

First Quarter

2021

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Interim Consolidated Financial Statements (unaudited)  
For the quarter ended March 31, 2021

Intact Financial Corporation





**Interim Consolidated financial statements (unaudited)**

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**INTACT FINANCIAL CORPORATION**
**Interim Consolidated balance sheets (unaudited)**

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

As at	Note	March 31, 2021	December 31, 2020
<b>Assets</b>			
Investments	5		
Cash and cash equivalents		\$ 1,062	\$ 917
Debt securities		13,819	14,098
Preferred shares		1,751	1,552
Common shares		4,385	3,779
Loans		249	284
<b>Total investments</b>		<b>21,266</b>	20,630
Premiums receivable		3,454	3,822
Reinsurance assets	9	1,498	1,533
Income taxes receivable		16	7
Deferred tax assets		156	179
Deferred acquisition costs		1,031	1,089
Other assets	10	1,226	1,201
Investments in associates and joint ventures		777	811
Property and equipment		519	520
Intangible assets		2,496	2,514
Goodwill		2,825	2,813
<b>Total assets</b>		<b>\$ 35,264</b>	\$ 35,119
<b>Liabilities</b>			
Claims liabilities	9	\$ 12,750	\$ 12,780
Unearned premiums		5,880	6,256
Financial liabilities related to investments	6	216	89
Income taxes payable		130	149
Deferred tax liabilities		272	279
Other liabilities	10	2,710	2,942
Debt outstanding	11	3,237	3,041
<b>Total liabilities</b>		<b>25,195</b>	25,536
<b>Shareholders' equity</b>			
Common shares		3,265	3,265
Preferred shares		1,175	1,175
Contributed surplus		187	187
Retained earnings		5,077	4,547
Accumulated other comprehensive income (loss)			
Available-for-sale securities		391	412
Translation of foreign operations, net of hedges		(25)	(2)
Other		(1)	(1)
<b>Total liabilities and shareholders' equity</b>		<b>\$ 35,264</b>	\$ 35,119

See accompanying notes to the interim Consolidated financial statements.

**INTACT FINANCIAL CORPORATION**

**Interim Consolidated statements of income (unaudited)**

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

For the three-month periods ended March 31,	Note	2021	2020
<b>Direct premiums written</b>		\$ 2,543	\$ 2,557
Premiums ceded		(124)	(158)
Net premiums written		2,419	2,399
Change in unearned premiums		358	367
<b>Net earned premiums</b>		<b>2,777</b>	<b>2,766</b>
Other underwriting revenues		35	33
Investment income	13		
Interest income		84	93
Dividend income		62	62
Other revenues		92	75
<b>Total revenues</b>		<b>3,050</b>	<b>3,029</b>
Net claims incurred	9	(1,431)	(1,829)
Underwriting expenses		(956)	(890)
Investment expenses	13	(5)	(5)
Net gains (losses)	14	118	(21)
Share of profit from investments in associates and joint ventures		11	3
Finance costs		(28)	(28)
Acquisition, integration and restructuring costs		(43)	(24)
Other expenses		(86)	(89)
Income before income taxes		630	146
Income tax benefit (expense)	15	(116)	(39)
<b>Net income attributable to shareholders</b>		<b>\$ 514</b>	<b>\$ 107</b>
Weighted-average number of common shares outstanding (in millions)	16	143	143
<b>Earnings per common share, basic and diluted (in dollars)</b>	<b>16</b>	<b>\$ 3.51</b>	<b>\$ 0.66</b>
Dividends paid per common share (in dollars)		\$ 0.83	\$ 0.83

See accompanying notes to the interim Consolidated financial statements.

**INTACT FINANCIAL CORPORATION**

**Interim Consolidated statements of comprehensive income (unaudited)**

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

For the three-month periods ended March 31,	Note	2021	2020
<b>Net income attributable to shareholders</b>		\$ 514	\$ 107
<b>Other comprehensive income (loss)</b>			
<b>Available-for-sale securities:</b>			
net changes in unrealized gains (losses)		133	(997)
income tax benefit (expense)		(65)	253
reclassification of net losses (gains)		(118)	83
income tax (benefit) expense		29	(22)
		(21)	(683)
<b>Foreign exchange gains (losses) on:</b>			
translation of foreign operations		(52)	365
net investment hedges		29	(199)
income tax benefit (expense)		-	7
		(23)	173
<b>Other, net of tax</b>		-	(5)
<b>Items that may be reclassified subsequently to net income</b>		(44)	(515)
Net actuarial gains (losses) on employee future benefits	18	205	292
income tax benefit (expense)		(53)	(76)
<b>Items that will not be reclassified subsequently to net income</b>		152	216
<b>Other comprehensive income (loss)</b>		108	(299)
<b>Total comprehensive income (loss) attributable to shareholders</b>		\$ 622	\$ (192)

See accompanying notes to the interim Consolidated financial statements.

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

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

	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
<b>Balance as at January 1, 2021</b>	\$ 3,265	\$ 1,175	\$ 187	\$ 4,547	\$ 409	\$ 9,583
Net income attributable to shareholders	-	-	-	514	-	514
Other comprehensive income (loss)	-	-	-	152	(44)	108
<b>Total comprehensive income (loss)</b>	-	-	-	666	(44)	622
Dividends declared on:						
common shares	-	-	-	(119)	-	(119)
preferred shares	-	-	-	(13)	-	(13)
Share-based payments	-	-	-	(4)	-	(4)
<b>Balance as at March 31, 2021</b>	\$ 3,265	\$ 1,175	\$ 187	\$ 5,077	\$ 365	\$ 10,069
<b>Balance as at January 1, 2020</b>	\$ 3,265	\$ 1,028	\$ 170	\$ 3,959	\$ 325	\$ 8,747
Net income attributable to shareholders	-	-	-	107	-	107
Other comprehensive income (loss)	-	-	-	216	(515)	(299)
<b>Total comprehensive income (loss)</b>	-	-	-	323	(515)	(192)
Preferred shares issued	-	147	-	-	-	147
Dividends declared on:						
common shares	-	-	-	(119)	-	(119)
preferred shares	-	-	-	(12)	-	(12)
Share-based payments	-	-	2	(2)	-	-
<b>Balance as at March 31, 2020</b>	\$ 3,265	\$ 1,175	\$ 172	\$ 4,149	\$ (190)	\$ 8,571

See accompanying notes to the interim Consolidated financial statements.

## INTACT FINANCIAL CORPORATION

### Interim Consolidated statements of cash flows (unaudited)

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

For the three-month periods ended March 31,	Note	2021	2020
<b>Operating activities</b>			
Income before income taxes		\$ 630	\$ 146
Income taxes received (paid), net		(215)	(154)
Contributions to the defined benefit pension plans		(14)	(13)
Share-based payments		(9)	(3)
Net losses (gains)	14	(118)	21
Adjustments for non-cash items	20	110	110
Changes in other operating assets and liabilities	20	1	(203)
Changes in net claims liabilities	9	16	196
<b>Net cash flows provided by (used in) operating activities</b>		<b>401</b>	<b>100</b>
<b>Investing activities</b>			
Proceeds from sale of investments		2,967	3,608
Purchases of investments		(3,226)	(3,677)
Proceeds (purchases) of brokerages and other equity investments, net		17	(43)
Purchases of intangibles and property and equipment, net		(50)	(29)
<b>Net cash flows provided by (used in) investing activities</b>		<b>(292)</b>	<b>(141)</b>
<b>Financing activities</b>			
Payment of lease liabilities		(16)	(15)
Proceeds from (repurchase of) securities sold under repurchase agreements		-	(20)
Proceeds from issuance of debt, net of issuance costs	11	247	299
Repayment of debt	11	(45)	-
Borrowing (repayment) on the credit facility, net		-	12
Proceeds from issuance of preferred shares, net of issuance costs		-	146
Repurchase of common shares for share-based payments		(13)	(11)
Payment of dividends on common shares		(119)	(119)
Payment of dividends on preferred shares		(13)	(12)
<b>Net cash flows provided by (used in) financing activities</b>		<b>41</b>	<b>280</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>150</b>	<b>239</b>
Cash and cash equivalents, beginning of year		917	936
Exchange rate differences on cash and cash equivalents		(5)	32
<b>Cash and cash equivalents, end of year</b>		<b>\$ 1,062</b>	<b>\$ 1,207</b>
<b>Composition of cash and cash equivalents</b>			
Cash		906	435
Cash equivalents		156	772
<b>Cash and cash equivalents, end of year</b>		<b>1,062</b>	<b>1,207</b>
<b>Other relevant cash flow disclosures – operating activities</b>			
Interest paid		24	23
Interest received		74	75
Dividends received		68	67

See accompanying notes to the interim Consolidated financial statements.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### Glossary of abbreviations

<b>AFS</b>	Available-for-sale	<b>IBNR</b>	Insurance claims incurred but not reported by policyholders
<b>AOCI</b>	Accumulated other comprehensive income	<b>IBOR</b>	Interbank offered rate
<b>ARR</b>	Alternative reference rate	<b>IFRS</b>	International Financial Reporting Standards
<b>CAD</b>	Canadian Dollar	<b>JV</b>	Joint ventures
<b>CALs</b>	Company action levels	<b>LTIP</b>	Long-term incentive plan
<b>CRA</b>	Canada Revenue Agency	<b>MBS</b>	Mortgage-backed securities
<b>DB</b>	Defined benefits	<b>MCT</b>	Minimum capital test (Canada)
<b>DKK (kr.)</b>	Danish krone, Denmark's official currency	<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>DPW</b>	Direct premiums written	<b>MYA</b>	Market yield adjustment
<b>DSU</b>	Deferred share unit	<b>NEP</b>	Net earned premiums
<b>EBITA</b>	Earnings before interest, taxes and amortization	<b>NOI</b>	Net operating income
<b>EPS</b>	Earnings per share to common shareholders	<b>OCI</b>	Other comprehensive income
<b>ESPP</b>	Employee share purchase plan	<b>P&amp;C</b>	Property and casualty
<b>EUR (€)</b>	Currency of the European Union	<b>PTOI</b>	Pre-tax operating income
<b>FVTPL</b>	Fair value through profit and loss	<b>RBC</b>	Risk-based capital (U.S.)
<b>GBP (£)</b>	British pound sterling, UK's official currency	<b>UK</b>	United Kingdom
<b>IAS</b>	International Accounting Standard	<b>U.S.</b>	United States
<b>IASB</b>	International Accounting Standards Board	<b>USD</b>	U.S. Dollar

#### Note 1 – Status of the Company

Intact Financial Corporation (the "Company"), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange (TSX: IFC). The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian P&C insurance market and offers specialty insurance products mainly to small and midsize businesses in the United States. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses. Effective February 18, 2020, OneBeacon Insurance Group Holdings, Ltd. was renamed Intact Insurance Group USA Holdings Inc. (referred to as "Intact U.S. (OneBeacon)"). On November 18, 2020, the Company announced the proposed acquisition of RSA Insurance Group plc ("RSA"), referred to as the "RSA acquisition". *See Note 4.1 – Business acquisition proposed in 2020 for more details.*

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

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

#### Note 2 – Basis of presentation

##### 2.1 Statement of compliance

These interim Consolidated financial statements are prepared in accordance with IAS 34 – *Interim Financial Reporting*. These interim Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on May 11, 2021.

##### 2.2 Preparation and presentation of financial statements

These interim Consolidated financial statements are condensed financial statements and should be read in conjunction with the Company's annual Consolidated financial statements for the year ended December 31, 2020.

The Company presents its interim Consolidated balance sheets broadly in order of liquidity.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### 2.3 Seasonality

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

#### 2.4 Foreign currency translation

Table 2.1 – Exchange rates used

	As at		Average rate for the three-month periods ended	
	March 31, 2021	December 31, 2020	March 31, 2021	March 31, 2020
USD vs CAD	1.25640	1.27210	1.26587	1.34380
GBP vs CAD	1.73188	1.73972	1.74596	n/a
EUR vs CAD	1.47338	1.55412	1.52517	n/a

#### 2.5 COVID-19 pandemic

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. The magnitude of the impact of the COVID-19 crisis on the economy and financial markets continues to evolve while also contributing to increased market volatility and changes to the macroeconomic environment. The significant response from governments to support businesses and economies, as well as the earlier than expected release of multiple COVID-19 vaccines, led to a rebound in financial markets since the first quarter of 2020. While restrictions eased for parts of the economy towards the end of 2020, the second wave of COVID-19 increased uncertainty and led to renewed lockdown measures. The emergence of new variants resulting in the third wave and uncertainty regarding vaccine effectiveness and distribution continue to contribute to economic uncertainty. Until the crisis has passed and economies fully reopen, the Company expects financial markets to remain volatile.

The Company continues to manage the impact on its business and believes that its operations and financial position remain strong and that it is well positioned to deal with this crisis. In addition, the effects of the COVID-19 crisis related to emerging coverage issues and claims, including certain class actions relating to business interruption coverage and related defence costs, as well as other indirect claims could negatively impact the Company's claims reserves. Regarding the class actions relating to business interruption coverage, most commercial policies, except in very limited instances, do not provide for business interruption coverage in the context of a closure due to COVID-19 since direct physical loss or damage is required to trigger this coverage. The Company plans to contest these class actions vigorously. In the event that these cases result in a significant judgment against the Company, the resulting liability could be material. Based on information currently known, the Company does not believe that the outcome of these cases will have a material impact on its consolidated financial condition, cash flows, or results of operations.

As the COVID-19 crisis continues to evolve, the extent to which it may impact the Company's operations will depend on future developments, including the effectiveness of measures to contain the spread of the virus, such as the retightening of lockdown measures, the effective roll out of vaccinations and actions that will be taken by governments and central banks to stabilize economic conditions. Consequently, the Company's financial results will be subject to volatility.

The increased uncertainty required management to use judgements, estimates and assumptions related to the COVID-19 crisis. Refer to **Note 3.2 – COVID-19 pandemic** of the annual Consolidated financial statements for the year ended December 31, 2020 for more details. The Company has also provided additional disclosures on the following areas impacted by COVID-19:

- The sensitivity analysis to market risk (*refer to Section 19 – Sensitivity analyses of the Company's interim MD&A*);
- The customer relief measures announced (*see below*).

#### Customer relief measures

In 2020, the Company provided customer relief measures including premium reductions to reflect changes in driving habits and lower business activity resulting from COVID-19 as well as a cap and reduction in rates on renewal and new business. The Company also provided flexible payment options and immediate relief measures for small business customers.

In March 2021, the Company announced new additional support, equivalent to one month of premiums, for eligible personal auto customers in Canada to reflect changes in driving habits during the latest wave of the COVID-19 pandemic.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

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For the three-month period ended March 31, 2021, these measures were estimated to have negatively impacted DPW by \$75 million and NEP by \$157 million, including \$82 million of premium reliefs written but unearned in 2020 (nil for the three-month period ended March 31, 2020).

### Note 3 – Summary of significant accounting policies

The accounting policies applied during the three-month period ended March 31, 2021 are the same as those described and disclosed in *Note 2 – Summary of significant accounting policies* of the annual Consolidated financial statements for the year ended December 31, 2020, except for the amendments to existing standards described below and adopted on January 1, 2021.

#### 3.1 Interest rate benchmark reform – Phase 2

In August 2020, the IASB issued amendments to IFRS 9 – *Financial instruments*, IAS 39 – *Financial instruments: recognition and measurement*, IFRS 7 – *Financial instruments: disclosures*, IFRS 4 – *Insurance contracts* and IFRS 16 – *Leases*. The amendments complement those issued in 2019 and focus on the effects on financial statements when an entity replaces an old interest rate benchmark with an ARR as part of the IBOR reform.

The amendments clarify that, if the contractual cash flows of a financial instrument are modified as a result of the reform, an entity updates the effective interest rate to reflect the change instead of derecognizing it or adjusting its carrying amount. In addition, hedge accounting relationships shall not be discontinued if changes are required by the reform, as long as the hedge meets other hedge accounting criteria.

As a result of the transition to ARRs, certain benchmark rates may be subject to discontinuance, changes in methodology, increased volatility or decreased liquidity. The Company, as a holder of certain IBOR-based instruments, is exposed to increased financial, operational, legal and regulatory risks as the rates transition. In order to manage those risks, the Company has established an enterprise-wide IBOR Transition Working Group, supported by senior management, to coordinate the transition from IBORs to ARRs, and to monitor the development and adoption of ARRs across the industry. The Company is progressing on its transition plan and incorporating market developments as they arise.

The Company's exposure to IBORs that have yet to transition to ARRs as at March 31, 2021 consists of financial assets of approximately \$65 million related to the US LIBOR. The Company has other financial instruments indexed to US LIBOR tenors which will mature before their related transition dates, therefore no additional disclosure was provided. The Company's financial instruments exposed to the CDOR are indexed to tenors that will continue as benchmark rates.

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

**Notes to the interim Consolidated financial statements (unaudited)**

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

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**Note 4 – Business combinations**

**4.1 Business acquisition proposed in 2020**

**RSA Insurance Group plc**

On November 18, 2020, the Company announced that, together with the Scandinavian P&C leader Tryg A/S (“Tryg”), it had reached an agreement on the terms of a recommended all-cash acquisition for the entire issued and to be issued share capital of RSA, a multinational insurance group with strong positions in the P&C insurance market in the UK, Scandinavia and Canada along with supporting international business in Ireland, Continental Europe and the Middle East.

RSA shareholders will be entitled to receive 685 pence per ordinary share which represents an aggregate cash consideration of approximately £7.2 billion (\$12.5 billion), with:

- The Company paying approximately £3.0 billion (\$5.2 billion) for the acquisition of RSA's Canadian, UK and International operations and the co-share of RSA's Danish business; and
- Tryg paying approximately £4.2 billion (\$7.3 billion) for the acquisition of RSA's Sweden and Norway businesses and the co-share of RSA's Danish business.

In 2020, financing for the purchase price of approximately \$5.2 billion (£3.0 billion) and expected related transaction costs of approximately \$0.7 billion was raised with \$4.45 billion of private placement subscription receipts, a €392 million (\$578 million) bank term loan facility to be drawn on closing and \$600 million of medium-term notes. The remaining balance was raised with \$250 million of subordinated notes issued in March 2021 (*refer to Note 11 – Debt outstanding*). The holders of the private placement subscription receipts are entitled to an additional \$27 million dividend equivalent payment related to dividends declared on February 9, 2021. The related amount was not accrued as at March 31, 2021 since such payment is contingent on closing of the acquisition. *Refer to Note 19 – Debt outstanding and Note 20 – Common shares and preferred shares* of the annual Consolidated financial statements for the year ended December 31, 2020 for more details.

The Company hedged the purchase price and other items to foreign currency fluctuations. *Refer to Note 7.2 – Currency hedging in relation with the RSA acquisition.*

The acquisition was approved by the Boards of Directors of all three companies on announcement and was approved by RSA's shareholders on January 18, 2021. As of May 6, 2021, all required anti-trust and regulatory approvals have been received. A court hearing is scheduled for May 25, 2021 for a formal approval of the transaction by the High Court of Justice in England and Wales. Upon approval, the acquisition is expected to close on June 1, 2021.

For the three-month period ended March 31, 2021 the Company recorded \$17 million of acquisition-related costs mainly related to professional fees incurred for the acquisition reported in the line Acquisition, integration and restructuring.

*Refer to Note 5 – Business Combinations* of the annual Consolidated financial statements for the year ended December 31, 2020 for more details.

# INTACT FINANCIAL CORPORATION

## Notes to the interim Consolidated financial statements (unaudited)

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

### Note 5 – Investments

#### 5.1 Classification of investments

Table 5.1 – Classification of investments

As at	Fair value			Amortized cost	Total carrying amount
	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents and loans	
<b>March 31, 2021</b>					
<b>Cash and cash equivalents</b>	-	-	-	1,062	1,062
Short-term notes <sup>1</sup>	901	-	-	-	901
Fixed income					
Investment grade					
Government	2,417	-	3,050	-	5,467
Corporate	2,145	-	3,075	-	5,220
Asset-backed <sup>2</sup>	363	-	119	-	482
Mortgage-backed					
Agency <sup>3</sup>	392	-	231	-	623
Non-agency	485	-	291	-	776
Below investment grade Corporate	25	-	5	-	30
Non-rated	320	-	-	-	320
<b>Debt securities</b>	<b>7,048</b>	<b>-</b>	<b>6,771</b>	<b>-</b>	<b>13,819</b>
Investment grade					
Retractable	21	-	-	-	21
Fixed-rate perpetual	360	-	-	-	360
Other perpetual	1,370	-	-	-	1,370
<b>Preferred shares</b>	<b>1,751</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,751</b>
<b>Common shares</b>	<b>2,769</b>	<b>19</b>	<b>1,597</b>	<b>-</b>	<b>4,385</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>249</b>	<b>249</b>
	<b>11,568</b>	<b>19</b>	<b>8,368</b>	<b>1,311</b>	<b>21,266</b>
<b>December 31, 2020</b>					
<b>Cash and cash equivalents</b>	-	-	-	917	917
Short-term notes <sup>1</sup>	684	-	-	-	684
Fixed income					
Investment grade					
Government	2,708	-	3,134	-	5,842
Corporate	2,270	-	2,968	-	5,238
Asset-backed <sup>2</sup>	366	-	76	-	442
Mortgage-backed					
Agency <sup>3</sup>	416	-	281	-	697
Non-agency	507	-	329	-	836
Below investment grade Corporate	20	-	4	-	24
Non-rated	335	-	-	-	335
<b>Debt securities</b>	<b>7,306</b>	<b>-</b>	<b>6,792</b>	<b>-</b>	<b>14,098</b>
Investment grade					
Retractable	21	-	-	-	21
Fixed-rate perpetual	303	-	-	-	303
Other perpetual	1,228	-	-	-	1,228
<b>Preferred shares</b>	<b>1,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,552</b>
<b>Common shares</b>	<b>2,405</b>	<b>17</b>	<b>1,357</b>	<b>-</b>	<b>3,779</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>284</b>	<b>284</b>
	<b>11,263</b>	<b>17</b>	<b>8,149</b>	<b>1,201</b>	<b>20,630</b>

<sup>1</sup> Includes the invested proceeds from the issuance of the \$250 million Series 1 subordinated notes issued on March 31, 2021 and \$600 million Series 9 and 10 medium-term notes issued on December 16, 2020. These amounts are held in a segregated account with restricted use until the closing date of the RSA acquisition.

<sup>2</sup> Credit card receivables and auto loans.

<sup>3</sup> Publicly traded MBS which carry the full faith and credit guarantee of the U.S. Government or are guaranteed by a government sponsored entity.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### 5.2 Carrying value of investments

Table 5.2 – Carrying value of investments

As at	FVTPL investments	Amortized cost	Unrealized gains <sup>2</sup>	Unrealized losses <sup>2</sup>	Other investments	Total investments
	Carrying value				Carrying value	Carrying value
<b>March 31, 2021</b>						
Cash and cash equivalents	-	1,062	-	-	1,062	1,062
Debt securities	6,771	6,889	195	(36)	7,048	13,819
Preferred shares <sup>1</sup>	-	1,655	130	(34)	1,751	1,751
Common shares	1,616	2,518	380	(129)	2,769	4,385
Loans	-	249	-	-	249	249
	<b>8,387</b>	<b>12,373</b>	<b>705</b>	<b>(199)</b>	<b>12,879</b>	<b>21,266</b>
<b>December 31, 2020</b>						
Cash and cash equivalents	-	917	-	-	917	917
Debt securities	6,792	7,009	304	(7)	7,306	14,098
Preferred shares <sup>1</sup>	-	1,560	70	(78)	1,552	1,552
Common shares	1,374	2,181	292	(68)	2,405	3,779
Loans	-	284	-	-	284	284
	<b>8,166</b>	<b>11,951</b>	<b>666</b>	<b>(153)</b>	<b>12,464</b>	<b>20,630</b>

<sup>1</sup> Includes unrealized gains (losses) on embedded derivatives of \$(33) million as at March 31, 2021 (\$12) million as at December 31, 2020). These derivatives were presented in Investments, with the related perpetual preferred shares, on the Consolidated balance sheets but their change in fair value was reported in Net gains (losses) in Net income.

<sup>2</sup> Foreign amounts are translated using the period-end exchange rate.

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

Table 5.3 – Credit quality of debt securities

As at	March 31, 2021	December 31, 2020
<b>Debt securities</b>		
AAA	38%	38%
AA	29%	30%
A	21%	21%
BBB	10%	9%
Not rated	2%	2%
	<b>100%</b>	<b>100%</b>

Table 5.4 – Credit quality of preferred shares

As at	March 31, 2021	December 31, 2020
<b>Preferred shares</b>		
P1	1%	-
P2	77%	80%
P3	22%	20%
	<b>100%</b>	<b>100%</b>

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### Note 6 – Financial liabilities related to investments

Table 6.1 – Financial liabilities related to investments

As at	March 31, 2021	December 31, 2020
Derivative financial liabilities ( <i>Table 7.1</i> )	115	38
Accounts payable to investment brokers on unsettled trades	92	43
Equities sold short positions	9	8
	<b>216</b>	<b>89</b>

#### Note 7 – Derivative financial instruments

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

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

Table 7.1 – Fair value and notional amount of derivatives

As at	March 31, 2021			December 31, 2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
<b>Foreign currency contracts</b>						
Forwards	10,300	106	34	10,328	154	23
Cross currency swaps	266	15	-	266	12	-
<b>Interest rate contracts</b>						
Futures	1,056	-	-	1,841	-	-
<b>Equity contracts</b>						
Swap	1,587	-	81	1,348	-	15
Futures	461	-	-	427	-	-
	<b>13,670</b>	<b>121</b>	<b>115</b>	<b>14,210</b>	<b>166</b>	<b>38</b>
Held for risk management purposes <sup>1</sup>	13,493	121	115	14,075	166	38
Held for trading purposes	177	-	-	135	-	-
	<b>13,670</b>	<b>121</b>	<b>115</b>	<b>14,210</b>	<b>166</b>	<b>38</b>
<b>Term to maturity:</b>						
less than one year	12,462			12,312		
from one to five years	1,208			1,898		
over five years	-			-		
	<b>13,670</b>			<b>14,210</b>		

<sup>1</sup> Includes designated net investment hedges using cross currency swaps and designated cash flow hedges using forward currency contracts.

**Notes to the interim Consolidated financial statements (unaudited)**

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

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**7.2 Currency hedging in relation with the RSA acquisition**

**Purchase price hedges**

In November 2020, in connection with the RSA acquisition, the Company entered into foreign currency forward contracts in order to hedge the £3.0 billion (\$5.2 billion) purchase price to exposures from fluctuations in the CAD/GBP and EUR/GBP currency pairs. These derivatives have a notional of £2.7 billion (\$4.7 billion) GBP/CAD and £0.3 billion (\$0.6 billion) GBP/EUR, of which £2.4 billion (\$4.2 billion) are contingent on the closing of the acquisition.

On January 18, 2021 (RSA's shareholders approval date), the RSA acquisition was considered highly probable and the purchase price hedge was designated as a cash flow hedge. From this date, the effective portion of changes in the fair value of GBP/CAD derivatives with a notional value of £2.1 billion (\$3.6 billion) are recognized in OCI and the ineffective portion are recognized in Net gains (losses) in Net income. On closing, gains or losses recognized in AOCI will be included in the purchase price consideration for RSA. Before January 18, 2021, these derivatives did not qualify as cash flow hedges. As a result, the changes in the fair value were recognized in Net gains (losses) in Net income.

*Refer to Note 4.1 – Business acquisition proposed in 2020 for more details.*

**Book value hedges**

In November 2020, the Company also entered into foreign currency forward contracts for a notional of £700 million (\$1.2 billion), whereby it sells GBP for CAD, in order to reduce its book value exposure to the GBP. These derivatives represent economic hedges and the changes in the fair value are recognized through Net income until closing of the transaction. In addition, the Company intends to hedge its book value exposure to the DKK/EUR after closing with its €392 million (\$578 million) bank term loan facility. After closing of the acquisition, these derivatives and financial liability will be designated as hedges of net investments in foreign operations, with the effective portion of changes in fair value recognized in OCI and the ineffective portion recognized in Net gains (losses) in Net income.

The Company also entered into other foreign currency forward contracts for a net notional of £100 million (\$173 million) CAD/GBP for risk management purposes related to the RSA acquisition.

*Refer to Note 4.1 – Business acquisition proposed in 2020 for more details.*

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 8 – Fair value measurement

8.1 Categorization of fair values

Table 8.1 – Fair value hierarchy of financial assets and financial liabilities

As at	Level 1 Valued using quoted (unadjusted) market prices	Level 2 Valued using models (with observable inputs)	Level 3 Valued using models (without observable inputs)	Total
<b>March 31, 2021</b>				
Short-term notes	790	111	-	901
Fixed income				
Investment grade				
Government	2,192	3,275	-	5,467
Corporate	-	5,220	-	5,220
Asset-backed	-	482	-	482
Mortgage-backed				
Agency	-	623	-	623
Non-agency	-	776	-	776
Below Investment grade Corporation	-	30	-	30
Non-rated	-	-	320	320
<b>Debt securities</b>	<b>2,982</b>	<b>10,517</b>	<b>320</b>	<b>13,819</b>
<b>Preferred shares<sup>1</sup></b>	<b>1,751</b>	<b>-</b>	<b>-</b>	<b>1,751</b>
<b>Common shares</b>	<b>4,356</b>	<b>-</b>	<b>29</b>	<b>4,385</b>
<b>Derivative financial assets (Table 7.1)</b>	<b>-</b>	<b>121</b>	<b>14</b>	<b>135</b>
<b>Total financial assets measured at fair value</b>	<b>9,089</b>	<b>10,638</b>	<b>363</b>	<b>20,090</b>
<b>Total financial liabilities measured at fair value (Table 6.1)</b>	<b>9</b>	<b>115</b>	<b>-</b>	<b>124</b>
<b>December 31, 2020</b>				
Short-term notes	459	225	-	684
Fixed income				
Investment grade				
Government	2,541	3,301	-	5,842
Corporate	-	5,238	-	5,238
Asset-backed	-	442	-	442
Mortgage-backed				
Agency	-	697	-	697
Non-agency	-	836	-	836
Below Investment grade Corporation	-	24	-	24
Non-rated	-	-	335	335
<b>Debt securities</b>	<b>3,000</b>	<b>10,763</b>	<b>335</b>	<b>14,098</b>
<b>Preferred shares<sup>1</sup></b>	<b>1,552</b>	<b>-</b>	<b>-</b>	<b>1,552</b>
<b>Common shares</b>	<b>3,751</b>	<b>-</b>	<b>28</b>	<b>3,779</b>
<b>Derivative financial assets (Table 7.1)</b>	<b>-</b>	<b>166</b>	<b>-</b>	<b>166</b>
<b>Total financial assets measured at fair value</b>	<b>8,303</b>	<b>10,929</b>	<b>363</b>	<b>19,595</b>
<b>Total financial liabilities measured at fair value (Table 6.1)</b>	<b>8</b>	<b>38</b>	<b>-</b>	<b>46</b>

<sup>1</sup> Includes perpetual preferred shares with call options amounting to \$1,553 million as at March 31, 2021 (\$1,373 million as at December 31, 2020). The fair value of the embedded derivatives component amounting to \$90 million as at March 31, 2021 (\$63 million as at December 31, 2020) was determined using a Level 3 methodology.

The fair value of loans was \$247 million as at March 31, 2021 (\$290 million as at December 31, 2020).

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

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### Note 9 – Claims liabilities and reinsurance

##### 9.1 Claims liabilities

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

Refer to Note 11 – Claims liabilities of the annual Consolidated financial statements for the year ended December 31, 2020 for more details on the significant accounting judgements, estimates and assumptions used in relation to COVID-19.

Table 9.1 – Movements in claims liabilities

For the three-month periods ended	Direct	Ceded	Net
<b>March 31, 2021</b>			
Balance, beginning of period	12,780	1,381	11,399
Current period claims	1,785	66	1,719
Unfavourable (favourable) prior-year claims development	(147)	(5)	(142)
Increase (decrease) due to changes in discount rate	(161)	(15)	(146)
Total claims incurred	1,477	46	1,431
Claims paid	(1,478)	(63)	(1,415)
Exchange rate differences	(29)	(10)	(19)
<b>Balance, end of period</b>	<b>12,750</b>	<b>1,354</b>	<b>11,396</b>
<b>March 31, 2020</b>			
Balance, beginning of period	11,846	1,300	10,546
Current period claims	1,875	57	1,818
Unfavourable (favourable) prior-year claims development	(10)	37	(47)
Increase (decrease) due to changes in discount rate	58	-	58
Total claims incurred	1,923	94	1,829
Claims paid	(1,684)	(51)	(1,633)
Exchange rate differences	190	68	122
<b>Balance, end of period</b>	<b>12,275</b>	<b>1,411</b>	<b>10,864</b>

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### 9.2 Reinsurance

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

Table 9.2 – Company's reinsurance net retention and coverage limits by nature of risk

As at	March 31, 2021	December 31, 2020
<b>Single risk events</b>		
Retentions in Canada:		
on property policies	7.5	7.5
on liability policies	5 - 10	5 - 10
Retentions in the U.S. (in USD):		
on property policies	4	3
on liability policies	3	3
<b>Multi-risk events and catastrophes</b>		
Retention	150	100
Coverage limits	5,300	5,300

For certain special classes of business or types of risks, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance.

Effective January 1, 2021, the Company maintained its coverage limits but increased the retention to \$150 million for multi-risk events and catastrophes. As at March 31, 2021, the Company retains participations averaging 9.2% on reinsurance layers between the retention and coverage limit (10.2% as at December 31, 2020). The coverage limit prudently exceeds the Company's risk assessment of an earthquake in Western Canada at a 1-in-500-year return period.

Refer to Note 14 – Reinsurance of the annual Consolidated financial statements for the year ended December 31, 2020 for further details.

Table 9.3 – Components of reinsurance assets

As at	March 31, 2021	December 31, 2020
Reinsurers' share of claims liabilities (Table 9.1)	1,354	1,381
Reinsurers' share of unearned premiums	144	152
	1,498	1,533

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### Note 10 – Other assets and other liabilities

##### 10.1 Other assets

Table 10.1 – Components of other assets

As at	March 31, 2021	December 31, 2020
Financial assets related to investments	201	230
Industry pools receivable	172	168
Other receivables and recoverables	147	165
Investments, at cost	132	121
Prepays	128	114
Reinsurance receivable	111	137
Accrued investment income	93	83
Restricted funds	74	86
Pension plan in a surplus position	73	-
Premium and sale taxes receivable	48	44
Contract assets <sup>1</sup>	20	16
Other	27	37
	1,226	1,201

<sup>1</sup> Unbilled revenues related to supply chain operations.

During the three-month period ended March 31, 2021, there were no events or changes in circumstances that indicated that the carrying value of investments at cost may not be recoverable.

##### 10.2 Other liabilities

Table 10.2 – Components of other liabilities

As at	March 31, 2021	December 31, 2020
Deposits received in connection with insurance contracts <sup>1</sup>	543	475
Lease liabilities	437	447
Account payables and accrued expenses	323	233
Accrued salaries and related compensation	261	269
Commissions payable	192	297
Industry pools payable	159	151
Premium and sale taxes payable	149	263
Pension plans in a deficit position and unfunded plans	138	260
Other post-employment benefits and other post-retirement benefits	54	55
Reinsurance payable	44	53
Contingent considerations <sup>2</sup>	37	37
Deposits received from reinsurers	27	26
Other payables and other liabilities	346	376
	2,710	2,942

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

<sup>2</sup> Recorded at fair value based on future profitability metrics, discounted using information as of the measurement date and classified in Level 3 of the fair value hierarchy.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

## Note 11 – Debt outstanding

### 11.1 New Financing

On March 31, 2021, the Company completed an offering of \$250 million principal amount of fixed-to-fixed rate subordinated notes Series 1 (the “Notes”), due March 31, 2081 with the option for the issuer to redeem the Notes every five years. The Notes bear interest at a fixed annual rate of 4.125% for the initial five years until March 31, 2026, subsequently the interest rate will be reset on that date and on every fifth anniversary of such date until maturity on March 31, 2081 at a fixed interest rate per annum equal to the Government of Canada Yield on the business day prior to such interest reset date plus 3.196%. Interest is payable in semi-annual instalments commencing on September 30, 2021. The Notes will be converted automatically into Non-Cumulative Class A Series 10 preferred shares of the Company upon certain bankruptcy or insolvency related events. The Notes are direct unsecured obligations and are subordinated to all senior indebtedness of the Company. The net proceeds from this offering will be used to partly finance the RSA acquisition.

### 11.2 Bridge facility in relation with the RSA acquisition

On November 18, 2020, the Company secured a bridge financing facility (“bridge facility”) to be used if alternative financing is not available by closing of the acquisition. The bridge facility is subject to a mandatory cancellation if the closing of the acquisition does not occur prior to November 18, 2021. As at December 31, 2020, the amounts available under the bridge facility included a £341 million (\$593 million) non-revolving equity bridge and a £47 million (\$82 million) non-revolving bond bridge. In March 2021, with the issuance of the subordinated notes, as described above, the non-revolving bond bridge facility was cancelled and the non-revolving equity bridge facility was reduced to approximately £246 million (\$426 million).

*Refer to Note 4.1 – Business acquisition proposed in 2020 for more details.*

### 11.3 Summary of debt outstanding

Table 11.1 – Carrying value of debt outstanding

As at,	Maturity date	Initial term (years)	Fixed rate	Coupon (payment)	Principal amount	Carrying value (net of fees)	
						March 31, 2021	December 31, 2020
<b>Medium-term notes</b>							
Series 2	Nov. 2039	30	6.40%	May & Nov.	250	248	248
Series 3	July 2061	50	6.20%	Jan. & July	100	99	99
Series 4	Aug. 2021	10	4.70%	Feb. & Aug.	300	300	300
Series 5	June 2042	30	5.16%	June & Dec.	250	249	249
Series 6	Mar. 2026	10	3.77%	Mar. & Sept.	250	249	249
Series 7	June 2027	10	2.85%	June & Dec.	425	423	423
Series 8	Mar. 2025	5	3.69%	Mar. & Sept.	300	299	298
Series 9	Dec. 2030	10	1.93%	June & Dec.	300	298	298
Series 10	Dec. 2050	30	2.95%	June & Dec.	300	298	298
<b>2012 U.S. Senior notes</b>	Nov. 2022	10	4.60%	May & Nov.	USD275	353	358
<b>Term loan</b>	May 2021	1.5			USD130	163	210
<b>Other debt</b>	Oct. 2028					11	11
<b>Total debt outstanding before subordinated notes</b>						<b>2,990</b>	<b>3,041</b>
<b>Subordinated notes</b>							
Series 1	Mar. 2081	60	4.125%	Mar. & Sept.	250	247	-
<b>Total debt outstanding</b>						<b>3,237</b>	<b>3,041</b>

The Company has an unsecured revolving term credit facility available for an amount of \$750 million which matures on November 26, 2024. As at March 31, 2021 and December 31, 2020, no balance was drawn under this credit facility. In 2020, the credit facility was amended to comply with all covenants upon closing of the RSA acquisition. Furthermore, the credit facility will be increased from \$750 million to \$1.5 billion in order to provide incremental liquidity, contingent upon the closing of the acquisition of RSA.

On January 29, 2021, the Company repaid US\$35 million (\$45 million) of its term loan.

The fair value of debt outstanding amounted to \$3,509 million as at March 31, 2021 (\$3,482 million as at December 31, 2020) and was established using valuation data from a benchmark firm.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

## Note 12 – Capital management

### 12.1 Capital management objectives

The Company's objectives when managing capital consist of:

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

Any deployment of capital is executed within the context of the stated capital management objectives and only after careful consideration of the impact on the Company's risk metrics.

For further details on the Company's capital and how it is managed see *Note 21 – Capital management* of the annual Consolidated financial statements for the year ended December 31, 2020.

### 12.2 Capital position

As at March 31, 2021 and December 31, 2020, all the Company's regulated P&C insurance subsidiaries were well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels, as well as CALs. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 12.1 – Estimated aggregated capital position

As at	March 31, 2021	December 31, 2020
<b>Canadian regulated entities</b>		
Regulatory capital ratio (MCT)	224%	224%
Industry-wide supervisory minimum levels	150%	150%
Capital above CAL (capital margin)	1,170	1,101
<b>Other regulated entities</b>		
Capital above CAL (capital margin) <sup>1</sup>	629	640
<b>Unregulated entities</b>	1,209	988
<b>Total capital margin<sup>2</sup></b>	<b>3,008</b>	<b>2,729</b>

<sup>1</sup> Includes Atlantic Specialty Insurance Company (U.S.) ("ASIC"), Split Rock Insurance, Ltd. (Bermuda), IB Reinsurance Inc. (Barbados) and The Guarantee Company of North America USA. ASIC's RBC was 458% as at March 31, 2021 (469% as at December 31, 2020).

<sup>2</sup> Consists of the aggregate of capital in excess of CALs in regulated entities plus available cash and investments in unregulated entities, including the issuances of \$600 million of medium-term notes in December 2020 and \$250 million of subordinated notes in March 2021. The CAL is 165% MCT for most Canadian insurance subsidiaries and 200% RBC for U.S. insurance subsidiaries.

## Note 13 – Net investment income

Table 13.1 – Net investment income

For the three-month periods ended March 31,	2021	2020
Interest income from:		
debt securities		
designated or classified as FVTPL	44	44
classified as AFS	36	41
loans and cash and cash equivalents	4	8
<b>Interest income</b>	<b>84</b>	<b>93</b>
Dividend income (expense) from:		
common shares, net		
designated or classified as FVTPL	18	19
classified as AFS	24	25
preferred shares classified as AFS	20	19
equities sold short positions	-	(1)
<b>Dividend income</b>	<b>62</b>	<b>62</b>
<b>Expenses</b>	<b>(5)</b>	<b>(5)</b>
	<b>141</b>	<b>150</b>

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

**Note 14 – Net gains (losses)**

**14.1 Net gains (losses)**

Table 14.1 – Net gains (losses)

For the three-month periods ended March 31,	2021			2020		
	Fixed income	Equity	Total	Fixed income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	(165)	192	27	50	(457)	(407)
classified as FVTPL	-	2	2	-	(7)	(7)
classified as AFS	(7)	125	118	7	(6)	1
	(172)	319	147	57	(470)	(413)
derivatives <sup>1</sup> :						
swap agreements	-	(202)	(202)	-	431	431
forwards and futures	(2)	(38)	(40)	2	27	29
	(2)	(240)	(242)	2	458	460
Embedded derivatives	-	(43)	(43)	-	39	39
Net foreign currency gains (losses)	1	-	1	-	11	11
Impairment losses from common shares (see below)	-	-	-	-	(96)	(96)
	(173)	36	(137)	59	(58)	1
Currency derivative hedges related to the RSA acquisition (see Note 7.2):						
Purchase price <sup>2</sup>			(18)			-
Book value			2			-
Gain related to an investment in associate <sup>3</sup>			273			-
Other gains (losses) <sup>4</sup>			(2)			(22)
			118			(21)

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

<sup>2</sup> Including the changes in fair value related to the ineffective portion of the hedge and hedging premium associated with deal contingent forwards.

<sup>3</sup> Mainly related to the disposal of an investment in associate in exchange for its publicly issued common shares in Q1-2021. This investment was classified as AFS.

<sup>4</sup> Includes an impairment loss of \$30 million recorded in Q1-2020 for the write-off of Surplus notes net of an unrealized gain of \$6 million previously recognized in OCI and reclassified to Net income.

Refer to Note 23 – Net gains (losses) of the annual Consolidated financial statements for the year ended December 31, 2020 for more details on the significant accounting judgements, estimates and assumptions used.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### Note 15 – Income taxes

##### 15.1 Income tax expense recorded in net income

Table 15.1 – Components of income tax expense recorded in net income

For the three-month periods ended March 31,	2021	2020
Current income tax expense (benefit) <sup>1,2</sup>	156	32
Deferred income tax expense (benefit)	(40)	7
	116	39

<sup>1</sup> Includes a current tax expense of \$25 million recorded in Q1-2021 mainly related to the disposal of an investment in associate in exchange for its publicly issued common shares resulting in a capital gain (See Note 14 – Net gains (losses)).

<sup>2</sup> Includes a current tax expense of \$9 million recorded in Q1-2020 related to U.S. corporate tax changes which limit tax deductions for interest payable on certain debt in a U.S. subsidiary. The rules are applicable retroactive to January 1, 2019.

##### 15.2 Effective income tax rate

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

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

Table 15.2 – Effective income tax rate reconciliation

For the three-month periods ended March 31,	2021	2020
Income tax expense calculated at statutory tax rates	26.4%	26.5%
Increase (decrease) in income tax rates resulting from:		
non-deductible losses (non-taxable gains) <sup>1</sup>	(6.1)%	3.2%
non-taxable investment income	(1.4)%	(7.8)%
foreign income taxed at different rates	(0.5)%	(1.6)%
non-deductible losses (non-taxable income) from subsidiaries	(0.5)%	(0.6)%
adjustments related to changes in tax legislation	-	(0.4)%
adjustments related to the U.S. Corporate Tax reform <sup>1</sup>	-	7.8%
non-deductible expenses	0.4%	1.2%
other	0.2%	(1.6)%
<b>Effective income tax rate</b>	<b>18.5%</b>	<b>26.7%</b>

<sup>1</sup> See Note 15.1 above for details.

##### 15.3 Dividend received deduction

In February 2021, the CRA issued letters in which it proposed to reassess the Company for additional income tax and interest in respect of the 2014 and 2015 taxation years. Also, the Company expects to receive a reassessment from the Alberta Tax and Revenue Administration and Revenu Québec in respect of the 2014 and 2015 taxation years. The expected total amount of additional income taxes and interest owed for the 2014 and 2015 taxation years is approximately \$14 million and \$15 million (including estimated provincial tax and interest) for each year respectively, for a total of approximately \$29 million.

In 2020, the CRA and Alberta Tax and Revenue Administration reassessed the Company for additional income tax and interest in respect of the 2013 taxation year. Also, the Company expects to receive a reassessment from Revenu Québec in respect of the 2013 taxation year. The total amount of additional income taxes and interests owed for the 2013 taxation year is approximately \$11 million.

These tax authorities are denying certain dividend deductions on the basis that they were part of a “dividend rental arrangement”. The Company also expects to be reassessed for 2016 on the same basis. The Company is confident that its tax filing position was appropriate and intends to defend itself vigorously. As a result, no amounts have been accrued in the interim Consolidated financial statements.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### Note 16 – Earnings per share

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

Table 16.1 – Earnings per share

<b>For the three-month periods ended March 31,</b>	<b>2021</b>	<b>2020</b>
Net income attributable to shareholders	514	107
Less: dividends declared on preferred shares, net of tax	(13)	(12)
<b>Net income attributable to common shareholders</b>	<b>501</b>	<b>95</b>
<b>Weighted-average number of common shares outstanding (in millions)</b>	<b>143.0</b>	<b>143.0</b>
<b>EPS – basic and diluted (in dollars)</b>	<b>3.51</b>	<b>0.66</b>

#### Note 17 – Share-based payments

##### 17.1 Long-term incentive plan

Table 17.1 – Movements in LTIP share units

<b>For the three-month periods ended March 31,</b>	<b>2021 (in units)</b>	<b>2020 (in units)</b>
Outstanding, beginning of period	1,420,075	1,357,796
Awarded (forfeited)	352,149	440,519
Net change in estimate of units outstanding	(18,980)	(59,328)
Units settled	(125,553)	(65,068)
<b>Outstanding, end of period</b>	<b>1,627,691</b>	<b>1,673,919</b>

The LTIP expense was \$12 million for the three-month period ended March 31, 2021 (\$7 million for the three-month period ended March 31, 2020).

##### 17.2 Employee share purchase plan

Table 17.2 – Movements in restricted common shares

<b>For the three-month periods ended March 31,</b>	<b>2021 (in units)</b>	<b>2020 (in units)</b>
Outstanding, beginning of period	123,114	116,036
Accrued	31,799	33,387
Awarded and vested	(29,023)	(30,729)
Forfeited	(565)	(738)
<b>Outstanding, end of period</b>	<b>125,325</b>	<b>117,956</b>

The ESPP expense was \$5 million for the three-month periods ended March 31, 2021 and 2020.

##### 17.3 Deferred share unit

The DSU provision amounted to \$19 million as at March 31, 2021 (\$18 million as at December 31, 2020).

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### Note 18 – Employee future benefits

##### 18.1 Employee future benefit expense recognized in net income

Table 18.1 – Employee future benefit expense recognized in net income

For the three-month periods ended March 31,	Pension Plan	
	2021	2020
Current service cost	21	18
Net interest expense		
Interest expense on defined benefit obligation	18	21
Interest income on plan assets	(16)	(18)
Other	1	1
	24	22

##### 18.2 Net actuarial gains (losses) recognized in OCI

Table 18.2 – Net actuarial gains (losses) recognized in OCI

For the three-month periods ended March 31,	Pension Plan	
	2021	2020
Re-measurements related to:		
change in discount rate used to determine the benefit obligation	425	430
actual return on plan assets	(179)	(207)
plan experience and change in other financial assumptions <sup>1</sup>	(41)	69
	205	292

<sup>1</sup> Changes in other financial assumptions are mainly related to inflation rate.

##### 18.3 Assumptions used

The following table presents changes of certain key assumptions as disclosed in *Note 27.6 – Significant accounting judgments, estimates and assumptions* of the annual Consolidated financial statements for the year ended December 31, 2020.

Table 18.3 – Key weighted-average assumptions used in measuring the Company's pension plans

For the three-month periods ended March 31,	Pension Plan	
	2021	2020
<b>To determine the defined benefit obligation:</b>		
<b>Discount rate</b>		
beginning of period	2.71%	3.15%
end of period	3.47%	4.21%
<b>To determine the benefit expense:</b>		
<b>Discount rate:</b>		
current service cost	2.82%	3.18%
interest expense on the DB obligation	2.23%	2.97%

**Notes to the interim Consolidated financial statements (unaudited)**

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

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**Note 19 – Segment information**

**19.1 Reportable segments**

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

**Canada**

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

**U.S.**

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

Corporate and Other ("Corporate") consists of investment management, treasury and capital management activities, as well as other corporate activities, including internal reinsurance.

**19.2 Segment operating performance**

All segment operating revenues presented in *Table 19.1 – Segment operating performance* are generated from external customers.

Management measures the profitability of the Company's segments based on PTOI which excludes elements that are not representative of the Company's operating performance because they relate to special items, bear significant volatility from one period to another, or because they are not part of the Company's normal activities. In addition, the Company presents:

- Other underwriting revenues against Underwriting expenses, which as a result, are not included in segment operating revenues;
- Share of profit from investments in associates & JV before interest and taxes from affiliated brokers ("broker associates");
- Finance costs including finance costs from broker associates.

The reconciliation of the segment information to the amounts reported in the interim Consolidated statements of income is presented in *Table 19.2 – Reconciliation of segment information to amounts reported in the interim Consolidated statements of income*.

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

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

 Table 19.1 – Segment operating performance<sup>1</sup>

For the three-month periods ended March 31,	2021				2020			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Operating income</b>								
NEP	2,382	373	4	2,759	2,378	386	2	2,766
Investment income	-	-	146	146	-	-	155	155
Other	89	-	3	92	71	-	4	75
<b>Segment operating revenues</b>	<b>2,471</b>	<b>373</b>	<b>153</b>	<b>2,997</b>	<b>2,449</b>	<b>386</b>	<b>161</b>	<b>2,996</b>
Net claims incurred (before MYA)	(1,345)	(209)	(3)	(1,557)	(1,523)	(236)	-	(1,759)
Underwriting expenses	(755)	(150)	-	(905)	(697)	(151)	-	(848)
Investment expenses	-	-	(5)	(5)	-	-	(5)	(5)
Share of profit from invest. in associates & JV	23	-	-	23	17	-	-	17
Finance costs	(4)	-	(28)	(32)	(3)	-	(28)	(31)
Other	(50)	-	(9)	(59)	(44)	-	(12)	(56)
<b>PTOI</b>	<b>340</b>	<b>14</b>	<b>108</b>	<b>462</b>	<b>199</b>	<b>(1)</b>	<b>116</b>	<b>314</b>
Operating income taxes				(105)				(71)
<b>NOI</b>				<b>357</b>				<b>243</b>
<b>PTOI is comprised of:</b>								
underwriting income	282	14	1	297	158	(1)	2	159
net investment income	-	-	141	141	-	-	150	150
distribution EBITA	62	-	-	62	44	-	-	44
finance costs	(4)	-	(28)	(32)	(3)	-	(28)	(31)
other income (expense)	-	-	(6)	(6)	-	-	(8)	(8)

<sup>1</sup> See Section 21 – Non IFRS financial measures of the Company's interim MD&A for the definition and reconciliation of related operating measures.

Table 19.2 – Reconciliation of segment information to amounts reported in the interim Consolidated statements of income

For the three-month periods ended March 31,	2021	2020
<b>Segment operating revenues (Table 19.1)</b>	<b>2,997</b>	2,996
Add: other underwriting revenues	35	33
Add: NEP from exited lines	18	-
<b>Revenues, as reported in the interim Consolidated statements of income</b>	<b>3,050</b>	3,029
<b>Segment PTOI (Table 19.1)</b>	<b>462</b>	314
<b>Non-operating items<sup>1</sup>:</b>		
net gains (losses)	118	(21)
positive (negative) impact of MYA on underwriting	146	(58)
amortization of intangible assets recognized in business combinations	(29)	(37)
acquisition, integration and restructuring costs	(43)	(24)
non-operating pension expense	(16)	(13)
underwriting results from exited lines	(2)	(8)
other non-operating costs	(2)	(5)
<b>Pre-tax income, as reported in the interim MD&amp;A</b>	<b>634</b>	148
Less: income taxes from broker associates	(4)	(2)
<b>Pre-tax income, as reported in the interim Consolidated statements of income</b>	<b>630</b>	146

<sup>1</sup> See Section 20 – Non-operating results of the Company's interim MD&A for the definition of related non-operating measures.

## INTACT FINANCIAL CORPORATION

### Notes to the interim Consolidated financial statements (unaudited)

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

#### 19.3 Selected segment assets and liabilities

Table 19.3 – Selected segment assets and liabilities

As at	March 31, 2021				December 31, 2020			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Investments	-	-	21,266	21,266	-	-	20,630	20,630
Net claims liabilities (Table 9.1)	9,892	1,504	-	11,396	9,869	1,530	-	11,399

#### 19.4 Information by geographic areas

Table 19.4 – Information by geographic areas

	Revenues		Total assets	
	For the three-month periods ended March 31,		As at	
	2021	2020	March 31, 2021	December 31, 2020
Canada	2,657	2,616	28,428	28,235
U.S.	393	413	6,836	6,884
	3,050	3,029	35,264	35,119

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

### Note 20 – Additional information on the interim Consolidated statements of cash flows

#### 20.1 Adjustments for non-cash items

Table 20.1 – Adjustments for non-cash items

For the three-month periods ended March 31,	2021	2020
Depreciation of property and equipment <sup>1</sup>	29	25
Amortization of intangible assets	43	47
Net premiums on debt securities classified as AFS	11	6
DB pension expense	24	22
Share-based payments expense	17	12
Share of profit from investments in associates and joint ventures	(11)	(3)
Other	(3)	1
	110	110

<sup>1</sup> Includes depreciation of right-of-use assets of leases.

#### 20.2 Changes in other operating assets and liabilities

Table 20.2 – Changes in other operating assets and liabilities

For the three-month periods ended March 31,	2021	2020
Unearned premiums, net	(359)	(366)
Premiums receivable, net	363	343
Deferred acquisition costs	57	54
Other operating assets	16	(58)
Other operating liabilities	(81)	(181)
Dividends received from investments in associates and joint ventures	5	5
	1	(203)

### Note 21 – Standards issued but not yet effective

There have been no significant updates to *Note 33 – Standards issued but not yet effective* of the annual Consolidated financial statements for the year ended December 31, 2020.