to develop innovative products to address customer needs.

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

	P&C insurance industry 12-month outlook	Our response
U.S. Commercial lines	• The U.S. Commercial P&C industry grew approximately 4% in 2018 with a combined ratio estimated in the upper 90's. Growth showed continued momentum in the first quarter of 2019. • The market remains competitive but is firming, with improving upward pricing trends continuing. • We expect mid single-digit industry growth over the next 12 months.	• Our objective is to grow the U.S. specialty business, and opportunities are being successfully pursued in the segments of the portfolio performing at or above expectations. • Profitability actions on underperforming lines and claims improvement initiatives are well underway and gaining traction towards our goal to operate at a combined ratio in the low-90's on a sustainable basis by the end of 2020.
Investments	• Investment yields remain low by historical standards. While there was upward momentum on interest rates in 2018 the first six months of 2019 have seen rates fall. • Volatility in capital markets may put some pressure on investment market values and capital levels.	• We continuously seek to optimize the composition of our investment portfolio, taking into account factors including risk, return, capital, regulation and tax legislation changes. • Our investment management team seeks to maximize after-tax returns while preserving capital and limiting volatility.
Overall	• Overall, we expect the industry's ROE to improve but remain below its long-term average of 10% over the next 12 months.	• With our action plans and strategies, we expect to outperform the industry's ROE by more than 500 basis points.

Section 7 – Recent developments

7.1 At a glance

Innovation

In line with our strategy to deliver a customer experience that is second to none and build a best in class digital distribution and service platform:

- In April, we launched the new **Web Checkout for belairdirect customers**, which allows customers to purchase a quick quote online and on their mobile devices.
- On May 8, we **enhanced the existing proof of car insurance (pink slip) already available in the mobile application**, making it available in all provinces. The pink slip is now displaying all the required information to reflect the printed proof of insurance.
- On June 3, we launched the **Home Insurance Quick Quote for personal lines customers in Ontario**. This tool, which was launched in Quebec last year, helps make it faster and simpler for customers to purchase insurance through brokers, while helping brokers compete in a changing insurance industry.

Acquisition and financing activities

- **BrokerLink acquired several new brokers**, including Ontario-based Amplex Insurance Brokers Ltd., Alberta-based JDR Insurance, as well as Thomson Schindle Green Insurance & Financial Services Ltd.

Awards and recognition

- belairdirect and its media agency PHD received a **silver award at the Festival of Media Global Awards** in Rome, Italy. The Festival rewards the most creative, strategic and innovative media campaigns on the planet.

Governance, climate adaptation social responsibility

Supporting climate change adaptation initiatives has been, and will continue to be, a priority.

- On April 25, 2019, we announced a **commitment of $2.3 million** to 16 Canadian charitable partners from coast to coast focused on protecting Canadians from the impacts of climate change.
- In response to the spring floods in Quebec, Ontario and New Brunswick, we provided support for affected communities with a **$200,000 donation to the Canadian Red Cross** for relief efforts related to the floods.
- We released our **2018 social impact report** on April 30, detailing our environment, social, governance (ESG) considerations and how we give back to communities across Canada.
- The OneBeacon Charitable Trust released its **2018 charitable giving report** detailing our community involvement across the U.S., including contributing nearly $230,000 to over 120 organizations.
- OneBeacon awarded sixteen $2,000 **college scholarships**. Recipients were based on criteria such as academic performance, leadership roles and participation in school and community activities.

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

FINANCIAL CONDITION

Section 8 – Financial position

Q2-2019 Highlights

Investment portfolio	Claims liabilities	BVPS for the last 12 months	Debt-to-total capital ratio
$17.4 billion	$11.0 billion	+3%	21.6%

8.1 Balance sheets

Table 15 – Balance sheets

As at	Section	June 30, 2019	December 31, 2018
Assets			
Cash, cash equivalents and short-term notes		**292**	461
Fixed-income securities		**11,844**	11,682
Preferred shares		**1,181**	1,165
Common shares		**3,817**	3,295
Loans		**312**	294
Investments	*9*	**17,446**	16,897
Premium receivables		**3,487**	3,358
Reinsurance assets	*10*	**927**	864
Deferred acquisition costs		**959**	903
Other assets		**2,209**	1,840
Intangible assets and goodwill		**4,552**	4,599
Total assets		**29,580**	28,461
Liabilities			
Claims liabilities	*10*	**10,951**	10,623
Unearned premiums		**5,568**	5,412
Financial liabilities related to investments		**458**	289
Other liabilities		**2,438**	2,118
Debt outstanding		**2,192**	2,209
Total liabilities		**21,607**	20,651
Shareholders' equity			
Common shares		**2,816**	2,816
Preferred shares		**1,028**	1,028
Contributed surplus		**154**	149
Retained earnings		**3,750**	3,776
AOCI		**225**	41
Shareholders' equity		**7,973**	7,810
Book value per share (in dollars)	*18.4*	**49.90**	48.73

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

Section 9 – Investments

Our investment portfolio is mainly comprised of Canadian and U.S. securities. Our invested assets increased by $549 million from December 31, 2018 to $17.4 billion as at June 30, 2019, largely due to the rebound in equity markets and lower yields.

- The Canadian securities mainly comprise a mix of cash and short-term notes, fixed-income securities, preferred shares, common shares and loans.
- The U.S. securities mainly comprise fixed-income securities (including asset-backed securities and corporate bonds) and common shares.

High-quality investment portfolio

Fixed income
Our fixed-income portfolio includes high quality Government and corporate bonds. Approximately 90% of our fixed-income portfolio was rated 'A-' or better as at June 30, 2019 and December 31, 2018. On a consolidated basis, the weighted-average rating of our fixed-income portfolio was 'AA' as at June 30, 2019 and December 31, 2018. The average duration of our fixed-income portfolio was 3.76 years as at June 30, 2019 (3.70 years as at December 31, 2018).

Preferred shares
Our preferred share portfolio is made up of high-quality Canadian issuers. The weighted-average rating of our preferred share portfolio was 'P2' as at June 30, 2019 and December 31, 2018.

Net exposure by asset class

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

Table 16 – Investment mix by asset class (net exposure)

As at	June 30, 2019	December 31, 2018
Cash, cash equivalents, and short-term notes	**2%**	3%
Fixed-income	**75%**	75%
Preferred shares	**7%**	7%
Common equities	**14%**	13%
	98%	98%
Loans	**2%**	2%
	100%	100%

Net currency exposure

We hedge the currency exposure of all USD-denominated investments in our Canadian entities using foreign currency contracts, resulting in minimal currency gains or losses. As at June 30, 2019 and December 31, 2018, on a net exposure basis, 81% of our portfolio was denominated in CAD, 17% in USD and 2% in other currencies.

Net sectoral exposure

Our fixed-income portfolio remains concentrated in the Government and financial sectors providing liquidity and stability to our balance sheet.

As at June 30, 2019, our structured debt securities comprised $739 million of asset-backed securities ("ABS") and $1,255 million of mortgage-backed securities ("MBS") ($689 million and $1,256 million respectively as at December 31, 2018). Residential MBS ("RMBS") and Commercial MBS ("CMBS") make up approximately 50%-50% of our MBS portfolio. Approximately 99% of these structured debt securities are rated 'A' or better as at June 30, 2019 and December 31, 2018.

We continue to have no exposure to leveraged securities.

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

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

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

Table 17 – Net pre-tax unrealized gain (loss) on AFS securities

As at	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018
Fixed-income securities	**162**	107	17	(38)	(11)
Preferred shares	**(104)**	(70)	(83)	62	53
Common shares	**141**	140	(85)	148	117
Net pre-tax unrealized gain (loss) position	**199**	177	(151)	172	159

Quarter	Year-to-date
• **Our pre-tax unrealized gain position increased by $22 million from March 31, 2019** mainly due to mark-to-market gains on fixed-income securities, reflecting the decline in interest rates, partly compensated by mark-to-market losses on preferred shares reflecting the decrease in preferred share markets ***(see Section 4.2 – Capital markets for details)***.	• **Our pre-tax unrealized gain position increased by $350 million from December 31, 2018** mainly due to mark-to-market gains on common shares and fixed-income securities, reflecting the rebound in equity markets and the decline in interest rates since year-end ***(see section 4.2 – Capital markets for details)***.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions.

Aging of unrealized losses on AFS common shares

Table 18 – Aging of unrealized losses on AFS common shares

As at	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018
Less than 25% below book value	**76**	**72**	148	70	73
More than 25% below book value for less than 6 consecutive months	**4**	**16**	55	2	1
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	**47**	**23**	18	10	1
Unrealized losses on AFS common shares	**127**	**111**	221	82	75

Impairment losses on AFS common shares amounted to $12 million in Q2-2019 and $18 million YTD 2019. Since common shares are measured at fair value on our balance sheet, impairment losses have no impact on our BVPS.

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

Section 10 – Claims liabilities and reinsurance

10.1 Prior year development

PYD can fluctuate from quarter to quarter and year to year and, therefore, should be evaluated over longer periods of time. As yields increased in 2018, we expect average favourable PYD as a percentage of opening reserves to be in the 1-3% range going forward. We expect that the current accident year (CAY) loss ratio will be favourably impacted by these higher yields.

Favourable PYD (as a % of opening reserves) – P&C Canada

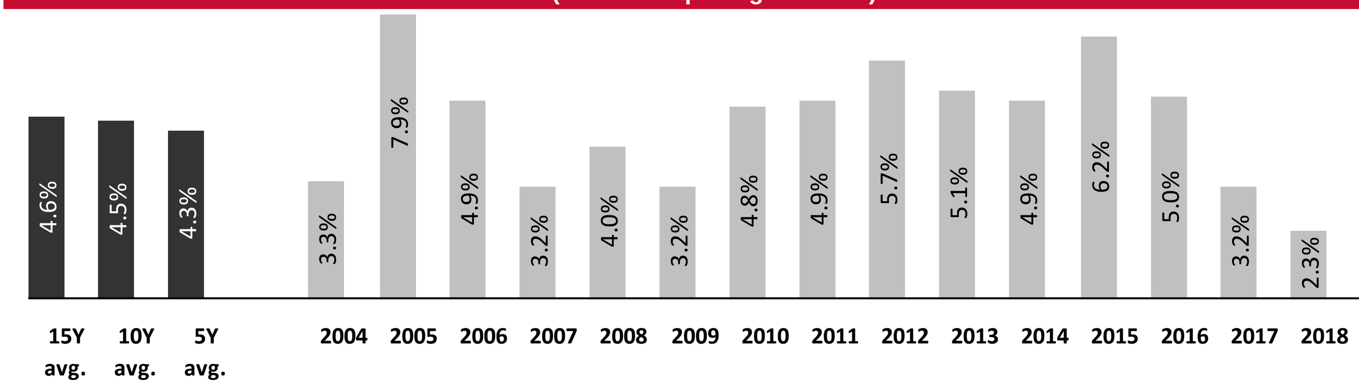


Table 18 – PYD by line of business

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
By line of business						
Personal auto	**93**	22	71	**113**	28	85
Personal property	**(3)**	(14)	11	**(19)**	(47)	28
Commercial lines – Canada	**(20)**	(42)	22	**(42)**	(86)	44
Commercial lines – U.S.	**(6)**	2	(8)	**(2)**	(2)	-
Total (favourable) unfavourable development	**64**	(32)	96	**50**	(107)	157
(Favourable) unfavourable annualized rate of PYD[1]						
P&C Canada	**3.4%**	(1.7)%	5.1 pts	**1.3%**	(2.6)%	3.9 pts
P&C U.S.	**(1.4)%**	0.5%	(1.9) pts	**(0.2)%**	(0.2)%	- pts
Consolidated	**2.6%**	(1.3)%	3.9 pts	**1.0%**	(2.2)%	3.2 pts

[1] As a % of opening reserves.

10.2 Reinsurance

In the ordinary course of business, we reinsure certain risks with reinsurers to limit our maximum loss in the event of catastrophic events or other significant losses.

In connection with the acquisition of OneBeacon, we entered into a reinsurance contract pursuant to which a major reinsurer will assume 80% of negative reserve development with respect to OneBeacon's claims liabilities for accident years 2016 and prior. The maximum amount recoverable under the ADC is US$200 million and is subject to some exclusions and limitations. As at June 30, 2019, significant capacity remains under this coverage.

Reference to our 2018 Consolidated financial statements

See Note 14 – Reinsurance for further details

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

Section 11 – Treasury management

11.1 Financing structure

- We believe that our optimal financing structure is one where the debt-to-total capital ratio is generally at 20%.
- We also expect to have approximately 10% of our total capital comprised of preferred shares.
- The debt-to-total capital ratio may occasionally exceed 20% with a firm plan to revert back to 20% within a short period of time; in the case of the OneBeacon acquisition, approximately 24 months following closing.

Our debt-to-total capital ratio increased to 24.7% following the acquisition of OneBeacon at the end of September 2017, and has decreased to 21.6% as at June 30, 2019 (22.0% as at December 31, 2018). We anticipate to revert back to 20% by year-end, following the repayment at maturity of the $250 million principal amount of Series 1 medium term notes.

Our $750 million credit facility matures on August 28, 2023. As at June 30, 2019 and December 31, 2018, there were no outstanding amounts under our credit facility and all covenants were fully met.

11.2 Credit ratings

Independent third-party rating agencies assess our insurance subsidiaries' ability to meet their ongoing policyholder obligations ("financial strength rating") and our ability to honour our financial obligations ("senior unsecured debt rating"). Our credit ratings remained unchanged during the quarter.

11.3 Understanding our cash flows

Cash flows used in operating activities mainly consist of insurance premiums less claims and expense payments, plus investment income. Cash is used to pay dividends on common and preferred shares. Cash may also be deployed for strategic purposes like business acquisitions, investments in brokerage firms and share buybacks, or to repay outstanding financing. Cash inflows in excess of these outflows are moved to our investment portfolio to generate additional investment income in the future.

Table 19 – Cash flows

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
Net cash flows provided by operating activities	**379**	317	62	**417**	70	347
Cash flows generated from (deployed on):						
Equity investments in brokerages and other, net	**(8)**	(2)	(6)	**(50)**	(5)	(45)
Purchases of intangibles and P&E, net	**(34)**	(29)	(5)	**(60)**	(51)	(9)
Dividends	**(117)**	(105)	(12)	**(234)**	(211)	(23)
Repurchase of common shares for share-based payments	**(25)**	(21)	(4)	**(34)**	(29)	(5)
Payments of lease liabilities[1]	**(11)**	-	(11)	**(24)**	-	(24)
Issuance of Class A Preferred Shares	**-**	243	(243)	**-**	243	(243)
Borrowing (repayment) on our credit facility, net	**-**	12	(12)	**-**	10	(10)
Net cash inflows (outflows) before the following:	**184**	415	(231)	**15**	27	(12)
Proceeds from investment sales (purchases), net	**(166)**	(372)	206	**(196)**	89	(285)
Net increase (decrease) in cash and cash equivalents	**18**	43	(25)	**(181)**	116	(297)

[1] Related to the adoption of IFRS 16 (Leases).

2019 vs 2018

Net cash flows provided by operating activities increased by $62 million in the quarter and $347 million year-to-date, mainly due to the timing of income tax payments.

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

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

Section 12 – Capital management

12.1 Capital management objectives

Our objectives when managing capital consist of:

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

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

12.2 Capital position

All our regulated P&C insurance subsidiaries are well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels and Company action levels (CALs). CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 20 – Estimated aggregated capital position

As at	June 30, 2019	March 31, 2019	December 31, 2018
Canadian regulated entities			
Regulatory capital ratio	**191%**	198%	201%
Industry-wide supervisory minimum levels	**150%**	150%	150%
Capital above CALs (capital margin)	**379**	486	530
Other regulated entities			
Capital above CALs (capital margin)[1]	**616**	617	505
Unregulated entities	**274**	264	298
Total capital margin[2]	**1,269**	1,367	1,333

[1] Include Atlantic Specialty Insurance Company (U.S.), Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados).

[2] Includes the aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC and other CALs in other jurisdictions) plus available cash in unregulated entities.

Quarter	Year-to-date
Total capital margin decreased by $98 million from March 31, 2019, as capital generation in the quarter was impacted by the seasonality in capital requirements, unfavourable PYD on older files in personal auto, and lower preferred share prices.	**Total capital margin decreased by $64 million from December 31, 2018**, as capital generation was more than offset by the impact of severe weather in Q1-2019 and unfavourable PYD.

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

OTHER

Section 13 – Sensitivity analyses

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

Reference to our Q4-2018 MD&A
Section 24 – Sensitivity analyses for details

Section 14 – Presentation changes

Effective in Q1-2019, we have improved the way we report the performance of our distribution channel and investment/other expenses, to better align our reporting with how management views the results of our business. **We have reclassified comparative figures in order to ensure comparability and consistency with this new presentation.**

Reference to our Q1-2019 MD&A	
Section 2.6 – Presentation change for our distribution channel for more details on Distribution EBITA	*Section 14 – Presentation changes for the impact on full year 2018 results*

The changes, outlined below, have **no impact on Net Operating Income (NOI), net income, or on 2019 growth guidance previously provided for distribution income and net investment income:**

(A) Distribution EBITA: Will replace net distribution income.

(B) Net investment income and other income (expenses): In order to better reflect the advantage of our internal asset management, we will now reflect our actual costs in investment expenses. Previously, investment expenses were presented at market value (with an offset presented in other income (expenses)). This new presentation has resulted in increased net investment income, with a corresponding offset in other expenses, both of which are operating items.

Table 21 – Reclassifications for 2018

For the	Quarter ended June 30, 2018				Six-month period ended June 30, 2018			
	Previously reported	(A)	(B)	Reclassified	Previously reported	(A)	(B)	Reclassified
Underwriting income	93	-	-	**93**	112	-	-	**112**
Net investment income	134	-	3	**137**	256	-	6	**262**
Distribution EBITA/Net distribution income	52	10	-	**62**	76	16	-	**92**
Finance costs	(26)	(3)	-	**(29)**	(51)	(6)	-	**(57)**
Other income (expense)	(9)	-	(3)	**(12)**	(10)	-	(6)	**(16)**
PTOI	244	7	-	**251**	383	10	-	**393**
Operating tax expense	(43)	(7)	-	**(50)**	(62)	(10)	-	**(72)**
NOI	201	-	-	**201**	321	-	-	**321**
NOIPS (in dollars)	1.38	-	-	**1.38**	2.19	-	-	**2.19**
Operating effective tax rate	17.5%	2.4 pts	-	**19.9%**	16.1%	2.2 pts	-	**18.3%**
Non-operating gains (losses)	(45)	(1)	-	**(46)**	(64)	(2)	-	**(66)**
Non-operating income tax recovery	5	1	-	**6**	7	2	-	**9**
Net income	161	-	-	**161**	264	-	-	**264**
Total effective tax rate	19.1%	2.4 pts	-	**21.5%**	17.2%	2.1 pts	-	**19.3%**

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

Section 15 – Non-operating results

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

Table 22 – Non-operating results

	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
Net gains (losses) *(Table 13)*						
Realized and unrealized gains (losses) on FVTPL bonds	**59**	(30)	89	**159**	(86)	245
Gains (losses) excluding FVTPL bonds	**1**	3	(2)	**75**	64	11
Positive (negative) impact of MYA on underwriting	**(58)**	39	(97)	**(150)**	91	(241)
Amortization of intangible assets recognized in business combinations	**(24)**	(24)	-	**(48)**	(45)	(3)
Integration and restructuring costs	**(8)**	(14)	6	**(12)**	(39)	27
Difference between expected return and discount rate on pension assets	**(12)**	(13)	1	**(24)**	(25)	1
Underwriting results of exited lines	**(13)**	(4)	(9)	**(17)**	(19)	2
Other	**(7)**	(3)	(4)	**(12)**	(7)	(5)
Non-operating gains (losses)	**(62)**	(46)	(16)	**(29)**	(66)	37
Income tax recovery (expense) on the above items	**18**	6	12	**31**	9	22
After-tax non-operating gains (losses)	**(44)**	(40)	(4)	**2**	(57)	59

- **Net gains (losses)** and the effect of **MYA** on underwriting arise mostly from changes in market conditions, which can be volatile to earnings.
- Claims liabilities are discounted at the estimated market yield of the assets backing these liabilities. The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets is referred to as **MYA**. MYA is included in Net claims incurred in our consolidated statements of income.
- **Integration and restructuring costs** include items such as retention bonuses, acquisition-related expenses and other restructuring costs.
- The **difference between the expected return and discount rate on pension assets** is treated as non-operating results, as the gap in these measures is not reflective of our internal investment management expertise and management of our pension asset portfolio.
- **Underwriting results of exited lines** included the results of the U.S. Commercial's business units Programs, and Architects and Engineers. In our consolidated statements of income, underwriting results of exited lines are presented in several captions, namely DPW, NEP, Net claims incurred and Underwriting expenses.

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

Section 16 – Non-IFRS financial measures

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

The non-IFRS financial measures used in this MD&A include measures related to:

- Our underwriting performance *(see Section 16.1)*: Change or growth in constant currency, DPW, underwriting income (loss), combined ratio, NEP, total net claims, underlying current year loss ratio, PYD and underwriting expenses.
- Our consolidated performance *(see Section 16.2)*: Distribution EBITA, finance costs, other income (expense), total income taxes, income before income taxes, NOI, NOIPS, OROE, adjusted net income, AEPS and AROE.

16.1 Underwriting performance

Growth or change in constant currency

- Represents the growth or change between two figures, excluding the impact of foreign currency fluctuations. This is calculated by applying the exchange rate in effect for the current year to the results of the previous year. We believe that this measure enhances the analysis of our results with comparative periods, particularly with respect to the KPI of our U.S. segment (namely, DPW and NEP growth, as the impact of currency fluctuations on underwriting ratios is minimal and not considered significant).

DPW

- Represents the total amount of premiums for new and renewal policies written during the reporting period, normalized for the effect of multi-year policies, excluding industry pools, fronting and exited lines. We consider that this measure better reflects the operating performance of our core operations, and that it is the most useful measure in terms of measuring growth, volume of business and market share.
- This measure matches premiums written to the year in which coverage is provided, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.

Table 23 – Reconciliation of DPW and DPW growth to DPW, as reported under IFRS

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
DPW, as reported under IFRS	**3,119**	2,940	**5,327**	5,064
Remove: impact of industry pools and fronting	**(38)**	(29)	**(86)**	(59)
Remove: DPW of exited lines	**(1)**	(4)	**(1)**	(12)
DPW (full term)	**3,080**	2,907	**5,240**	4,993
Add: impact of the normalization for multi-year policies	**72**	1	**127**	(3)
DPW, as reported in the MD&A	**3,152**	2,908	**5,367**	4,990
DPW growth	**8%**	16%	**8%**	18%
DPW growth (in constant currency)	**8%**	16%	**7%**	18%

Underwriting income (loss)

Table 24 – Reconciliation of underwriting income (loss) to underwriting income (loss), as reported under IFRS

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
Underwriting income (loss), as reported under IFRS [1]	**(8)**	115	**(153)**	159
Remove: impact of MYA on underwriting results	**58**	(39)	**150**	(91)
Remove: difference between expected return and discount rate on pension assets	**12**	13	**24**	25
Remove: underwriting loss of exited lines	**13**	4	**17**	19
Underwriting income (loss), as reported in the MD&A	**75**	93	**38**	112
NEP, as reported in the MD&A *(see table 28 hereafter)*	**2,500**	2,410	**4,938**	4,744
Combined ratio	**97.0%**	96.1%	**99.2%**	97.6%

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

Management's Discussion and Analysis for the second quarter of 2019

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

Underlying current year loss ratio

- Represents our current year claims excluding catastrophe losses and PYD, expressed as a percentage of NEP before reinstatement premiums.
- Catastrophe events are not predictable and are subject to volatility; as such, excluding them provides clearer insight into the analysis of our current year performance.

Table 25 – Reconciliation of NEP before reinstatement premiums to NEP and of current year claims to net claims incurred, as reported under IFRS

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
NEP, as reported under IFRS	**2,501**	2,424	**4,941**	4,778
Remove: NEP of exited lines	**(1)**	(14)	**(3)**	(34)
NEP, as reported in the MD&A	**2,500**	2,410	**4,938**	4,744
Remove: reinstatement premiums ceded (recovered)	**(1)**	(1)	**(1)**	(1)
NEP, before reinstatement premiums	**2,499**	2,409	**4,937**	4,743
Net claims incurred, as reported under IFRS	**1,753**	1,569	**3,613**	3,168
Remove: impact of MYA on underwriting results	**(58)**	39	**(150)**	91
Remove: difference between expected return and discount rate on pension assets allocated to net claims incurred	**(5)**	(6)	**(10)**	(11)
Remove: net claims of exited lines	**(13)**	(17)	**(19)**	(50)
Total net claims, as reported in the MD&A	**1,677**	1,585	**3,434**	3,198
Remove: current year CAT claims	**(70)**	(142)	**(198)**	(178)
Remove: PYD	**(64)**	32	**(50)**	107
Current year claims (excluding CAT claims and PYD)	**1,543**	1,475	**3,186**	3,127
NEP, before reinstatement premiums	**2,499**	2,409	**4,937**	4,743
Underlying current year loss ratio	**61.7%**	61.2%	**64.5%**	65.9%
CAT loss ratio (including reinstatement premiums)	**2.8%**	5.8%	**4.0%**	3.8%
(Favourable) unfavourable PYD ratio ***(see table 26 below)***[1]	**2.6%**	(1.3)%	**1.0%**	(2.3)%
Claims ratio[1]	**67.1%**	65.7%	**69.5%**	67.4%

[1] Calculated using NEP, as reported in the MD&A.

Prior year claims development (PYD)

Table 26 – Reconciliation of PYD to prior year claims development, as reported under IFRS

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
(Favourable) unfavourable PYD, as reported under IFRS	**75**	(32)	**64**	(98)
Remove: PYD of exited lines	**(11)**	-	**(14)**	(9)
(Favourable) unfavourable PYD, as reported in the MD&A	**64**	(32)	**50**	(107)
NEP, as reported in the MD&A	**2,500**	2,410	**4,938**	4,744
(Favourable) unfavourable PYD ratio	**2.6%**	(1.3)%	**1.0%**	(2.3)%

Underwriting expenses

Table 27 – Reconciliation of underwriting expenses to underwriting expenses, as reported under IFRS

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
Underwriting expenses, as reported under IFRS	**785**	767	**1,538**	1,505
Net with: other underwriting revenues	**(29)**	(27)	**(57)**	(54)
Remove: difference between expected return and discount rate on pension assets allocated to underwriting expenses	**(7)**	(7)	**(14)**	(14)
Remove: underwriting expenses of exited lines	**(1)**	(1)	**(1)**	(3)
Underwriting expenses, MD&A basis	**748**	732	**1,466**	1,434
NEP, as reported in the MD&A	**2,500**	2,410	**4,938**	4,744
Expense ratio	**29.9%**	30.4%	**29.7%**	30.2%

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

16.2 Consolidated performance

Distribution EBITA, finance costs, other income (expense) and total income taxes.

- Effective in Q1-2019, Distribution EBITA is the measure used to report the performance of our distribution channel, which includes operating income before interest and taxes from our consolidated brokers (including BrokerLink) and our broker associates *(see Section 14 – Presentation changes)*.
- Other income (expense) include general corporate expenses and income, consolidation adjustments, regulatory fees related to our public company status, special projects and other operating items.
- Finance costs (MD&A) and income taxes (MD&A) include finance costs and income taxes (in their respective captions) from our broker associates, which are accounted for using the equity method under IFRS.

Table 28 – Reconciliation of Distribution EBITA, Finance costs and other income (expense) with the Consolidated financial statements

	MD&A Captions					
As presented in the interim F/S	Distribution EBITA	Finance costs	Other inc. (exp.)	Total income taxes	Pre-tax non-operating losses[1,2]	Total F/S caption
For the quarter ended June 30, 2019						
Other revenues	**42**	**-**	**3**	**-**	**-**	**45**
Share of profits from invest. in ass. & JV	**39**	**(2)**	**-**	**(8)**	**(11)**	**18**
Other expenses	**(9)**	**-**	**(8)**	**-**	**(20)**	**(37)**
Finance costs	**-**	**(28)**	**-**	**-**	**-**	**(28)**
Income tax recovery (expense)	**-**	**-**	**-**	**(22)**	**-**	**(22)**
Total, as reported in MD&A	**72**	**(30)**	**(5)**	**(30)**		
For the quarter ended June 30, 2018						
Other revenues	35	-	2	-	-	37
Share of profits from invest. in ass. & JV	30	(3)	-	(6)	(6)	15
Other expenses	(3)	-	(14)	-	(21)	(38)
Finance costs	-	(26)	-	-	-	(26)
Income tax recovery (expense)	-	-	-	(38)	-	(38)
Total, as reported in MD&A	62	(29)	(12)	(44)		
For the six-month period ended June 30, 2019						
Other revenues	**76**	**-**	**10**	**-**	**-**	**86**
Share of profits from invest. in ass. & JV	**55**	**(5)**	**-**	**(10)**	**(18)**	**22**
Other expenses	**(23)**	**-**	**(16)**	**-**	**(42)**	**(81)**
Finance costs	**-**	**(57)**	**-**	**-**	**-**	**(57)**
Income tax recovery (expense)	**-**	**-**	**-**		**-**	**-**
Total, as reported in MD&A	**108**	**(62)**	**(6)**	**(10)**		
For the six-month period ended June 30, 2018						
Other revenues	64	-	4	-	-	68
Share of profits from invest. in ass. & JV	45	(6)	-	(8)	(14)	17
Other expenses	(17)	-	(20)	-	(38)	(75)
Finance costs	-	(51)	-	-	-	(51)
Income tax recovery (expense)	-	-	-	(55)	-	(55)
Total, as reported in MD&A	92	(57)	(16)	(63)		

[1] Comprised of $24 million relating to amortization of intangible assets recognized in business combinations and $7 million to other non-operating results for the quarter ended June 30, 2019 ($24 million and $3 million respectively for the quarter ended June 30, 2018).

[2] Comprised of $48 million related to amortization of intangible assets recognized in business combinations and $12 million to other non-operating results for the six-month period ended June 30, 2019 ($45 million and $7 million respectively for the six-month period ended June 30, 2018).

Income before income taxes

- Includes income taxes related to broker associates, which are accounted for net of tax under IFRS. This measure is better aligned with how management analyzes the operating performance of our broker associates (recorded in distribution EBITA), which is on a pre-tax basis.

Table 29 – Reconciliation of income before income taxes under IFRS to income before income taxes (MD&A)

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
Income before income taxes, as reported under IFRS	**190**	199	**327**	319
Add: share of income tax expense of broker associates	**8**	6	**10**	8
Income before income taxes, as reported in the MD&A	**198**	205	**337**	327
Income tax benefit (expense), as reported in the MD&A *(table 28)*	**(30)**	(44)	**(10)**	(63)
Net income	**168**	161	**327**	264
Effective income tax rate (recovery), as reported in the MD&A	**15.0%**	21.5%	**3.0%**	19.3%

ROE

- Excludes dividends declared on preferred shares. Average common shareholder's equity is the mean of the shareholder's equity at the beginning and the end of the period, adjusted for significant capital transactions, if appropriate.

Table 30 – Reconciliation of ROE to net income

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
Net income	**168**	161	**327**	264
Remove: preferred share dividends	**(11)**	(8)	**(22)**	(16)
Net income attributable to common shareholders	**157**	153	**305**	248
Net income attributable to common shareholders for the last 12 months	**724**	633		
Average common shareholders' equity	**6,858**	6,332		
ROE for the last 12 months	**10.6%**	10.0%		

NOI, NOIPS and OROE

- Exclude non-operating results *(see Section 15 – Non-operating results for details)*.

Table 31 – Reconciliation of NOI, NOIPS and OROE to net income

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
Net income	**168**	161	**327**	264
Remove: income tax expense (benefit), as reported in the MD&A *(table 28)*	**30**	44	**10**	63
Remove: non-operating losses (gains)	**62**	46	**29**	66
Pre-tax operating income	**260**	251	**366**	393
Operating income tax benefit (expense)	**(48)**	(50)	**(41)**	(72)
NOI	**212**	201	**325**	321
Remove: preferred share dividends	**(11)**	(8)	**(22)**	(16)
NOI to common shareholders	**201**	193	**303**	305
Divided by weighted-average number of common shares (in millions)	**139.2**	139.2	**139.2**	139.2
NOIPS, basic and diluted (in dollars)	**1.44**	1.38	**2.17**	2.19
NOI to common shareholders for the last 12 months	**797**	743		
Average common shareholders' equity, excluding AOCI	**6,646**	6,220		
OROE for the last 12 months	**12.0%**	11.9%		

AEPS and AROE

- Exclude the after-tax impact of amortization of intangible assets recognized in business combinations, as well as integration and other acquisition-related costs. We believe that these acquisition-related items are not appropriate in assessing our performance compared to our peers.

Table 32 – Reconciliation of AEPS and AROE to net income

	Q2-2019	Q2-2018	YTD 2019	YTD 2018
Net income	**168**	161	**327**	264
Adjustments, net of tax				
Remove: impact of amortization of intangible assets recognized in business combinations	**18**	18	**36**	34
Remove: impact of integration and other acquisition-related costs	**3**	9	**6**	29
Adjusted net income	**189**	188	**369**	327
Remove: preferred share dividends	**(11)**	(8)	**(22)**	(16)
Adjusted net income attributable to common shareholders	**178**	180	**347**	311
Divided by weighted-average number of common shares (in millions)	**139.2**	139.2	**139.2**	139.2
AEPS, basic and diluted (in dollars)	**1.28**	1.30	**2.49**	2.23
Adjusted net income attributable to common shareholders for the last 12 months	**830**	717		
Average common shareholders' equity	**6,858**	6,332		
AROE for the last 12 months	**12.1%**	11.3%		

Section 17 – Accounting and disclosure matters

Reference to our interim consolidated financial statements		
Impact of IFRS 16 (Leases)	**Summary of significant accounting policies**	**Standards issued but not yet effective**
Note 3	*Note 3*	*Note 19*

17.1 Disclosure controls and procedures

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

17.2 Internal controls over financial reporting

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

No significant changes were made to our ongoing ICFR during the second quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

Section 18 – Shareholder information

18.1 Authorized share capital

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

18.2 Outstanding share data

Table 33 – Outstanding share data (number of shares)

As at July 30 2019	
Common shares	**139,188,634**
Class A	
Series 1 preferred shares	**10,000,000**
Series 3 preferred shares	**8,405,004**
Series 4 preferred shares	**1,594,996**
Series 5 preferred shares	**6,000,000**
Series 6 preferred shares	**6,000,000**
Series 7 preferred shares	**10,000,000**

Refer to our Annual Information Form for the year ended December 31, 2018 for information on the rights of shareholders.

18.3 Dividends declared on common shares and preferred shares

Table 34 – Dividends declared per share

	Q3-2019	Q2-2019[1]
Common shares	**0.76**	**0.76**
Class A		
Series 1 preferred shares	**0.21225**	**0.21225**
Series 3 preferred shares	**0.20825**	**0.20825**
Series 4 preferred shares	**0.27392**	**0.2706325**
Series 5 preferred shares	**0.325**	**0.325**
Series 6 preferred shares	**0.33125**	**0.33125**
Series 7 preferred shares	**0.30625**	**0.30625**

[1] On July 30, 2019, the Board of Directors approved the quarterly dividend for Q3-2019.

18.4 BVPS

Table 35 – Evolution of BVPS (in dollars)

As at	Q2-2019	YTD 2019	Last 12 months
BVPS, beginning of period	**50.21**	**48.73**	48.64
EPS	**1.13**	**2.19**	5.20
Dividends on common shares	**(0.76)**	**(1.52)**	(2.92)
Impact of market movements on AFS securities[1]	**0.13**	**1.93**	0.28
Net actuarial gains (losses) on employee future benefits[1]	**(0.45)**	**(0.55)**	(1.06)
Foreign exchange impact[1]	**(0.32)**	**(0.65)**	(0.05)
Impact of the adoption of IFRS 16	**-**	**(0.28)**	(0.28)
Other	**(0.04)**	**0.05**	0.09
BVPS, end of period	**49.90**	**49.90**	49.90
Period-over-period increase (decrease)	**(1)%**	**2%**	3%

[1] Reported in AOCI.

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

Section 19 – Selected quarterly information

19.1 Seasonality of the P&C insurance business

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

Reference to our Q4-2018 MD&A
Combined ratio seasonal indicator (by quarter), including and excluding CAT losses
Section 30.3 – Seasonality of the Canadian P&C insurance business

19.2 Selected quarterly information

Table 36 – Selected quarterly information [1, 2]

		2019				2018		2017
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
DPW	**3,152**	2,215	2,392	2,708	2,908	2,082	2,293	2,203
Total revenues[3]	**2,699**	2,625	2,697	2,644	2,589	2,496	2,576	2,231
NEP	**2,500**	2,438	2,509	2,462	2,410	2,334	2,400	2,082
Current year CAT losses	**70**	128	55	97	142	36	31	89
(Favourable) unfavourable PYD	**64**	(14)	(50)	(28)	(32)	(75)	(62)	(53)
Underwriting income (loss)	**75**	(37)	210	152	93	19	178	170
Combined ratio	**97.0%**	101.5%	91.7%	93.8%	96.1%	99.2%	92.6%	91.8%
Net investment income	**148**	140	143	136	137	125	125	105
Distribution EBITA	**72**	36	42	41	62	30	34	36
NOI	**212**	113	281	237	201	120	236	219
Net income	**168**	159	244	199	161	103	232	171
Per share measures, basic and diluted (in dollars)								
NOIPS	**1.44**	0.73	1.93	1.62	1.38	0.81	1.63	1.61
EPS	**1.13**	1.06	1.67	1.34	1.10	0.68	1.60	1.25

[1] *See Section 14 – Presentation changes.*

[2] *See Section 16 – Non-IFRS financial measures.*

[3] Total revenues exclude other underwriting revenues and NEP of exited lines.

19.3 Expected release dates of our financial results

Q3-2019	Q4-2019	Q1-2020	Q2-2020
November 5, 2019	February 4, 2020	May 5, 2020	July 28, 2020