

Third Quarter **2019**

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

Intact Financial Corporation

Management’s Discussion and Analysis for the third 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 September 30, 2019. This MD&A is intended to enable the reader to assess our results of operations and financial condition for the three- and nine-month periods ended September 30, 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 November 5, 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 24 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 (Q2-2019) 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 September 30, 2019, and are subject to change after that date. This MD&A contains forward-looking statements with respect to the financing structure for the acquisition (the “Acquisition”) of The Guarantee Company of North America and Frank Cowan Company Limited.

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:

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- expected competition and regulatory processes and outcomes in connection with the Acquisition;
- 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 terms and conditions of the Acquisition;
- the Company's expectations in relation to synergies, future economic and business conditions and other factors in relation to the Acquisition and resulting impact on growth and accretion in various financial metrics;
- the Company's financing plans for the Acquisition, including the availability of equity and debt financing in the future;
- various other actions to be taken or requirements to be met in connection with the Acquisition and integration post-closing of the Acquisition;
- the Company's profitability following the acquisition (the "OB Acquisition") of OneBeacon Insurance Group, Ltd. ("OneBeacon");
- the Company's ability to improve its Combined Ratio in the United States in relation to the OB Acquisition and the Acquisition;
- the Company's ability to retain business and key employees in the United States in relation to the OB Acquisition and the Acquisition;
- undisclosed liabilities in relation to the OB Acquisition and 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 (including the Subscription Receipts);
- 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 November 5, 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.

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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

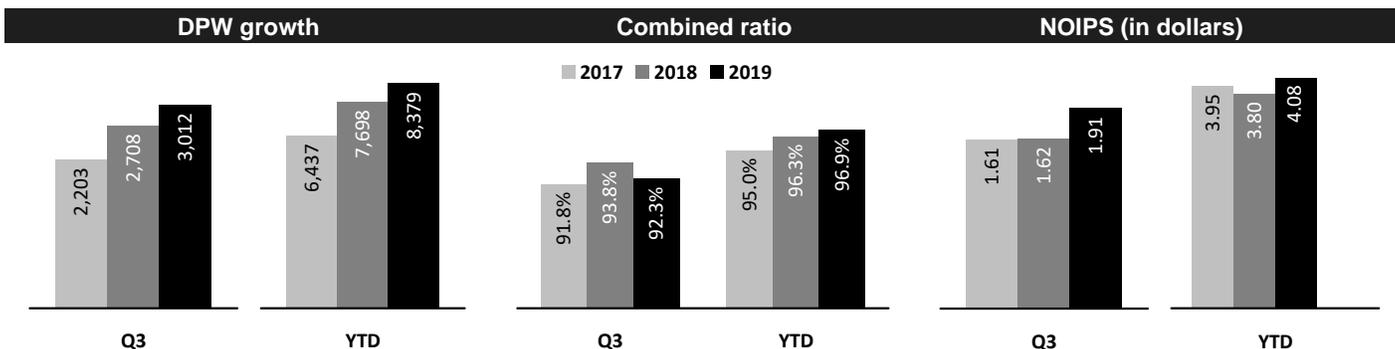


2018 DPW by segment (above)

- 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 Q3-2019 Highlights

- **Net operating income per share increased 18% to \$1.91** driven by strong performances across the business
- **Premium growth of 11%** fuelled by rate increases across North America and unit growth momentum
- **Strong combined ratio of 92.3%** driven by solid underlying results in Canada and lower catastrophe losses
- Strong financial position with **\$1.1 billion of total capital margin** and **operating ROE of 12%**
- On track to close the acquisitions of The Guarantee and Frank Cowan by year end



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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
<i>Section 2</i>	<i>Section 3</i>	<i>Section 4</i>

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 September 30,	2019				2018			
	CAN	U.S.	Corporate	Total	CAN	U.S.	Corporate	Total
DPW	2,491	521	-	3,012	2,239	469	-	2,708
NEP	2,234	346	1	2,581	2,114	347	1	2,462
Operating income								
Underwriting income	183	14	1	198	129	22	1	152
Net investment income	-	-	146	146	-	-	136	136
Distribution EBITA	56	-	-	56	41	-	-	41
Finance costs	(3)	-	(27)	(30)	(2)	-	(25)	(27)
Other income (expense)	-	-	(15)	(15)	-	-	(5)	(5)
Pre-tax operating income (PTOI)	236	14	105	355	168	22	107	297
Net operating income (NOI)				277				237
NOIPS (in dollars)				1.91				1.62
For the nine month periods ended September 30,	2019				2018			
	CAN	U.S.	Corporate	Total	CAN	U.S.	Corporate	Total
DPW	7,071	1,308	-	8,379	6,534	1,164	-	7,698
NEP	6,473	1,042	4	7,519	6,203	1,001	2	7,206
Operating income								
Underwriting income	179	53	4	236	204	58	2	264
Net investment income	-	-	434	434	-	-	398	398
Distribution EBITA	164	-	-	164	133	-	-	133
Finance costs	(8)	-	(84)	(92)	(8)	-	(76)	(84)
Other income (expense)	-	-	(21)	(21)	-	-	(21)	(21)
Pre-tax operating income (PTOI)	335	53	333	721	329	58	303	690
Net operating income (NOI)				602				558
NOIPS (in dollars)				4.08				3.80

¹ See Section 14 – Presentation changes.

² See Section 16 – Non-IFRS financial measures.

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1.4 Consolidated performance

 Table 2 – Consolidated performance^{1,2}

	Section	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
DPW (growth in constant currency)		3,012	2,708	11%	8,379	7,698	8%
Canada	2.1	2,491	2,239	11%	7,071	6,534	8%
U.S.	3	521	469	10%	1,308	1,164	9%
NEP		2,581	2,462	5%	7,519	7,206	4%
Operating income							
Underwriting income		198	152	30%	236	264	(11)%
Net investment income	4.3	146	136	7%	434	398	9%
Distribution EBITA		56	41	37%	164	133	23%
Finance costs		(30)	(27)	nm	(92)	(84)	nm
Other income (expense)		(15)	(5)	nm	(21)	(21)	nm
PTOI		355	297	20%	721	690	4%
NOI		277	237	17%	602	558	8%
Pre-tax non-operating gains (losses)	15	(119)	(37)	nm	(148)	(103)	nm
Net income		187	199	(6)%	514	463	11%
Effective income tax rates							
Operating		21.9%	20.2%	1.7 pts	16.5%	19.1%	(2.6) pts
Total		20.8%	23.5%	(2.7) pts	10.3%	21.1%	(10.8) pts
Per share measures, basic and diluted (in dollars)							
NOIPS		1.91	1.62	18%	4.08	3.80	7%
EPS		1.26	1.34	(6)%	3.45	3.12	10%
BVPS	18.4	51.20	49.27	4%			
Return on equity for the last 12 months							
OROE		12.4%	11.6%	0.8 pts			
ROE		10.2%	9.8%	0.4 pts			
Total capital margin		1,116	1,177	(61)			
Debt-to-total capital ratio		19.3%	21.7%	(2.4) pts			

¹ See Section 14 – Presentation changes.

² See Section 16 – Non-IFRS financial measures.

Table 3 – Underwriting ratios

	Section	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
Claims ratio		63.1%	63.8%	(0.7) pts	67.3%	66.2%	1.1 pts
Expense ratio		29.2%	30.0%	(0.8) pts	29.5%	30.1%	(0.6) pts
Combined ratio		92.3%	93.8%	(1.5) pts	96.9%	96.3%	0.6 pts
Canada	2.1	91.8%	93.9%	(2.1) pts	97.2%	96.7%	0.5 pts
U.S.	3	95.9%	93.5%	2.4 pts	94.9%	94.2%	0.7 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 September 30, 2019. **See Section 3 – U.S. for the impact on our U.S. results.**

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	Q3-2019 vs Q3-2018	YTD 2019 vs YTD 2018
DPW growth in constant currency	<ul style="list-style-type: none"> Premiums grew 11% in the quarter and 8% year-to-date, with strong growth across all lines of business and geographies. In Canada, premium growth was 11% in the quarter and 8% year-to-date, reflecting ongoing robust rate increases and improving unit growth. We continue to see hard market conditions, with average rate increases of 7% overall. In the U.S., growth of 10% in the quarter and 9% year-to-date was driven by strong new business and rate increases. Retention levels remained strong. 	
Underwriting performance	<ul style="list-style-type: none"> Overall combined ratio improved 1.5 points to 92.3% driven by strong results in Canada. Combined ratio for Canada improved 2.1 points to 91.8%, driven by solid results in personal auto and lower CAT losses. Combined ratio in the U.S. deteriorated 2.4 points to 95.9%, driven by higher claims activity, which can fluctuate from quarter to quarter. As of July 1, 2019, we exited the U.S. Healthcare business representing approximately US\$75 million in DPW for the 12 month period ended June 30, 2019. Starting July 1, 2019, the related underwriting results are reported in non-operating results (see Section 3 – P&C U.S. for details). 	<ul style="list-style-type: none"> Overall combined ratio deteriorated slightly to 96.9%, as improved underlying performance and expense management were more than offset by unfavourable PYD. Combined ratio for Canada deteriorated slightly to 97.2%, as the improvement in personal auto underlying performance was more than offset by unfavourable PYD and higher non-CAT weather-related losses. Combined ratio in the U.S. of 94.9% reflected a strong performance in lines not undergoing profitability improvement plans. After exiting the U.S. Healthcare business, we are close to our goal of achieving a sustainable combined ratio in the low-90s by the end of 2020.
Net investment income	<ul style="list-style-type: none"> Net investment income was up 7% to \$146 million, driven by higher invested assets and timing of dividends. 	<ul style="list-style-type: none"> Net investment income was up 9% to \$434 million, driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, higher invested assets, and timing of dividends. We still expect mid-single digit growth in 2019.
Distribution EBITA¹	<ul style="list-style-type: none"> Distribution EBITA was strong at \$56 million in the quarter and \$164 million year-to-date, bolstered by rate momentum across regions, as well as broker acquisitions. Given the rate momentum, our improving competitiveness and acquisitions, we now expect to deliver double digit growth in 2019. 	
NOIPS	<ul style="list-style-type: none"> NOIPS increased 18% to \$1.91, driven by strong operating results across the business, including premium growth and improved underwriting profitability. 	<ul style="list-style-type: none"> NOIPS of \$4.08 was up 7%, driven by growth in net investment income and distribution EBITA.
Effective income tax rates²	<ul style="list-style-type: none"> Operating and total effective income tax rates of 21.9% and 20.8% respectively were essentially in line with expectations. 	<ul style="list-style-type: none"> Operating effective income tax rate of 16.5% 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 10.3% included the impact of a non-taxable \$72 million broker gain in Q1-2019.
EPS	<ul style="list-style-type: none"> EPS of \$1.26 was down 6%, as the strong operating performance was lowered by impairment losses of \$44 million and lower net investment gains. 	<ul style="list-style-type: none"> EPS of \$3.45 was up 10%, driven by improving operating performance and a non-operating broker gain in Q1-2019.
Return on equity	<ul style="list-style-type: none"> Operating ROE for the last 12 months was 12.4%. Our Operating ROE was 8 points above the industry in H1-2019. It remained below our mid-teens historical track record due to severe winter weather and weak auto results in H1-2019. We expect to return to mid-teens OROE in the near term as auto results improve. 	
Financial condition	<ul style="list-style-type: none"> BVPS increased 4% from a year ago to \$51.20, mainly driven by our earnings, net of common share dividends. Our debt-to-total capital ratio decreased to 19.3% as at September 30, 2019 compared to 21.6% as at June 30, 2019 following the \$250-million principal repayment of medium-term notes. We ended the quarter in a strong financial position, with \$1.1 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.

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SEGMENT PERFORMANCE

Section 2 – Canada

2.1 P&C Canada

Table 4 – Underwriting results for P&C Canada¹

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
DPW	2,491	2,239	11%	7,071	6,534	8%
NEP	2,234	2,114	6%	6,473	6,203	4%
Current year claims (excluding CAT claims)	1,386	1,305	81	4,178	4,055	123
Current year CAT claims	53	97	(44)	251	275	(24)
(Favourable) unfavourable PYD	(9)	(20)	11	43	(125)	168
Total net claims	1,430	1,382	48	4,472	4,205	267
Underwriting expenses	621	603	18	1,822	1,794	28
Underwriting income	183	129	54	179	204	(25)
Underwriting ratios						
Underlying current year loss ratio	62.1%	61.7%	0.4 pts	64.5%	65.3%	(0.8) pts
CAT loss ratio	2.3%	4.6%	(2.3) pts	3.9%	4.5%	(0.6) pts
(Favourable) unfavourable PYD ratio	(0.4)%	(0.9)%	0.5 pts	0.7%	(2.0)%	2.7 pts
Claims ratio	64.0%	65.4%	(1.4) pts	69.1%	67.8%	1.3 pts
Commissions	15.4%	15.7%	(0.3) pts	15.2%	15.5%	(0.3) pts
General expenses	8.7%	9.1%	(0.4) pts	9.2%	9.6%	(0.4) pts
Premium taxes	3.7%	3.7%	0.0 pts	3.7%	3.8%	(0.1) pts
Expense ratio	27.8%	28.5%	(0.7) pts	28.1%	28.9%	(0.8) pts
Combined ratio	91.8%	93.9%	(2.1) pts	97.2%	96.7%	0.5 pts

¹ See Section 16 – Non-IFRS financial measures.

Table 5 – Performance by line of business – Canada

	Section	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
DPW growth							
Personal auto	2.3	1,126	1,003	12%	3,126	2,932	7%
Personal property	2.4	653	606	8%	1,771	1,669	6%
Commercial lines	2.5	712	630	13%	2,174	1,933	12%
		2,491	2,239	11%	7,071	6,534	8%
Combined ratio							
Personal auto	2.3	93.4%	99.0%	(5.6) pts	98.2%	100.3%	(2.1) pts
Personal property	2.4	89.1%	83.8%	5.3 pts	96.1%	91.6%	4.5 pts
Commercial lines	2.5	91.8%	94.9%	(3.1) pts	96.8%	95.7%	1.1 pts
		91.8%	93.9%	(2.1) pts	97.2%	96.7%	0.5 pts

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

Q3-2019 vs Q3-2018	YTD 2019 vs YTD 2018
<ul style="list-style-type: none"> • Premium growth was very strong at 11% in the quarter and 8% year-to-date, reflecting ongoing robust rate increases across all lines and improving unit growth. We continue to see hard market conditions, with average rate increases of 7% overall. • Solid underlying current year loss ratio of 62.1% reflected a strong performance in personal auto, offset by higher non-CAT weather-related losses in personal property. • CAT losses of \$53 million were lower than last year and below expectations for a third quarter. • PYD ratio was favourable at 0.4%, slightly below our near-term expectations, with favourable development in all lines of business. • Expense ratio of 27.8% for the quarter and 28.1% year-to-date improved across all lines and remained lower than historical averages, mainly driven by earned premium growth and lower variable commissions. • Combined ratio was strong at 91.8%, in a low CAT environment. 	<ul style="list-style-type: none"> • Underlying current year loss ratio of 64.5% improved 0.8 points, driven by significant progress in personal auto, despite higher non-CAT weather-related losses in personal property. • CAT losses in both years were elevated and driven by severe weather conditions in Central Canada in the first half of the year. • PYD ratio was unfavourable at 0.7%, driven by the increase in personal auto reserves for prior years in Q2-2019. PYD ratio was favourable in all other lines of business. • Combined ratio of 97.2%, included elevated level of CAT losses (4 points) and unfavourable PYD in personal auto, obscuring an improved underlying performance and lower expenses.

2.2 Weather in Canada

Weather conditions in 2019	Weather conditions in 2018
<ul style="list-style-type: none"> • Q3-2019 saw rainier conditions in Western Canada, and the Atlantic was impacted by the remnants of Hurricane Dorian. While we had higher non-CAT weather-related losses, CAT losses of \$53 million were lower than expected for a third quarter. We saw less extreme weather this summer, especially hail and water events, which have historically driven CAT losses in the third quarter. • 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. 	<ul style="list-style-type: none"> • In Q3-2018, temperatures were warmer than average leading to several wildfires in the West, while other regions had above average precipitation. These events drove CAT losses of \$97 million and higher-than-expected non-CAT weather-related losses, mainly impacting personal property. • 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 were experienced in 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.

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

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

2.3 Personal auto



Table 6 – Underwriting results for personal auto

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
DPW	1,126	1,003	12%	3,126	2,932	7%
Written insured risks (in thousands)	1,108	1,087	2%	3,264	3,293	(1)%
NEP	962	939	2%	2,811	2,793	1%
Underwriting income (loss)	64	10	nm	51	(7)	nm
Underlying current year loss ratio	70.3%	72.5%	(2.2) pts	71.3%	74.7%	(3.4) pts
CAT loss ratio	1.3%	1.9%	(0.6) pts	0.6%	1.0%	(0.4) pts
(Favourable) unfavourable PYD ratio	(0.1)%	1.9%	(2.0) pts	4.0%	1.6%	2.4 pts
Claims ratio	71.5%	76.3%	(4.8) pts	75.9%	77.3%	(1.4) pts
Expense ratio	21.9%	22.7%	(0.8) pts	22.3%	23.0%	(0.7) pts
Combined ratio	93.4%	99.0%	(5.6) pts	98.2%	100.3%	(2.1) pts

Q3-2019 vs Q3-2018

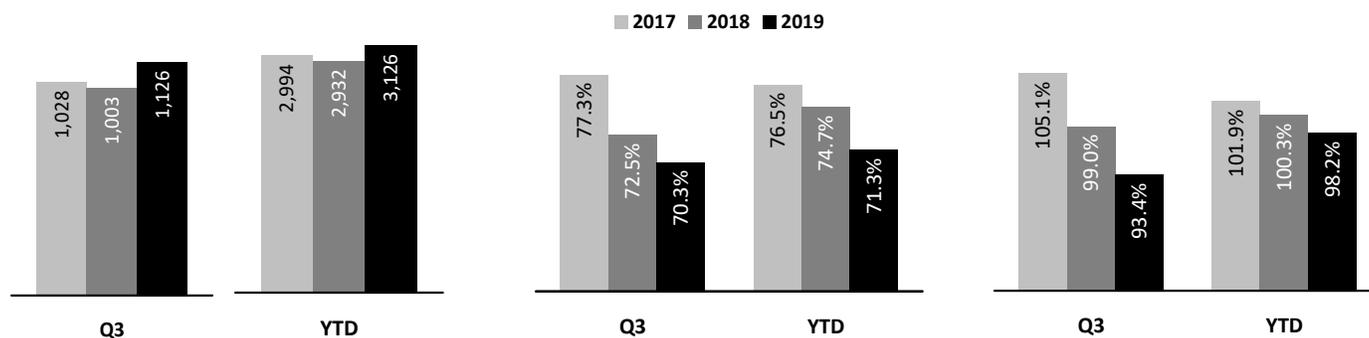
YTD 2019 vs YTD 2018

- **DPW growth accelerated to 12%**, driven by rate increases across all regions. Growth was bolstered by our improving competitiveness, which led to a return to unit growth in the quarter.
- **Underlying current year loss ratio improved to a strong 70.3% in the quarter and 71.3% year-to-date**, driven by rate increases, claims actions and lower claims frequency.
- **Favourable PYD of 0.1%** was in line with expectations.
- **Combined ratio improved by 5.6 points to a solid 93.4%**, reflecting a strong underlying performance and minimal PYD. The continued improvement in underlying performance is evidence of the effectiveness of our profitability actions.
- **DPW were up 7%**, driven by rate increases. Our competitive position is improving as the industry continues to raise rates. Market conditions remain hard.
- **Unfavourable PYD ratio of 4.0%** was mostly due to increased claims activity on pre-reform Ontario and Alberta files in the second quarter.
- **Combined ratio was elevated at 98.2%**, reflecting a strong underlying performance and 4 points of unfavourable PYD.

DPW

Underlying current year loss ratio

Combined ratio



Management’s Discussion and Analysis for the third quarter of 2019

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



2.4 Personal property

Table 7 – Underwriting results for personal property

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
DPW	653	606	8%	1,771	1,669	6%
Written insured risks (in thousands)	677	658	3%	1,842	1,817	1%
NEP	555	531	5%	1,618	1,564	3%
Underwriting income	60	85	(29)%	63	131	(52)%
Underlying current year loss ratio	55.3%	49.2%	6.1 pts	57.3%	53.7%	3.6 pts
CAT loss ratio	4.2%	5.6%	(1.4) pts	9.1%	9.4%	(0.3) pts
(Favourable) unfavourable PYD ratio	(1.3)%	(3.0)%	1.7 pts	(1.6)%	(4.0)%	2.4 pts
Claims ratio	58.2%	51.8%	6.4 pts	64.8%	59.1%	5.7 pts
Expense ratio	30.9%	32.0%	(1.1) pts	31.3%	32.5%	(1.2) pts
Combined ratio	89.1%	83.8%	5.3 pts	96.1%	91.6%	4.5 pts

Q3-2019 vs Q3-2018

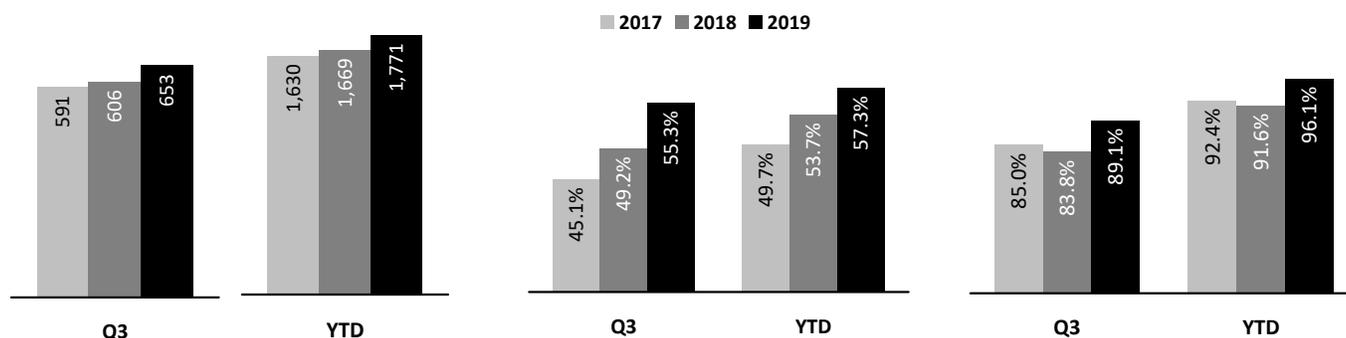
YTD 2019 vs YTD 2018

- **DPW growth was strong at 8% in the quarter and 6% year-to-date**, driven by rate increases and improving unit growth. Market conditions are hard, supporting our rate actions and the sale of bundled products.
- **Underlying current year loss ratio of 55.3% in the quarter and 57.3% year-to-date** deteriorated from last year’s strong performance mainly due to higher non-CAT weather (roughly 3 points for the quarter and 2 points year-to-date) and fire losses.
- **CAT loss ratio in both periods** was significantly lower than expectations for a third quarter.
- **Favourable PYD ratio of 1.3% in the quarter and 1.6% year-to-date** was lower than last year, while in line with expectations.
- **Combined ratio was solid at 89.1%**, driven by roughly 4 points of lower-than-expected CAT and non-CAT weather-related losses.
- **CAT loss ratio in both years** was in line with expectations and driven by weather events in Central Canada in the first part of the year.
- **Combined ratio of 96.1% remained higher than expected.** The fundamentals of this business remain solid and the hard market conditions position us well for the future.

DPW

Underlying current year loss ratio

Combined ratio



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

(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

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
DPW	712	630	13%	2,174	1,933	12%
Commercial P&C	487	427	14%	1,472	1,320	11%
Commercial auto	225	203	11%	702	613	15%
NEP	717	644	11%	2,044	1,846	11%
Underwriting income (loss)	59	34	74%	65	80	(19)%
Underlying current year loss ratio	56.2%	56.4%	(0.2) pts	61.0%	61.1%	(0.1) pts
CAT loss ratio	2.4%	7.6%	(5.2) pts	4.2%	5.5%	(1.3) pts
(Favourable) unfavourable PYD ratio	(0.1)%	(3.2)%	3.1 pts	(2.1)%	(5.8)%	3.7 pts
Claims ratio	58.5%	60.8%	(2.3) pts	63.1%	60.8%	2.3 pts
Expense ratio	33.3%	34.1%	(0.8) pts	33.7%	34.9%	(1.2) pts
Combined ratio	91.8%	94.9%	(3.1) pts	96.8%	95.7%	1.1 pts

Q3-2019 vs Q3-2018

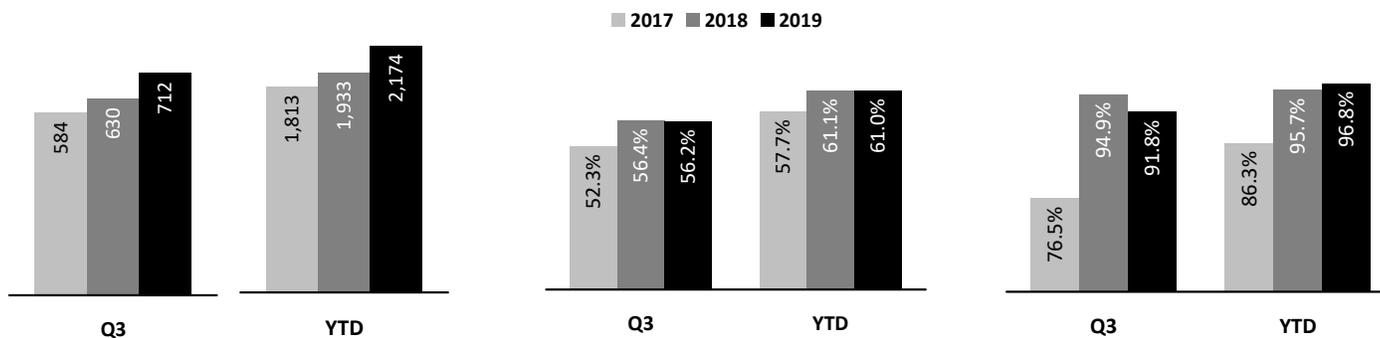
YTD 2019 vs YTD 2018

- **Strong DPW growth of 13% in the quarter and 12% year-to-date** with contributions from all lines, led by rate increases deployed in hard market conditions. Growth in specialty lines continued to be very strong.
- **Underlying current year loss ratio was solid at 56.2%**, as the impact of higher earned rates was offset by increased claims severity in commercial auto.
- **CAT loss ratio of 2.4%** was in line with expectations, while lower than last year's elevated level.
- **Favourable PYD ratio of 0.1% in the quarter and 2.1% year-to-date** was lower than last year driven by lower development on prior year catastrophes, as well as higher large losses.
- **Combined ratio was solid at 91.8%** despite the low level of favourable PYD.
- **Underlying current year loss ratio of 61.0%** was in line with last year, as the impact of higher earned rates was mainly offset by elevated weather related losses in Q1-2019
- **CAT loss ratio in both years was higher than expected**, mainly due to severe weather in Central Canada.
- **Combined ratio of 96.8%** reflected elevated weather-related losses in Q1-2019, 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



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

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



Section 3 – P&C U.S.

All figures in the table above are shown in CAD, using an average exchange rate of 1.32 for Q3-2019 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

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
DPW	521	469	11%	1,308	1,164	12%
Growth in constant currency			10%			9%
NEP	346	347	-%	1,042	1,001	4%
Growth in constant currency			(2)%			1%
Current year claims (excluding CAT claims)	201	198	3	595	575	20
(Favourable) unfavourable PYD	(2)	(8)	6	(4)	(10)	6
Net claims incurred	199	190	9	591	565	26
Underwriting expenses	133	135	(2)	398	378	20
Underwriting income	14	22	(8)	53	58	(5)
Underwriting ratios²						
Underlying current year loss ratio	58.1%	57.0%	1.1 pts	57.1%	57.5%	(0.4) pts
(Favourable) unfavourable PYD ratio	(0.6)%	(2.3)%	1.7 pts	(0.4) %	(1.0)%	0.6 pts
Claims ratio	57.5%	54.7%	2.8 pts	56.7%	56.5%	0.2 pts
Commissions	15.5%	16.3%	(0.8) pts	16.0%	15.8%	0.2 pts
General expenses	20.3%	19.4%	0.9 pts	20.2%	19.4%	0.8 pts
Premium taxes	2.6%	3.1%	(0.5) pts	2.0%	2.5%	(0.5) pts
Expense ratio	38.4%	38.8%	(0.4) pts	38.2%	37.7%	0.5 pts
Combined ratio	95.9%	93.5%	2.4 pts	94.9%	94.2%	0.7 pts
Selected proforma figures³						
DPW ³				1,260	1,091	16%
Growth in constant currency ³						12%
Combined ratio ³				92.8%	91.8%	1.0 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.

³ Excluding the results of Healthcare business (see below) and those of other exited lines.

Exit of Healthcare business effective July 1, 2019

As we maintain our focus on achieving a sustainable combined ratio in the low-90s by the end of 2020, we exited from the U.S. Healthcare business effective July 1, 2019. Starting July 1, 2019, the related underwriting results are reported in non-operating results with no restatement of comparatives. To enhance the analysis of trends, we have provided selected proforma figures for exited lines that exclude the results of the Healthcare business (see table above). Refer to our Q3-2019 Supplementary Financial Information available on our website www.intactfc.com in the "Investors" section for proforma figures by quarter.

Refer to Section 15 – Non-operating results for underwriting results of exited lines.

Management’s Discussion and Analysis for the third quarter of 2019

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

Q3-2019 vs Q3-2018	YTD 2019 vs YTD 2018
<ul style="list-style-type: none"> • Premiums of \$521 million in the quarter and \$1,308 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. The market is hardening, with upward pricing trends continuing. • Underlying current year loss ratio of 58.1% deteriorated by 1.1 points, mainly due to higher claims activity, which can fluctuate from quarter to quarter. • Favourable PYD ratio was in line with expectations at 0.6% in the quarter and 0.4% year-to-date after the impact of the adverse development cover. • Expense ratio of 38.4% in the quarter and 38.2% year-to-date, reflected the mix and seasonality of our operations. The expense ratio was in line with expectations, though it can vary from quarter to quarter. • Combined ratio of 95.9% deteriorated by 2.4 points mainly due to higher claims activity and the seasonality of our operations. 	<ul style="list-style-type: none"> • Underlying current year loss ratio of 57.1% improved by 0.4 point, mainly due to the impact of our profitability improvement plans and improved business mix. • Combined ratio of 94.9% reflected a strong performance in lines not undergoing profitability improvement plans. • Excluding the results of the Healthcare business, the year-to-date 2019 combined ratio of 94.9% would have improved by approximately two points to 92.8%.
<ul style="list-style-type: none"> • We continue to make steady progress on our profitability improvement plans and remain on track to achieve a sustainable combined ratio in the low-90s by the end of 2020. 	

Section 4 – Corporate and other

4.1 Corporate and other

Table 10 – Corporate and other (operating performance)

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
Underwriting income ¹	1	1	-	4	2	2
Net investment income (see Section 4.2)	146	136	10	434	398	36
Finance costs ²	(27)	(25)	(2)	(84)	(76)	(8)
Other income (expense) ³	(15)	(5)	(10)	(21)	(21)	-
Corporate and other	105	107	(2)	333	303	30

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 Q3-2019 and \$9 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.

Management’s Discussion and Analysis for the third quarter of 2019

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

4.2 Net investment income

Table 11 – Net investment income

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
Interest income	93	89	4	281	257	24
Dividend income	58	53	5	170	158	12
Investment income, before expenses	151	142	9	451	415	36
Expenses	(5)	(6)	1	(17)	(17)	-
Net investment income	146	136	10	434	398	36
Average net investments¹	17,259	16,601	4%	17,070	16,382	4%
Market-based yield²	3.51%	3.44%	7 bps	3.54%	3.39%	15 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.

Q3-2019 vs Q3-2018	YTD 2019 vs YTD 2018
<ul style="list-style-type: none"> • Net investment income was up 7%, mainly driven by higher invested assets and the timing of dividends. • Average net investments increased by 4% quarter-over-quarter and 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 and timing of dividends. <i>See Section 4.3 – Capital markets.</i> 	<ul style="list-style-type: none"> • Net investment income was up 9%, driven by the benefit of our portfolio optimization in 2018 while interest rates were rising, higher invested assets, as well as timing of dividends.

4.3 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 4.2 – Net investment income, Section 4.4 – Net gains (losses) and Section 9 – Investments for further details.*

Table 12 – Selected market indicators

Selected market indicators	Q3-2019	Q3-2018	YTD 2019	YTD 2018
S&P/TSX Composite	2%	(1)%	16%	(1)%
S&P/TSX Financials	4%	3%	17%	-%
S&P/TSX Preferred Share Index	(1)%	-%	(4)%	(1)%
5Y Canada Sovereign Index (estimated variance in bps)	4 bps	27 bps	(42) bps	50 bps
5Y AA Corporate spread (estimated variance in bps)	8 bps	(10) bps	(26) bps	6 bps
DJ Dividend 100 Composite (U.S.)	3%	7%	16%	3%
5Y U.S. Sovereign Index (estimated variance in bps)	(22) bps	22 bps	(97) bps	75 bps
Strengthening (weakening) of USD vs CAD	1%	(2)%	(3)%	3%

Management’s Discussion and Analysis for the third quarter of 2019

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

4.4 Net gains (losses)

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

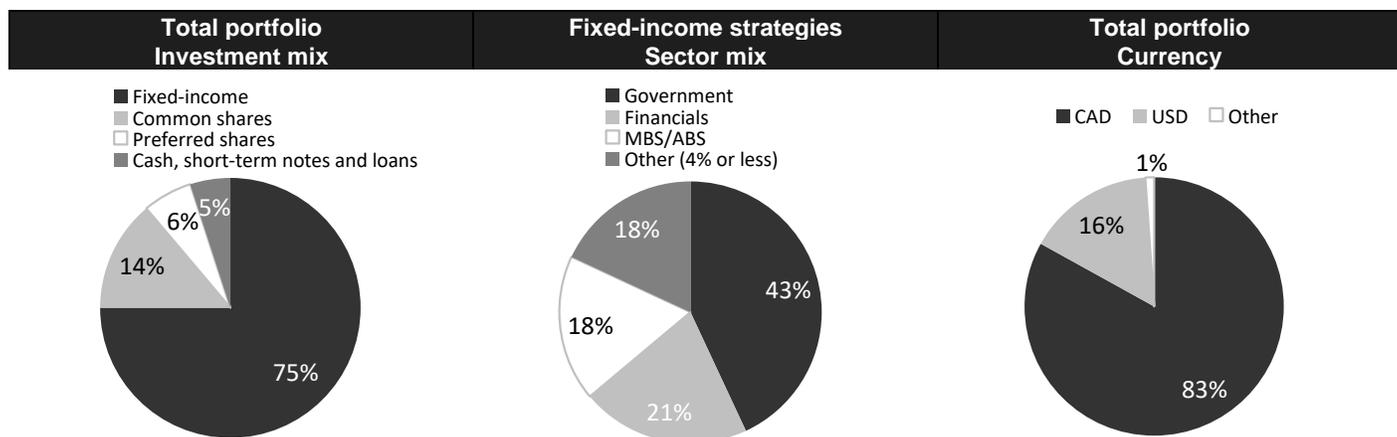
Table 13 – Net gains (losses)

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
Realized and unrealized gains (losses) on:						
AFS bonds, net of derivatives	8	(5)	13	10	(20)	30
Equity securities, net of derivatives	(6)	32	(38)	3	130	(127)
Embedded derivatives	(3)	(7)	4	3	(13)	16
Impairment losses on common shares	(44)	(4)	(40)	(62)	(26)	(36)
Other gains (losses) ¹	4	7	(3)	80	16	64
Gains (losses) excluding FVTPL bonds	(41)	23	(64)	34	87	(53)
Gains (losses) on FVTPL bonds	3	(47)	50	162	(133)	295
Net gains (losses)	(38)	(24)	(14)	196	(46)	242

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.

Q3 and YTD 2019	Q3 and YTD 2018
<ul style="list-style-type: none"> Net losses excluding FVTPL bonds of \$41 million in Q3-2019 reflected impairment losses of \$44 million. Net gains excluding FVTPL bonds of \$34 million year-to-date 2019 reflected a broker gain of \$72 million in Q1-2019, and impairment losses of \$62 million. Realized and unrealized gains on our FVTPL bonds of \$3 million in Q3-2019 and \$162 million year-to-date 2019 were driven by declining interest rates in 2019 in both Canada (mainly in H1-2019) and the U.S. (see Section 4.3 – Capital markets). Realized and unrealized gains and losses on our FVTPL bonds are mostly offset by the change in rates used to discount our claims liabilities (MYA) (see Section 15 – Non-operating results). 	<ul style="list-style-type: none"> Net gains excluding FVTPL bonds of \$23 million in Q3-2018 and \$87 million year-to-date 2018 reflected gains from ordinary trading activities. Realized and unrealized losses on our FVTPL bonds of \$47 million in Q3-2018 and \$133 million year-to-date 2018 were driven by higher interest rates in 2018 in both Canada and the U.S. (see Section 4.3 – Capital markets).

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



STRATEGY & OUTLOOK

Section 5 – Recent developments

5.1 IFC to acquire leading specialty insurer The Guarantee Company of North America and Frank Cowan Company Limited



- On August 15, 2019, we announced that we entered into a definitive agreement with Princeton Holdings Limited (“Princeton Holdings”) to acquire The Guarantee Company of North America (“The Guarantee”), a specialty lines insurer in Canada and the U.S., and Frank Cowan Company Limited (“Frank Cowan”), a managing general agent (“MGA”) focused on specialty insurance, for a cash consideration of approximately \$1 billion.
- During the quarter, a portion of the \$1 billion purchase price and related transaction expenses were secured by the completion of a \$461 million common equity financing in the form of subscription receipts. The remaining balance is expected to be financed through excess capital and short-term debt upon closing.
- The financing structure of the Proposed Acquisition preserves our strong capital position at closing with an estimated total capital margin of approximately \$1.3 billion, an estimated MCT of 197% and a debt-to-total capital ratio slightly above 20% at year end. *Refer to Section 11.1 – Financing structure.*
- The Proposed Acquisition is progressing well and on track to close in Q4-2019, subject to customary regulatory approvals. We have received Canadian and U.S. competition approval as well as U.S. state insurance approval from Michigan, where The Guarantee’s US subsidiary is domiciled. Applications have been filed with OSFI which are in various stages of approval.
- The Acquisition will bolster IFC’s position and add new products for the high net worth customer market segment in Canada. It will meaningfully advance IFC’s North American specialty lines platform solidifying prominent positions in public entity and surety. The transaction will also contribute to additional distribution-related earnings through the MGA. The Acquisition will add more than \$560 million in DPW, including over \$100 million in the U.S., bringing IFC’s annual North American specialty lines DPW close to \$3 billion.
- The transaction is expected to be immediately accretive to NOIPS with low single-digit NOIPS accretion within 24 months after close. The transaction is expected to deliver strong economics for IFC through loss ratio improvements, expense synergies of \$20 million (pre-tax, run-rate), as well as optimization of reinsurance and capital. In addition, the combined platform will also offer topline expansion opportunities.
- The Guarantee, Frank Cowan, and On Side (see next page) transactions are expected to be highly strategic, synergistic, and financially attractive opportunities for our shareholders. They are expected to deliver in aggregate mid-single digit NOIPS accretion by 2021.

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

5.2 Strengthening of our supply chain network with the acquisition of On Side Restoration

- On October 1, 2019, we completed the acquisition of On Side Developments Ltd, the parent company of One Side Restoration, a leading Canadian restoration firm (“On Side”). IFC and On Side will be joining forces to strengthen repair and restoration services for personal and commercial property claims customers across Canada. With this acquisition, we expect to deepen our claims expertise and strengthen our supply chain network.
- We will gain full ownership of On Side over a two-year period for a variable purchase consideration, which is based in part on future profitability metrics.
- This acquisition is expected to provide immediate low single-digit accretion to NOIPS, and mild accretion to ROE. Starting in Q4-2019, On Side results will be reported in Distribution EBITA and Other.

Acquisition of ON SIDE



- 1 Enhance customer experience**
- 2 Deepen claims expertise**
- 3 New earnings stream**

5.3 Other developments 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.
- In June, 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.
- In September, we launched an **enhanced digital proof of insurance (pink card) on the Intact Insurance and belairdirect apps**. Customers will be able to get quick and easy access to their proof of insurance right on their smartphone locked screens.

Acquisitions and financing activities

- In Q3-2019, in connection with the planned Acquisition, we issued 3.83 million subscription receipts for gross proceeds of **\$461 million**. *Please see further details in Section 11.1 – Financing structure.*
- **BrokerLink acquired several brokers**, including Ontario-based Bradley’s Commercial Insurance Limited and Condotta Merrett & Company Insurance Brokers Inc., as well as Alberta-based Challenge Insurance Group Inc., Bridge Financial Holdings Ltd. and Nicolet Insurance Ltd.

Awards and recognition

- For the second year in a row, Intact was named one of 25 top rated workplaces in Canada by Indeed, the world’s largest job search site.
- Once again, Intact was recognized by Women in Governance as a Platinum Parity Certified organization for its commitment to supporting the advancement of women in the workplace. Intact is one of eight organizations to receive this level of certification for 2019.
- belairdirect and its media agency PHD received a **silver award at the Festival of Media Global Awards**. The Festival rewards the most creative, strategic and innovative media campaigns worldwide.

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



Governance, climate adaptation social responsibility

- 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.
- 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.
 - The Intact Foundation is looking for a new cohort of climate change adaptation partners - \$1 million is available for charities that are developing practical and effective solutions to combat the impacts of climate change. Applications for funding will be accepted from October 22 to November 30 at www.intactfoundation.com.
- In addition to investing in climate change adaptation initiatives, we support projects that address root causes of child poverty in Canada.
 - In July 2019, we announced a \$1.34 million dollar investment to support United Way/Centraide funded programs and agencies, focused on supporting children in their early years and helping parents gain employment. This funding is enabled by our employees generosity – for every \$1 they donated to the United Way campaign last fall, the Intact Foundation allocated \$1 to address root cases of child poverty in communities nationally.
 - In September 2019, the baseline report of the UNICEF Canadian Index of Child and Youth Well-being measuring the “levels, inequalities and trends in the state of children and youth” was released. It is an important tool to help measure our progress, Intact is the only corporate partner funding the project.
- Other ESG developments include:
 - 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.

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

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

Section 6 – Insurance industry H1-2019 update

6.1 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)

	H1-2019	Full year 2018	Full year 2017	Full year 2016	Full year 2015
ROE (for the last 12 months)¹ vs P&C Industry	8.3 pts	8.9 pts	6.9 pts	5.8 pts	5.1 pts
DPW growth (including industry pools) vs Industry benchmark	(1.6) pts	(4.4) pts	(2.4) pts	2.4 pts	3.4 pts
Combined ratio (including MYA) vs Industry benchmark	1.9 pts	8.3 pts	6.2 pts	4.7 pts	5.2 pts

¹ IFC's ROE corresponds to the AROE.

- **Our ROE outperformance of 8.3 points versus the P&C insurance industry** was well above our objective of 5 points.
- **Our growth underperformance against the industry benchmark** narrowed from 4.4 points in 2018 to 1.6 points in H1-2019 as a result of our improving competitiveness supported by hard market conditions.
- **Combined ratio outperformance against the industry benchmark** narrowed from 8.3 points in 2018 to 1.9 points in H1-2019, 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.*

Management’s Discussion and Analysis for the third quarter of 2019

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

Section 7 – Outlook

7.1 P&C insurance industry 12-month outlook

- For the Canadian P&C industry, we expect 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 market is hardening. We expect mid single-digit premium 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	<ul style="list-style-type: none"> • Industry growth exceeded 8% in the first half of 2019. • Industry profitability continues to be challenged with a combined ratio estimated above 100% in the first half of 2019. • The market is hard with rate actions continuing, tightening of capacity and increasing residual market volumes. • We expect growth at an upper single-digit level over the next 12 months. 	<ul style="list-style-type: none"> • Our actions continue on pricing, underwriting and claims as we focus on sustaining our mid-90’s combined ratio performance in the coming year. • We are pricing our products appropriately as our competitive position is improving steadily. • Our brand investments and focus on customer driven digital leadership will continue to help selectively grow our business. We are also investing in telematics, big data, and artificial intelligence to maintain our advantage in data and segmentation.
Personal property	<ul style="list-style-type: none"> • Industry growth exceeded 6% in the first half of 2019. • Challenging weather conditions over time are supporting continued hard market conditions. • We expect growth at a mid-to-upper single-digit level over the next 12 months. 	<ul style="list-style-type: none"> • Product enhancements and pricing actions over time have positioned this business very well. • 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	<ul style="list-style-type: none"> • Industry growth continued in the double-digit range in the first half of 2019. • Estimated Industry combined ratios were above 100% in the first half of 2019. Market conditions remain hard. • We expect growth at an upper single-digit to low-double digit level to continue over the next 12 months. 	<ul style="list-style-type: none"> • In this favourable rate environment we are maintaining an emphasis on portfolio quality. • We also 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.

Management’s Discussion and Analysis for the third quarter of 2019

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

	P&C insurance industry 12-month outlook	Our response
U.S. Commercial lines	<ul style="list-style-type: none"> The U.S. Commercial P&C industry grew approximately 4% in 2018 with a combined ratio estimated in the upper 90’s. Growth momentum continued in the first half of 2019. The market is hardening, with upward pricing trends continuing. We expect mid single-digit industry growth over the next 12 months. 	<ul style="list-style-type: none"> 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. We exited the Healthcare business effective July 1, 2019. We remain focused on and on-track for sustainable low-90s performance by the end of 2020.
Investments	<ul style="list-style-type: none"> Investment yields remain low by historical standards. While there was upward momentum on interest rates in 2018, the trend has reversed in 2019. In the current interest rate environment, we estimate that the industry’s pre-tax investment yield will decline slightly, given its asset mix and duration. Volatility in capital markets may put some pressure on investment market values and capital levels. 	<ul style="list-style-type: none"> We are well positioned for a low interest rate environment. Our insurance products are short-term in nature and priced to generate mid-teens ROEs, taking into account the interest rate environment. 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	<ul style="list-style-type: none"> Low-single digit industry ROE over the past year supports a hard market environment over the next 12 months. Overall, we expect the industry’s ROE to improve but remain below its long-term average of 10% over the next 12 months. 	<ul style="list-style-type: none"> With our action plans and strategies, we expect to exceed our 500 basis point industry ROE outperformance target. We remain focused on returning ROE to our historical mid-teens level.

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

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

FINANCIAL CONDITION

Section 8 – Financial position

Q3-2019 Highlights

Investment portfolio	Claims liabilities	BVPS for the last 12 months	Debt-to-total capital ratio
\$17.8 billion	\$11.1 billion	\$51.20	19.3%

8.1 Balance sheets

Table 15 – Balance sheets

As at	Section	September 30, 2019	December 31, 2018
Assets			
Cash, cash equivalents and short-term notes		370	461
Fixed-income securities		12,050	11,682
Preferred shares		1,133	1,165
Common shares		3,907	3,295
Loans		306	294
Investments	9	17,766	16,897
Premium receivables		3,614	3,358
Reinsurance assets	10	958	864
Deferred acquisition costs		988	903
Other assets		2,192	1,840
Intangible assets and goodwill		4,585	4,599
Total assets		30,103	28,461
Liabilities			
Claims liabilities	10	11,118	10,623
Unearned premiums		5,867	5,412
Financial liabilities related to investments		448	289
Other liabilities		2,570	2,118
Debt outstanding		1,945	2,209
Total liabilities		21,948	20,651
Shareholders' equity			
Common shares		2,816	2,816
Preferred shares		1,028	1,028
Contributed surplus		161	149
Retained earnings		3,826	3,776
AOCI		324	41
Shareholders' equity		8,155	7,810
Book value per share (in dollars)	18.4	51.20	48.73

Management’s Discussion and Analysis for the third quarter of 2019

(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 \$869 million from December 31, 2018 to \$17.8 billion as at September 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 September 30, 2019 and December 31, 2018. On a consolidated basis, the weighted-average rating of our fixed-income portfolio was ‘AA’ as at September 30, 2019 and December 31, 2018. The average duration of our fixed-income portfolio was 3.77 years as at September 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 September 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	September 30, 2019	December 31, 2018
Cash, cash equivalents, and short-term notes	3%	3%
Fixed-income	75%	75%
Preferred shares	6%	7%
Common equities	14%	13%
Loans	98%	98%
	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 September 30, 2019, on a net exposure basis, 83% of our portfolio was denominated in CAD, 16% in USD and 1% in other currencies (81% in CAD, 17% in USD and 2% in other currencies as at December 31, 2018).

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 September 30, 2019, our structured debt securities comprised \$711 million of asset-backed securities (“ABS”) and \$1,400 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 respectively 47% and 53% of our MBS portfolio. Approximately 99% of these structured debt securities are rated ‘A’ or better as at September 30, 2019 and December 31, 2018.

We continue to have no exposure to leveraged securities.

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

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

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

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

As at	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018
Fixed-income securities	163	162	107	17	(38)
Preferred shares	(95)	(104)	(70)	(83)	62
Common shares	232	141	140	(85)	148
Net pre-tax unrealized gain (loss) position	300	199	177	(151)	172

Quarter	Year-to-date
<ul style="list-style-type: none"> Our pre-tax unrealized gain position increased by \$101 million from June 30, 2019, mainly due to mark-to-market gains on common shares reflecting the increase in equity markets (see Section 4.3 – Capital markets for details), as well as impairment losses of \$44 million. 	<ul style="list-style-type: none"> Our pre-tax unrealized gain position increased by \$451 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 4.3 – 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	September 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018
Less than 25% below book value	61	76	72	148	70
More than 25% below book value for less than 6 consecutive months	6	4	16	55	2
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	18	47	23	18	10
Unrealized losses on AFS common shares	85	127	111	221	82

Impairment losses on AFS common shares amounted to \$44 million in Q3-2019 and \$62 million year-to-date 2019. Since common shares are measured at fair value on our balance sheet, impairment losses have no impact on our BVPS.

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

(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.

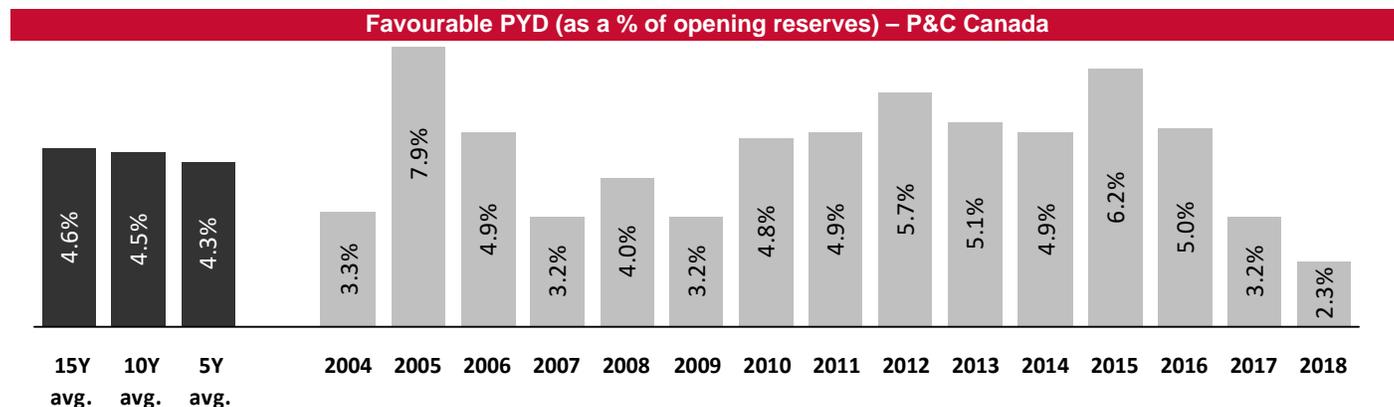


Table 19 – PYD by line of business

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
By line of business						
Personal auto	(1)	18	(19)	112	46	66
Personal property	(7)	(16)	9	(26)	(63)	37
Commercial lines – Canada	(1)	(22)	21	(43)	(108)	65
Commercial lines – U.S.	(2)	(8)	6	(4)	(10)	6
Total (favourable) unfavourable development	(11)	(28)	17	39	(135)	174
(Favourable) unfavourable annualized rate of PYD¹						
P&C Canada	(0.4)%	(0.9)%	0.5 pts	0.7%	(2.1)%	2.8 pts
P&C U.S.	(0.5)%	(1.9)%	1.4 pts	(0.3)%	(0.8)%	0.5 pts
Consolidated	(0.4)%	(1.1)%	0.7 pts	0.5%	(1.9)%	2.4 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 adverse development cover (ADC) is US\$200 million and is subject to some exclusions and limitations. As at September 30, 2019, significant capacity remains under this coverage.

Reference to our 2018 Consolidated financial statements
See Note 14 – Reinsurance for further details

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

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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.

On August 15, 2019, we announced that we entered into a definitive agreement with Princeton Holdings to acquire The Guarantee, a specialty lines insurer in Canada and the U.S., and Frank Cowan, a MGA focused on specialty insurance for a cash consideration of approximately \$1 billion. A portion of the \$1 billion purchase price and related transaction expenses were secured by the completion of a \$461 million common equity financing in the form of subscription receipts (see hereafter). The remaining balance is expected to be financed through excess capital and short-term debt upon closing.

On August 26, 2019, we completed our previously announced bought deal offering of **3.83 million subscription receipts** underwritten by a syndicate of underwriters, resulting in gross proceeds of \$461 million. Each subscription receipt will entitle the holder to receive one common share of IFC upon closing of the Acquisition, as well as an amount equivalent to any common share dividends declared by the Company while the subscription receipts remain outstanding.

In September 2019, we repaid at maturity the \$250 million principal amount of Series 1 medium term notes. As a result, our debt-to-total capital ratio decreased to 19.3% as at September 30, 2019, compared to 21.6% as at June 30, 2019 (22.0% as at December 31, 2018). Following the closing of the Acquisition, we expect our debt-to-total capital ratio to be approximately 21% at year end.

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

Sale and repurchase agreements

We may, from time to time, enter into sale and repurchase agreements consisting of the sale of securities together with an agreement to repurchase them in the short term, at a set price and date, up to a maximum of 1.5% of invested assets. Securities sold under repurchase agreements amounted to \$75 million as at September 30, 2019 (nil as at December 31, 2018).

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.

Following the announcement of the Acquisition, A.M Best, DBRS, Moody's, and Fitch have all reaffirmed the issuer credit rating of IFC and the insurer financial strength ratings of its principal P&C subsidiaries.

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

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 20 – Cash flows

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
Net cash flows provided by operating activities	686	552	134	1,103	622	481
Cash flows generated from (deployed on):						
Equity investments in brokerages and other, net	(36)	(60)	24	(86)	(65)	(21)
Purchases of intangibles and P&E, net	(30)	(30)	-	(90)	(81)	(9)
Dividends	(120)	(110)	(10)	(354)	(321)	(33)
Repayment of term notes on maturity	(250)	-	(250)	(250)	-	(250)
Proceeds from securities sold under repurchase agreements	75	-	75	75	-	75
Repurchase of common shares for share-based payments	(5)	(3)	(2)	(39)	(32)	(7)
Payments of lease liabilities ¹	(13)	-	(13)	(37)	-	(37)
Issuance of Class A Preferred Shares	-	-	-	-	243	(243)
Borrowing (repayment) on our credit facility, net	-	(70)	70	-	(60)	60
Net cash inflows (outflows) before the following:	307	279	28	322	306	16
Proceeds from investment sales (purchases), net	(221)	(136)	(85)	(417)	(47)	(370)
Net increase (decrease) in cash and cash equivalents	86	143	(57)	(95)	259	(354)

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

2019 vs 2018

Net cash flows provided by operating activities increased by \$481 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.

Management’s Discussion and Analysis for the third quarter of 2019

(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 21 – Estimated aggregated capital position

As at	September 30, 2019	June 30, 2019	December 31, 2018
Canadian regulated entities			
Regulatory capital ratio	195%	191%	201%
Industry-wide supervisory minimum levels	150%	150%	150%
Capital above CALs (capital margin)	457	379	530
Other regulated entities			
Capital above CALs (capital margin) ¹	616	616	505
Unregulated entities	43	274	298
Total capital margin²	1,116	1,269	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 \$153 million , as capital generation in the quarter was more than offset by the repayment of the \$250 million principal amount of Series 1 medium-term notes.	Total capital margin decreased by \$217 million from December 31, 2018 , as capital generation was more than offset by the repayment of the \$250 million principal amount of the Series 1 medium-term notes, the impact of severe weather in Q1-2019, as well as unfavourable PYD in H1-2019.

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

(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 22 – Reclassifications for 2018

For the	Quarter ended September 30, 2018				Nine month period ended September 30, 2018			
	Previously reported	(A)	(B)	Reclassified	Previously reported	(A)	(B)	Reclassified
Underwriting income	152	-	-	152	264	-	-	264
Net investment income	133	-	3	136	389	-	9	398
Distribution EBITA/Net distribution income	34	7	-	41	110	23	-	133
Finance costs	(25)	(2)	-	(27)	(76)	(8)	-	(84)
Other income (expense)	(2)	-	(3)	(5)	(12)	-	(9)	(21)
PTOI	292	5	-	297	675	15	-	690
Operating tax expense	(55)	(5)	-	(60)	(117)	(15)	-	(132)
NOI	237	-	-	237	558	-	-	558
NOIPS (in dollars)	1.62	-	-	1.62	3.80	-	-	3.80
Operating effective tax rate	18.8%	1.4 pts	-	20.2%	17.3%	1.8 pts	-	19.1%
Non-operating gains (losses)	(36)	(1)	-	(37)	(100)	(3)	-	(103)
Non-operating income tax recovery	(2)	1	-	(1)	5	3	-	8
Net income	199	-	-	199	463	-	-	463
Total effective tax rate	22.3%	1.2 pts	-	23.5%	19.5%	1.6 pts	-	21.1%

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(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 23 – Non-operating results

	Q3-2019	Q3-2018	Change	YTD 2019	YTD 2018	Change
Net gains (losses) (Table 13)						
Realized and unrealized gains (losses) on FVTPL bonds	3	(47)	50	162	(133)	295
Gains (losses) excluding FVTPL bonds	(41)	23	(64)	34	87	(53)
Positive (negative) impact of MYA on underwriting	(10)	42	(52)	(160)	133	(293)
Amortization of intangible assets recognized in business combinations	(25)	(23)	(2)	(73)	(68)	(5)
Integration and restructuring costs	(14)	(10)	(4)	(26)	(49)	23
Difference between expected return and discount rate on pension assets	(12)	(12)	-	(36)	(37)	1
Underwriting results of exited lines	(15)	(3)	(12)	(32)	(22)	(10)
Other	(5)	(7)	2	(17)	(14)	(3)
Non-operating gains (losses)	(119)	(37)	(82)	(148)	(103)	(45)
Income tax recovery (expense) on the above items	29	8	21	60	17	43
U.S. Corporate tax reform	-	(9)	9	-	(9)	9
After-tax non-operating gains (losses)	(90)	(38)	(52)	(88)	(95)	7

- **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 Programs, Architects and Engineers, as well as Healthcare (effective July 1, 2019). 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.

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

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
DPW, as reported under IFRS	2,996	2,684	8,323	7,748
Remove: impact of industry pools and fronting	(16)	(15)	(102)	(74)
Remove: DPW of exited lines	(18)	(3)	(19)	(15)
DPW (full term)	2,962	2,666	8,202	7,659
Add: impact of the normalization for multi-year policies	50	42	177	39
DPW, as reported in the MD&A	3,012	2,708	8,379	7,698
DPW growth	11%	23%	9%	20%
DPW growth (in constant currency)	11%	23%	8%	20%

Underwriting income (loss)

Table 25 – Reconciliation of underwriting income (loss) to underwriting income (loss), as reported under IFRS

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
Underwriting income (loss), as reported under IFRS ¹	161	179	8	338
Remove: impact of MYA on underwriting results	10	(42)	160	(133)
Remove: difference between expected return and discount rate on pension assets	12	12	36	37
Remove: underwriting loss of exited lines	15	3	32	22
Underwriting income (loss), as reported in the MD&A	198	152	236	264
NEP, as reported in the MD&A (see table 28 hereafter)	2,581	2,462	7,519	7,206
Combined ratio	92.3%	93.8%	96.9%	96.3%

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

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

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
NEP, as reported under IFRS	2,604	2,471	7,545	7,249
Remove: NEP of exited lines	(23)	(9)	(26)	(43)
NEP, as reported in the MD&A	2,581	2,462	7,519	7,206
Remove: reinstatement premiums ceded (recovered)	-	-	-	(1)
NEP, before reinstatement premiums	2,581	2,462	7,519	7,205
Net claims incurred, as reported under IFRS	1,676	1,548	5,289	4,716
Remove: impact of MYA on underwriting results	(10)	42	(160)	133
Remove: difference between expected return and discount rate on pension assets allocated to net claims incurred	(5)	(6)	(15)	(17)
Remove: net claims of exited lines	(32)	(12)	(51)	(62)
Total net claims, as reported in the MD&A	1,629	1,572	5,063	4,770
Remove: current year CAT claims	(53)	(97)	(251)	(275)
Remove: PYD	11	28	(39)	135
Current year claims (excluding CAT claims and PYD)	1,587	1,503	4,773	4,630
NEP, before reinstatement premiums	2,581	2,462	7,519	7,205
Underlying current year loss ratio	61.5%	61.0%	63.5%	64.3%
CAT loss ratio (including reinstatement premiums)	2.0%	3.9%	3.3%	3.8%
(Favourable) unfavourable PYD ratio (see table 27 below) ¹	(0.4)%	(1.1)%	0.5%	(1.9)%
Claims ratio¹	63.1%	63.8%	67.3%	66.2%

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

Prior year claims development (PYD)

Table 27 – Reconciliation of PYD to prior year claims development, as reported under IFRS

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
(Favourable) unfavourable PYD, as reported under IFRS	1	(22)	65	(120)
Remove: unfavourable PYD of exited lines	(12)	(6)	(26)	(15)
(Favourable) unfavourable PYD, as reported in the MD&A	(11)	(28)	39	(135)
NEP, as reported in the MD&A	2,581	2,462	7,519	7,206
(Favourable) unfavourable PYD ratio	(0.4)%	(1.1)%	0.5%	(1.9)%

Underwriting expenses

Table 28 – Reconciliation of underwriting expenses to underwriting expenses, as reported under IFRS

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
Underwriting expenses, as reported under IFRS	797	772	2,335	2,277
Net with: other underwriting revenues	(30)	(6)	(87)	(20)
Remove: difference between expected return and discount rate on pension assets allocated to underwriting expenses	(7)	(28)	(21)	(82)
Remove: underwriting expenses of exited lines	(6)	-	(7)	(3)
Underwriting expenses, MD&A basis	754	738	2,220	2,172
NEP, as reported in the MD&A	2,581	2,462	7,519	7,206
Expense ratio	29.2%	30.0%	29.5%	30.1%

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

As presented in the interim F/S	MD&A Captions				Pre-tax non-operating losses ^{1,2}	Total F/S caption
	Distribution EBITA	Finance costs	Other inc. (exp.)	Total income taxes		
For the quarter ended September 30, 2019						
Other revenues	40	-	3	-	-	43
Share of profits from invest. in ass. & JV	23	(3)	-	(4)	(12)	4
Other expenses	(7)	-	(18)	-	(18)	(43)
Finance costs	-	(27)	-	-	-	(27)
Income tax recovery (expense)	-	-	-	(45)	-	(45)
Total, as reported in MD&A	56	(30)	(15)	(49)		
For the quarter ended September 30, 2018						
Other revenues	34	-	6	-	-	40
Share of profits from invest. in ass. & JV	20	(2)	-	(4)	(11)	3
Other expenses	(13)	-	(11)	-	(19)	(43)
Finance costs	-	(25)	-	-	-	(25)
Income tax recovery (expense)	-	-	-	(57)	-	(57)
Total, as reported in MD&A	41	(27)	(5)	(61)		
For the nine-months ended September 30, 2019						
Other revenues	116	-	13	-	-	129
Share of profits from invest. in ass. & JV	78	(8)	-	(14)	(30)	26
Other expenses	(30)	-	(34)	-	(60)	(124)
Finance costs	-	(84)	-	-	-	(84)
Income tax recovery (expense)	-	-	-	(45)	-	(45)
Total, as reported in MD&A	164	(92)	(21)	(59)		
For the nine-months ended September 30, 2018						
Other revenues	98	-	10	-	-	108
Share of profits from invest. in ass. & JV	65	(8)	-	(12)	(25)	20
Other expenses	(30)	-	(31)	-	(57)	(118)
Finance costs	-	(76)	-	-	-	(76)
Income tax recovery (expense)	-	-	-	(112)	-	(112)
Total, as reported in MD&A	133	(84)	(21)	(124)		

¹ Comprised of \$25 million relating to amortization of intangible assets recognized in business combinations and \$5 million to other non-operating results for the quarter ended September 30, 2019 (\$23 million and \$7 million respectively for the quarter ended September 30, 2018).

² Comprised of \$73 million related to amortization of intangible assets recognized in business combinations and \$17 million to other non-operating results for the nine-month period ended September 30, 2019 (\$68 million and \$14 million respectively for the nine-month period ended September 30, 2018).

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

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
Income before income taxes, as reported under IFRS	232	256	559	575
Add: share of income tax expense of broker associates	4	4	14	12
Income before income taxes, as reported in the MD&A	236	260	573	587
Income tax benefit (expense), as reported in the MD&A (table 29)	(49)	(61)	(59)	(124)
Net income	187	199	514	463
Effective income tax rate, as reported in the MD&A	20.8%	23.5%	10.3%	21.1%

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 31 – Reconciliation of ROE to net income

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
Net income	187	199	514	463
Remove: preferred share dividends	(12)	(13)	(34)	(29)
Net income attributable to common shareholders	175	186	480	434
Net income attributable to common shareholders for the last 12 months	713	656		
Average common shareholders' equity	6,993	6,670		
ROE for the last 12 months	10.2%	9.8%		

NOI, NOIPS and OROE

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

Table 32 – Reconciliation of NOI, NOIPS and OROE to net income

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
Net income	187	199	514	463
Remove: income tax expense (benefit), as reported in the MD&A (table 29)	49	61	59	124
Remove: non-operating losses (gains)	119	37	148	103
Pre-tax operating income	355	297	721	690
Operating income tax benefit (expense)	(78)	(60)	(119)	(132)
NOI	277	237	602	558
Remove: preferred share dividends	(12)	(13)	(34)	(29)
NOI to common shareholders	265	224	568	529
Divided by weighted-average number of common shares (in millions)	139.2	139.2	139.2	139.2
NOIPS, basic and diluted (in dollars)	1.91	1.62	4.08	3.80
NOI to common shareholders for the last 12 months	838	756		
Average common shareholders' equity, excluding AOCI	6,778	6,525		
OROE for the last 12 months	12.4%	11.6%		

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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 33 – Reconciliation of AEPS and AROE to net income

	Q3-2019	Q3-2018	YTD 2019	YTD 2018
Net income	187	199	514	463
Adjustments, net of tax				
Remove: impact of amortization of intangible assets recognized in business combinations	19	18	55	52
Remove: impact of integration and other acquisition-related costs	11	8	17	37
Impact from the U.S. tax reform	-	9	-	9
Adjusted net income	217	234	586	561
Remove: preferred share dividends	(12)	(13)	(34)	(29)
Adjusted net income attributable to common shareholders	205	221	552	532
Divided by weighted-average number of common shares (in millions)	139.2	139.2	139.2	139.2
AEPS, basic and diluted (in dollars)	1.47	1.59	3.97	3.82
Adjusted net income attributable to common shareholders for the last 12 months	814	749		
Average common shareholders’ equity	6,993	6,670		
AROE for the last 12 months	11.6%	11.2%		

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
<i>Note 3</i>	<i>Note 3</i>	<i>Note 20</i>

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 third quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

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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 34 – Outstanding share data (number of shares)

As at November 5, 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 35 – Dividends declared per share

	Q4-2019	Q3-2019 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	0.2708325	0.27392
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 36 – Evolution of BVPS (in dollars)

As at	Q3-2019	YTD 2019	Last 12 months
BVPS, beginning of period	49.90	48.73	49.27
EPS	1.26	3.45	5.12
Dividends on common shares	(0.76)	(2.28)	(2.98)
Impact of market movements on AFS securities ¹	0.56	2.45	0.73
Net actuarial gains (losses) on employee future benefits ¹	0.07	(0.48)	(1.15)
Foreign exchange impact ¹	0.11	(0.50)	0.37
Impact of the adoption of IFRS 16	-	(0.28)	(0.28)
Other	0.06	0.11	0.12
BVPS, end of period	51.20	51.20	51.20
Period-over-period increase (decrease)	3%	5%	4%

¹ Reported in AOCI.

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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 37 – Selected quarterly information ^{1,2}

	2019	2019	2019	2019	2018	2018	2017	2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
DPW	3,012	3,152	2,215	2,392	2,708	2,908	2,082	2,293
Total revenues ³	2,775	2,699	2,625	2,697	2,644	2,589	2,496	2,576
NEP	2,581	2,500	2,438	2,509	2,462	2,410	2,334	2,400
Current year CAT losses	53	70	128	55	97	142	36	31
(Favourable) unfavourable PYD	(11)	64	(14)	(50)	(28)	(32)	(75)	(62)
Underwriting income (loss)	198	75	(37)	210	152	93	19	178
Combined ratio	92.3%	97.0%	101.5%	91.7%	93.8%	96.1%	99.2%	92.6%
Net investment income	146	148	140	143	136	137	125	125
Distribution EBITA	56	72	36	42	41	62	30	34
NOI	277	212	113	281	237	201	120	236
Net income	187	168	159	244	199	161	103	232
Per share measures, basic and diluted								
(in dollars)								
NOIPS	1.91	1.44	0.73	1.93	1.62	1.38	0.81	1.63
EPS	1.26	1.13	1.06	1.67	1.34	1.10	0.68	1.60

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

Q4-2019	Q1-2020	Q2-2020	Q3-2020
February 4, 2020	May 5, 2020	July 28, 2020	November 3, 2020