

Third Quarter **2019**

**3**

Interim Consolidated Financial Statements (unaudited)  
For the quarter ended September 30, 2019

Intact Financial Corporation



**Interim Consolidated financial statements (unaudited)**

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

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

As at	Note	September 30, 2019	December 31, 2018
<b>Assets</b>			
Investments	4		
Cash and cash equivalents		\$ 343	\$ 442
Debt securities		12,077	11,701
Preferred shares		1,133	1,165
Common shares		3,907	3,295
Loans		306	294
<hr/>			
Investments		17,766	16,897
Premium receivables		3,614	3,358
Reinsurance assets	8	958	864
Income taxes receivable		14	88
Deferred tax assets		143	141
Deferred acquisition costs		988	903
Other assets	9	828	841
Investments in associates and joint ventures		712	600
Property and equipment		495	170
Intangible assets		2,168	2,200
Goodwill		2,417	2,399
<hr/>			
<b>Total assets</b>		<b>\$ 30,103</b>	<b>\$ 28,461</b>
<hr/>			
<b>Liabilities</b>			
Claims liabilities	8	\$ 11,118	\$ 10,623
Unearned premiums		5,867	5,412
Financial liabilities related to investments	5	448	289
Income taxes payable		68	15
Deferred tax liabilities		231	239
Other liabilities	9	2,271	1,864
Debt outstanding		1,945	2,209
<hr/>			
<b>Total liabilities</b>		<b>21,948</b>	<b>20,651</b>
<hr/>			
<b>Shareholders' equity</b>			
Common shares		2,816	2,816
Preferred shares		1,028	1,028
Contributed surplus		161	149
Retained earnings		3,826	3,776
Accumulated other comprehensive income (loss)			
Available-for-sale securities		224	(122)
Translation of foreign operations, net of hedges		96	166
Other		4	(3)
<hr/>			
		<b>8,155</b>	<b>7,810</b>
<hr/>			
<b>Total liabilities and shareholders' equity</b>		<b>\$ 30,103</b>	<b>\$ 28,461</b>

See accompanying notes to the interim Consolidated financial statements.

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

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

For the periods ended September 30,	Note	Three months		Nine months	
		2019	2018	2019	2018
<b>Direct premiums written</b>		\$ 2,996	\$ 2,684	\$ 8,323	\$ 7,748
Premiums ceded		(103)	(96)	(305)	(280)
Net premiums written		2,893	2,588	8,018	7,468
Change in unearned premiums		(289)	(117)	(473)	(219)
<b>Net earned premiums</b>		2,604	2,471	7,545	7,249
Other underwriting revenues		30	28	87	82
Investment income	11				
Interest income		93	89	281	257
Dividend income		58	53	170	158
Other revenues		43	40	129	108
<b>Total revenues</b>		2,828	2,681	8,212	7,854
Net claims incurred	8	(1,676)	(1,548)	(5,289)	(4,716)
Underwriting expenses		(797)	(772)	(2,335)	(2,277)
Investment expenses	11	(5)	(6)	(17)	(17)
Net gains (losses)	12	(38)	(24)	196	(46)
Share of profit from investments in associates and joint ventures		4	3	26	20
Finance costs		(27)	(25)	(84)	(76)
Integration and restructuring costs		(14)	(10)	(26)	(49)
Other expenses		(43)	(43)	(124)	(118)
Income before income taxes		232	256	559	575
Income tax benefit (expense)	13	(45)	(57)	(45)	(112)
<b>Net income attributable to shareholders</b>		\$ 187	\$ 199	\$ 514	\$ 463
Weighted-average number of common shares outstanding (in millions)	14	139.2	139.2	139.2	139.2
<b>Earnings per common share, basic and diluted (in dollars)</b>	14	\$ 1.26	\$ 1.34	\$ 3.45	\$ 3.12
Dividends paid per common share (in dollars)		\$ 0.76	\$ 0.70	\$ 2.28	\$ 2.10

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

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

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

For the periods ended September 30,	Note	Three months		Nine months	
		2019	2018	2019	2018
<b>Net income attributable to shareholders</b>		\$ 187	\$ 199	\$ 514	\$ 463
<b>Other comprehensive income (loss)</b>					
<b>Available-for-sale securities:</b>					
net changes in unrealized gains (losses)		69	25	458	(48)
income tax benefit (expense)		(15)	(10)	(103)	8
reclassification of net losses (gains)		33	(11)	(11)	(92)
income tax benefit (expense)		(9)	7	2	26
		78	11	346	(106)
<b>Foreign exchange gains (losses) on:</b>					
translation of foreign operations		47	(69)	(125)	129
net investment hedges		(27)	31	55	(73)
		20	(38)	(70)	56
<b>Other, net of tax</b>		1	(6)	7	-
<b>Items that may be reclassified subsequently to net income</b>		99	(33)	283	(50)
Net actuarial gains (losses) on employee future benefits	16	13	30	(90)	102
income tax benefit (expense)		(4)	(8)	23	(27)
<b>Items that will not be reclassified subsequently to net income</b>		9	22	(67)	75
<b>Other comprehensive income (loss)</b>		108	(11)	216	25
<b>Total comprehensive income attributable to shareholders</b>		\$ 295	\$ 188	\$ 730	\$ 488

See accompanying notes to the interim Consolidated financial statements.

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

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

	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
<b>Balance as at January 1, 2019</b>		\$ 2,816	\$ 1,028	\$ 149	\$ 3,776	\$ 41	\$ 7,810
Impact of the adoption of IFRS 16	3	-	-	-	(39)	-	(39)
<b>Adjusted balance as at January 1, 2019</b>		<b>2,816</b>	<b>1,028</b>	<b>149</b>	<b>3,737</b>	<b>41</b>	<b>7,771</b>
Net income attributable to shareholders		-	-	-	514	-	514
Other comprehensive income (loss)		-	-	-	(67)	283	216
<b>Total comprehensive income (loss)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>447</b>	<b>283</b>	<b>730</b>
Dividends declared on:							
common shares		-	-	-	(320)	-	(320)
preferred shares		-	-	-	(34)	-	(34)
Share-based payments		-	-	12	(4)	-	8
<b>Balance as at September 30, 2019</b>		<b>\$ 2,816</b>	<b>\$ 1,028</b>	<b>\$ 161</b>	<b>\$ 3,826</b>	<b>\$ 324</b>	<b>\$ 8,155</b>
<b>Balance as at January 1, 2018</b>		\$ 2,816	\$ 783	\$ 128	\$ 3,520	\$ 216	\$ 7,463
Net income attributable to shareholders		-	-	-	463	-	463
Other comprehensive income (loss)		-	-	-	75	(50)	25
Total comprehensive income (loss)		-	-	-	538	(50)	488
Preferred shares issued		-	245	-	-	-	245
Dividends declared on:							
common shares		-	-	-	(292)	-	(292)
preferred shares		-	-	-	(29)	-	(29)
Share-based payments		-	-	15	(4)	-	11
<b>Balance as at September 30, 2018</b>		<b>\$ 2,816</b>	<b>\$ 1,028</b>	<b>\$ 143</b>	<b>\$ 3,733</b>	<b>\$ 166</b>	<b>\$ 7,886</b>

See accompanying notes to the interim Consolidated financial statements.

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

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

For the periods ended September 30,	Note	Three months		Nine months	
		2019	2018	2019	2018
<b>Operating activities</b>					
Income before income taxes		\$ 232	\$ 256	\$ 559	\$ 575
Income tax received (paid), net		8	-	-	(381)
Contributions to the defined benefit pension plans		(11)	(15)	(37)	(42)
Share-based payments		-	-	(7)	(4)
Net losses (gains)	12	38	24	(196)	46
Adjustments for non-cash items	18	93	72	258	215
Changes in other operating assets and liabilities	18	209	184	73	86
Changes in net claims liabilities	8	117	31	453	127
<b>Net cash flows provided by (used in) operating activities</b>		<b>686</b>	<b>552</b>	<b>1,103</b>	<b>622</b>
<b>Investing activities</b>					
Proceeds from sale of investments		1,962	2,787	7,455	12,131
Purchases of investments		(2,183)	(2,923)	(7,872)	(12,178)
Purchases of brokerages and other equity investments, net		(36)	(60)	(86)	(65)
Purchases of intangibles and property and equipment, net		(30)	(30)	(90)	(81)
<b>Net cash flows provided by (used in) investing activities</b>		<b>(287)</b>	<b>(226)</b>	<b>(593)</b>	<b>(193)</b>
<b>Financing activities</b>					
Payment of lease liabilities		(13)	-	(37)	-
Proceeds from issuance of preferred shares, net of issuance costs		-	-	-	243
Repayment of term notes on maturity		(250)	-	(250)	-
Proceeds from securities sold under repurchase agreements	5	75	-	75	-
Borrowing (repayment) on the credit facility, net		-	(70)	-	(60)
Repurchase of common shares for share-based payments		(5)	(3)	(39)	(32)
Payment of dividends on common shares		(108)	(97)	(320)	(292)
Payment of dividends on preferred shares		(12)	(13)	(34)	(29)
<b>Net cash flows provided by (used in) financing activities</b>		<b>(313)</b>	<b>(183)</b>	<b>(605)</b>	<b>(170)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>86</b>	<b>143</b>	<b>(95)</b>	<b>259</b>
Cash and cash equivalents, beginning of period		254	287	442	163
Exchange rate differences on cash and cash equivalents		3	(5)	(4)	3
<b>Cash and cash equivalents, end of period</b>		<b>\$ 343</b>	<b>\$ 425</b>	<b>\$ 343</b>	<b>\$ 425</b>
<b>Composition of cash and cash equivalents</b>					
Cash		258	214	258	214
Cash equivalents		85	211	85	211
<b>Cash and cash equivalents, end of period</b>		<b>\$ 343</b>	<b>\$ 425</b>	<b>\$ 343</b>	<b>\$ 425</b>
<b>Other relevant cash flow disclosures – operating activities</b>					
Interest paid		26	22	84	74
Interest received		79	73	268	239
Dividends received		61	58	184	170

See accompanying notes to the interim Consolidated financial statements.

## INTACT FINANCIAL CORPORATION

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

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

#### Glossary of abbreviations

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

#### Note 1 – Status of the Company

Intact Financial Corporation (the "Company"), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange (TSX: IFC). The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian P&C insurance market and offers specialty insurance products to small and midsize businesses in the United States. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses.

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

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

#### Note 2 – Basis of presentation

##### 2.1 Statement of compliance

These interim Consolidated financial statements are prepared in accordance with IAS 34 – *Interim Financial Reporting*. These interim Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on November 5<sup>th</sup>, 2019.

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

These interim Consolidated financial statements are condensed financial statements and should be read in conjunction with the Company's annual Consolidated financial statements for the year ended December 31, 2018.

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

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, including the presentation changes described in *Note 17.2 – Segment operating performance*.

##### 2.3 Seasonality

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

## INTACT FINANCIAL CORPORATION

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

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

#### 2.4 Foreign currency translation

Table 2.1 – Exchange rates used

	As at		Average rate for the three-month periods ended		Average rate for the nine-month periods ended	
	September 30, 2019	December 31, 2018	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
USD vs CAD	1.32490	1.36490	1.32046	1.30681	1.32923	1.28754

#### Note 3 – Summary of significant accounting policies

The accounting policies applied during the nine-month period ended September 30, 2019 are the same as those described and disclosed in *Note 2 – Summary of significant accounting policies* of the annual Consolidated financial statements for the year ended December 31, 2018, except for the new standard, amendments to existing standards and interpretation adopted on January 1, 2019 below.

##### 3.1 Leases

The Company adopted IFRS 16 – *Leases* (“IFRS 16”) using the modified retrospective approach, under which the cumulative effect of the adoption was recognized in opening Retained earnings as at January 1, 2019. The comparative information was not restated and continues to be reported under IAS 17 – *Leases* and related interpretations.

##### a) Policy applicable from January 1, 2019

On the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payment made at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company’s incremental borrowing rate for a similar asset. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentives receivable, and exclude operational costs and variable lease payments. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company presents right-of-use assets in Property and equipment and lease liabilities in Other liabilities in the interim Consolidated balance sheets. The interest and depreciation expense are presented in Finance costs and Underwriting expenses respectively in the interim Consolidated statements of income.

##### b) Policy applicable before January 1, 2019

Leases which did not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items were operating leases. Payments made under operating leases were recognized on a straight-line basis over the lease term and reported in Underwriting expenses.

##### c) Impact of the adoption of IFRS 16

The adoption of IFRS 16 resulted in the recognition of operating leases, mainly real estate leases, on the Company’s interim Consolidated balance sheet as right-of-use assets with the corresponding lease liabilities.

At the transition date, right-of-use assets were measured on a lease-by-lease basis at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the Company’s incremental borrowing rate as at January 1, 2019; or
- an amount equal to the lease liability.

## INTACT FINANCIAL CORPORATION

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

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

Lease liabilities were measured at the present value of the remaining lease payments, using the Company's incremental borrowing rate as at January 1, 2019. The weighted-average rate applied was 2.92%.

The Company used hindsight when determining the lease term if the contract contained options to extend or terminate the lease, which is a practical expedient permitted upon transitioning to IFRS 16.

On January 1, 2019, the Company recognized right-of-use assets of \$358 million and lease liabilities of \$441 million, wrote-off net liabilities recognized under IAS 17 of \$29 million and, as a result, recognized a reduction of shareholders' equity of \$39 million, net of income taxes.

Table 3.1 – Reconciliation of operating lease commitments and lease liabilities

<b>Operating lease commitments as at December 31, 2018</b>	<b>1,005</b>
Operational costs and variable lease payment component	(469)
<b>Additional lease liabilities before discounting as at January 1, 2019</b>	<b>536</b>
Discounting	(95)
<b>Additional lease liabilities recognized as at January 1, 2019</b>	<b>441</b>
Finance lease liabilities previously recognized under IAS 17 as at January 1, 2019	15
<b>Total lease liabilities as at January 1, 2019</b>	<b>456</b>

### 3.2 Uncertainty over income tax treatments

The Company has adopted IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23"). This interpretation specifies that if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty:

- most likely amount: single most likely amount in a range of possible outcomes; or
- expected value: sum of the probability-weighted amounts in a range of possible outcomes.

This interpretation was adopted retrospectively with no impact on the interim Consolidated financial statements.

### 3.3 Plan amendment, curtailment or settlement (amendments to IAS 19 – Employee Benefits)

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

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

# INTACT FINANCIAL CORPORATION

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

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

### Note 4 – Investments

#### 4.1 Classification of investments

Table 4.1 – Classification of investments

As at	Fair value			Amortized cost	Total carrying amount
	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, and loans	
<b>September 30, 2019</b>					
<b>Cash and cash equivalents</b>	-	-	-	343	343
Short-term notes	27	-	-	-	27
Fixed income					
Investment grade					
Government	2,563	-	2,670	-	5,233
Corporate	2,043	-	2,406	-	4,449
Asset backed <sup>1</sup>	601	-	110	-	711
Mortgage backed					
Agency <sup>2</sup>	307	-	369	-	676
Non agency	429	-	295	-	724
Non rated	257	-	-	-	257
<b>Debt securities</b>	<b>6,227</b>	<b>-</b>	<b>5,850</b>	<b>-</b>	<b>12,077</b>
Investment grade					
Retractable	16	-	-	-	16
Fixed-rate perpetual	263	-	-	-	263
Other perpetual	854	-	-	-	854
<b>Preferred shares</b>	<b>1,133</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,133</b>
<b>Common shares</b>	<b>2,637</b>	<b>215</b>	<b>1,055</b>	<b>-</b>	<b>3,907</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>306</b>	<b>306</b>
	<b>9,997</b>	<b>215</b>	<b>6,905</b>	<b>649</b>	<b>17,766</b>
<b>December 31, 2018</b>					
<b>Cash and cash equivalents</b>	-	-	-	442	442
Short-term notes	19	-	-	-	19
Fixed income					
Investment grade					
Government	2,248	-	2,899	-	5,147
Corporate	2,180	-	2,240	-	4,420
Asset backed <sup>1</sup>	505	-	184	-	689
Mortgage backed					
Agency <sup>2</sup>	182	-	387	-	569
Non agency	373	-	314	-	687
Non rated	170	-	-	-	170
<b>Debt securities</b>	<b>5,677</b>	<b>-</b>	<b>6,024</b>	<b>-</b>	<b>11,701</b>
Investment grade					
Retractable	31	-	-	-	31
Fixed-rate perpetual	256	-	-	-	256
Other perpetual	878	-	-	-	878
<b>Preferred shares</b>	<b>1,165</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,165</b>
<b>Common shares</b>	<b>2,316</b>	<b>123</b>	<b>856</b>	<b>-</b>	<b>3,295</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>294</b>	<b>294</b>
	<b>9,158</b>	<b>123</b>	<b>6,880</b>	<b>736</b>	<b>16,897</b>

<sup>1</sup> Credit card receivables and auto loans.

<sup>2</sup> Publicly traded MBS, which carry the full faith and credit guarantee of the U.S. Government or are guaranteed by a Government sponsored entity.

## INTACT FINANCIAL CORPORATION

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

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

#### 4.2 Carrying value of investments

Table 4.2 – Carrying value of investments

As at	FVTPL	Amortized cost	Unrealized gains	Unrealized losses	Other	Total
	investments				investments	investments
	Carrying value				Carrying value	Carrying value
<b>September 30, 2019</b>						
Cash and cash equivalents	-	343	-	-	343	343
Debt securities	5,850	6,064	168	(5)	6,227	12,077
Preferred shares	-	1,228	22	(117)	1,133	1,133
Common shares	1,270	2,405	317	(85)	2,637	3,907
Loans	-	306	-	-	306	306
	<b>7,120</b>	<b>10,346</b>	<b>507</b>	<b>(207)</b>	<b>10,646</b>	<b>17,766</b>
<b>December 31, 2018</b>						
Cash and cash equivalents	-	442	-	-	442	442
Debt securities	6,024	5,660	44	(27)	5,677	11,701
Preferred shares	-	1,248	23	(106)	1,165	1,165
Common shares	979	2,401	136	(221)	2,316	3,295
Loans	-	294	-	-	294	294
	<b>7,003</b>	<b>10,045</b>	<b>203</b>	<b>(354)</b>	<b>9,894</b>	<b>16,897</b>

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

Table 4.3 – Credit quality of debt securities

As at	September 30, 2019	December 31, 2018
<b>Debt securities</b>		
AAA	42%	43%
AA	30%	31%
A	18%	17%
BBB	8%	7%
BB and not rated	2%	2%
	<b>100%</b>	<b>100%</b>

Table 4.4 – Credit quality of preferred shares

As at	September 30, 2019	December 31, 2018
<b>Preferred shares</b>		
P2	85%	84%
P3	15%	16%
	<b>100%</b>	<b>100%</b>

#### 4.3 Market neutral equity investment strategy

Table 4.5 – Market neutral equity investment strategy

As at	September 30, 2019		December 31, 2018	
	Fair value	Collateral	Fair value	Collateral
Long positions – reported in Common shares	203	-	104	-
Short positions – reported in Financial liabilities related to investments (Table 5.1)	(206)	(210)	(105)	(105)

## INTACT FINANCIAL CORPORATION

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

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

#### Note 5 – Financial liabilities related to investments

Table 5.1 – Financial liabilities related to investments

As at	September 30, 2019	December 31, 2018
Equities sold short positions ( <i>Table 4.5</i> )	206	105
Accounts payable to investment brokers on unsettled trades	104	99
Securities sold under repurchase agreements <sup>1</sup>	75	-
Derivative financial liabilities ( <i>Table 6.1</i> )	63	85
	448	289

<sup>1</sup> The Company 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.

#### Note 6 – Derivative financial instruments

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

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

Table 6.1 – Fair value and notional amount of derivatives by nature of risk

As at	September 30, 2019			December 31, 2018		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
<b>Foreign currency contracts<sup>1</sup></b>						
Forwards	2,331	2	16	1,636	-	69
Cross currency swaps	133	-	-	392	-	16
<b>Interest rate contracts</b>						
Futures	497	-	-	505	-	-
<b>Equity contracts</b>						
Swap agreements	1,043	-	47	847	58	-
Futures	251	-	-	160	-	-
<b>Inflation options</b>						
Options	-	-	-	28	-	-
	4,255	2	63	3,568	58	85
Held for risk management purposes	4,158	2	63	3,492	58	85
Held for trading purposes	97	-	-	76	-	-
	4,255	2	63	3,568	58	85
<b>Term to maturity:</b>						
less than one year	4,097			3,568		
from one to five years	158			-		
over five years	-			-		
	4,255			3,568		

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

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 7 – Fair value measurement

7.1 Categorization of fair values

Table 7.1 – Fair value hierarchy of financial assets and financial liabilities

As at	Level 1 Valued using quoted (unadjusted) market prices	Level 2 Valued using models (with observable inputs)	Level 3 Valued using models (without observable inputs)	Total
<b>September 30, 2019</b>				
Short-term notes	27	-	-	27
Fixed income				
Investment grade				
Government	2,576	2,657	-	5,233
Corporate	-	4,449	-	4,449
Asset backed	-	711	-	711
Mortgage backed				
Agency	-	676	-	676
Non agency	-	724	-	724
Non rated	-	-	257	257
<b>Debt securities</b>	<b>2,603</b>	<b>9,217</b>	<b>257</b>	<b>12,077</b>
<b>Preferred shares<sup>1</sup></b>	<b>1,133</b>	<b>-</b>	<b>-</b>	<b>1,133</b>
<b>Common shares</b>	<b>3,881</b>	<b>-</b>	<b>26</b>	<b>3,907</b>
<b>Derivative financial assets (Table 6.1)</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Total financial assets measured at fair value</b>	<b>7,617</b>	<b>9,219</b>	<b>283</b>	<b>17,119</b>
<b>Total financial liabilities measured at fair value (Table 5.1)</b>	<b>206</b>	<b>63</b>	<b>-</b>	<b>269</b>
<b>December 31, 2018</b>				
Short-term notes	19	-	-	19
Fixed income				
Investment grade				
Government	2,667	2,480	-	5,147
Corporate	-	4,420	-	4,420
Asset backed	-	689	-	689
Mortgage backed				
Agency	-	569	-	569
Non agency	-	687	-	687
Non rated	-	-	170	170
<b>Debt securities</b>	<b>2,686</b>	<b>8,845</b>	<b>170</b>	<b>11,701</b>
<b>Preferred shares<sup>1</sup></b>	<b>1,165</b>	<b>-</b>	<b>-</b>	<b>1,165</b>
<b>Common shares</b>	<b>3,262</b>	<b>-</b>	<b>33</b>	<b>3,295</b>
<b>Derivative financial assets (Table 6.1)</b>	<b>-</b>	<b>58</b>	<b>-</b>	<b>58</b>
<b>Total financial assets measured at fair value</b>	<b>7,113</b>	<b>8,903</b>	<b>203</b>	<b>16,219</b>
<b>Total financial liabilities measured at fair value (Table 5.1)</b>	<b>105</b>	<b>85</b>	<b>-</b>	<b>190</b>

<sup>1</sup> Include perpetual preferred shares with call options amounting to \$978 million as at September 30, 2019 (\$1,017 million as at December 31, 2018). The fair value of the embedded derivatives component amounting to \$33 million as at September 30, 2019 (\$39 million as at December 31, 2018) was determined using a Level 3 methodology.

The fair value of loans was \$306 million as at September 30, 2019 (\$289 million as at December 31, 2018).

The fair value of debt outstanding amounted to \$2,243 million as at September 30, 2019 (\$2,365 million as at December 31, 2018) and was established using valuation data from a benchmark firm.

**INTACT FINANCIAL CORPORATION**

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

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

**Note 8 – Claims liabilities and reinsurance**

**8.1 Claims liabilities**

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

Table 8.1 – Movements in claims liabilities

<b>For the three-month periods ended</b>	<b>Direct</b>	<b>Ceded</b>	<b>Net</b>
<b>September 30, 2019</b>			
Balance, beginning of period	10,951	808	10,143
Current period claims	1,704	39	1,665
Unfavourable (favourable) prior-year claims development	17	16	1
Increase (decrease) due to changes in discount rate	15	5	10
Total claims incurred	1,736	60	1,676
Claims paid	(1,595)	(36)	(1,559)
Exchange rate differences	26	7	19
<b>Balance, end of period</b>	<b>11,118</b>	<b>839</b>	<b>10,279</b>
<b>September 30, 2018</b>			
Balance, beginning of period	10,634	720	9,914
Current period claims	1,656	44	1,612
Unfavourable (favourable) prior-year claims development	(25)	(3)	(22)
Increase (decrease) due to changes in discount rate	(45)	(3)	(42)
Total claims incurred	1,586	38	1,548
Claims paid	(1,559)	(42)	(1,517)
Exchange rate differences	(39)	(8)	(31)
<b>Balance, end of period</b>	<b>10,622</b>	<b>708</b>	<b>9,914</b>
<b>For the nine-month periods ended</b>	<b>Direct</b>	<b>Ceded</b>	<b>Net</b>
<b>September 30, 2019</b>			
Balance, beginning of period	10,623	746	9,877
Current period claims	5,166	102	5,064
Unfavourable (favourable) prior year claims development	165	100	65
Increase (decrease) due to changes in discount rate	182	22	160
Total claims incurred	5,513	224	5,289
Claims paid	(4,951)	(115)	(4,836)
Exchange rate differences	(67)	(16)	(51)
<b>Balance, end of period</b>	<b>11,118</b>	<b>839</b>	<b>10,279</b>
<b>September 30, 2018</b>			
Balance, beginning of period	10,475	729	9,746
Current period claims	5,061	92	4,969
Unfavourable (favourable) prior year claims development	(107)	13	(120)
Increase (decrease) due to changes in discount rate	(147)	(14)	(133)
Total claims incurred	4,807	91	4,716
Claims paid	(4,713)	(124)	(4,589)
Business combinations	(2)	-	(2)
Exchange rate differences	55	12	43
<b>Balance, end of period</b>	<b>10,622</b>	<b>708</b>	<b>9,914</b>

## INTACT FINANCIAL CORPORATION

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

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

#### 8.2 Reinsurance

In the ordinary course of business, the Company reinsures certain risks with reinsurers to limit its maximum loss in the event of catastrophic events or other significant losses. *See Note 14 – Reinsurance* of the annual Consolidated financial statements for the year ended December 31, 2018 for further details.

The Company's retentions for single risk events and for multi-risk events and catastrophes have not changed significantly during the nine-month period ended September 30, 2019. The Company's coverage limits for multi-risk events and catastrophes was \$4,050 million as at September 30, 2019 (\$3,800 million as at December 31, 2018).

Table 8.2 – Components of reinsurance assets

As at	September 30, 2019	December 31, 2018
Reinsurers' share of claims liabilities ( <i>Table 8.1</i> )	839	746
Reinsurers' share of unearned premiums	119	118
	958	864

#### Note 9 – Other assets and other liabilities

##### 9.1 Other assets

Table 9.1 – Components of other assets

As at	September 30, 2019	December 31, 2018
Financial assets related to investments	135	139
Industry pools receivable	118	104
Restricted funds	97	103
Accrued investment income	94	80
Investments, at cost	81	66
Other receivables and recoverables	80	92
Prepays	65	48
Premium and sale taxes receivable	43	41
Reinsurance receivable	38	96
Surplus notes <sup>1</sup>	35	28
Other	42	44
	828	841

<sup>1</sup> Recorded at fair value based on a discounted cash flow model using information as of the measurement date and classified in Level 3 of the fair value hierarchy.

During the nine-month period ended September 30, 2019, there were no events or changes in circumstances that indicated that the carrying value of investments at cost may not be recoverable.

## INTACT FINANCIAL CORPORATION

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

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

#### 9.2 Other liabilities

Table 9.2 – Components of other liabilities

As at	September 30, 2019	December 31, 2018
Lease liabilities (see Note 3.1)	427	15
Deposits received in connection with insurance contracts <sup>1</sup>	385	366
Pension plans in a deficit position and unfunded plans	293	191
Premium and sale taxes payable	239	251
Accrued salaries and related compensation	177	244
Commissions payable	175	196
Industry pools payable	118	101
Account payables and accrued expenses	115	107
Other post-employment benefits and other post-retirement benefits	50	51
Deposits received from reinsurers	15	14
Other payables and other liabilities	277	328
	<b>2,271</b>	<b>1,864</b>

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

#### Note 10 – Capital management

##### 10.1 Capital management objectives

The Company's 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.

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

For further details on the Company's capital and how it is managed see Note 21 – Capital management of the annual Consolidated financial statements for the year ended December 31, 2018.

##### 10.2 Capital position

As at September 30, 2019 and December 31, 2018, all the Company's regulated P&C insurance subsidiaries were well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels, as well as CALs. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 10.1 – Estimated aggregated capital position

As at	September 30, 2019	December 31, 2018
<b>Canadian regulated entities</b>		
Regulatory capital ratio	195%	201%
Industry-wide supervisory minimum levels	150%	150%
Capital above CAL (capital margin)	457	530
<b>Other regulated entities</b>		
Capital above CAL (capital margin) <sup>1</sup>	616	505
<b>Unregulated entities</b>	43	298
<b>Total capital margin<sup>2</sup></b>	<b>1,116</b>	<b>1,333</b>

<sup>1</sup> Other regulated entities include Atlantic Specialty Insurance Company (U.S.), Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados).

<sup>2</sup> Total capital margin 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.

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

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

**Note 11 – Net investment income**

Table 11.1 – Net investment income

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
Interest income from:				
debt securities				
designated or classified as FVTPL	45	46	138	143
classified as AFS	41	36	123	94
loans and cash and cash equivalents	7	7	20	20
<b>Interest income</b>	<b>93</b>	<b>89</b>	<b>281</b>	<b>257</b>
Dividend income (expense) from:				
common shares, net				
designated or classified as FVTPL	17	16	49	47
classified as AFS	26	24	78	70
preferred shares classified as AFS	16	14	46	44
equities sold short positions	(2)	(1)	(4)	(3)
investments, at cost	1	-	1	-
<b>Dividend income</b>	<b>58</b>	<b>53</b>	<b>170</b>	<b>158</b>
<b>Expenses</b>	<b>(5)</b>	<b>(6)</b>	<b>(17)</b>	<b>(17)</b>
	<b>146</b>	<b>136</b>	<b>434</b>	<b>398</b>

**Note 12 – Net gains (losses)**

Table 12.1 – Net gains (losses)

For the three-month periods ended Sept. 30,	2019			2018		
	Fixed income	Equity	Total	Fixed income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	3	13	16	(47)	13	(34)
classified as FVTPL	-	3	3	-	4	4
classified as AFS	11	1	12	(4)	20	16
	14	17	31	(51)	37	(14)
derivatives <sup>1</sup> :						
swap agreements	-	(18)	(18)	-	(6)	(6)
forwards and futures	(3)	(5)	(8)	(1)	1	-
	(3)	(23)	(26)	(1)	(5)	(6)
Embedded derivatives	-	(3)	(3)	-	(7)	(7)
Net foreign currency gains (losses)	-	-	-	-	-	-
Impairment losses from common shares	-	(44)	(44)	-	(4)	(4)
	11	(53)	(42)	(52)	21	(31)
Other gains (losses)			4			7
			<b>(38)</b>			<b>(24)</b>

## INTACT FINANCIAL CORPORATION

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

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

Portfolios	2019			2018		
	Fixed income	Equity	Total	Fixed income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	162	118	280	(130)	(51)	(181)
classified as FVTPL	-	1	1	(3)	2	(1)
classified as AFS	18	56	74	(17)	136	119
	180	175	355	(150)	87	(63)
derivatives <sup>1</sup> :						
swap agreements	-	(143)	(143)	-	39	39
forwards and futures	(8)	(29)	(37)	(2)	4	2
	(8)	(172)	(180)	(2)	43	41
Embedded derivatives	-	3	3	-	(13)	(13)
Net foreign currency gains (losses)	-	-	-	(1)	-	(1)
Impairment losses from common shares	-	(62)	(62)	-	(26)	(26)
	172	(56)	116	(153)	91	(62)
Other gains (losses) <sup>2</sup>			80			16
			196			(46)

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

<sup>2</sup> Includes a gain of \$72 million recorded in Q1-2019 related to a change of control which was accounted for as a disposal of the subsidiary net assets, including the related goodwill, in exchange for a joint venture investment retained by the Company in the former subsidiary.

## Note 13 – Income taxes

### 13.1 Income tax expense recorded in net income

Table 13.1 – Components of income tax expense recorded in net income

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
Current income tax expense (benefit)	48	50	57	104
Deferred income tax expense (benefit)	(3)	7	(12)	8
	45	57	45	112

## INTACT FINANCIAL CORPORATION

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

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

#### 13.2 Effective income tax rate

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

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

Table 13.2 – Effective income tax rate reconciliation

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
Income tax expense calculated at statutory tax rates	26.7%	26.9%	26.7%	26.9%
Increase (decrease) in income tax rates resulting from:				
non-taxable investment income	(6.3)%	(3.6)%	(8.8)%	(5.0)%
non-deductible losses (non-taxable gains) <sup>1</sup>	(0.6)%	(0.9)%	(3.9)%	(0.5)%
adjustments related to changes in tax legislation <sup>2</sup>	0.2%	-	(3.3)%	-
adjustments related to the U.S. Corporate Tax reform <sup>3</sup>	-	3.7%	-	1.6%
foreign income taxed at different rates	(0.5)%	(1.9)%	(1.4)%	(2.1)%
non-deductible losses (non-taxable income) from subsidiaries	(0.6)%	(0.3)%	(1.3)%	(0.9)%
non-deductible expenses	0.5%	(0.1)%	0.7%	0.3%
non-taxable income	-	(0.9)%	-	(1.1)%
other	-	(0.6)%	(0.6)%	0.3%
<b>Effective income tax rate</b>	<b>19.4%</b>	<b>22.3%</b>	<b>8.1%</b>	<b>19.5%</b>

<sup>1</sup> Includes a non-taxable gain of \$72 million recorded in Q1-2019 related to a change of control of a subsidiary.

<sup>2</sup> Includes the realization of a deferred income tax benefit of \$17 million recorded in Q1-2019 related to changes in the taxable status of a Canadian subsidiary.

<sup>3</sup> Income tax expense of \$9 million recorded in Q3-2018 related to the finalization of the OneBeacon purchase price equation.

#### Note 14 – Earnings per share

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

Table 14.1 – Earnings per share

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
Net income attributable to shareholders	187	199	514	463
Less: dividends declared on preferred shares, net of tax	(12)	(13)	(34)	(29)
<b>Net income attributable to common shareholders</b>	<b>175</b>	<b>186</b>	<b>480</b>	<b>434</b>
<b>Weighted-average number of common shares outstanding (in millions)</b>	<b>139.2</b>	<b>139.2</b>	<b>139.2</b>	<b>139.2</b>
<b>EPS – basic and diluted (in dollars)</b>	<b>1.26</b>	<b>1.34</b>	<b>3.45</b>	<b>3.12</b>

## INTACT FINANCIAL CORPORATION

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

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

## Note 15 – Share-based payments

### 15.1 Long-term incentive plan

Table 15.1 – Movements in LTIP share units

For the periods ended September 30,	Three months		Nine months	
	2019 (in units)	2018 (in units)	2019 (in units)	2018 (in units)
Outstanding, beginning of period	1,309,820	1,013,262	1,087,611	774,783
Awarded (forfeited)	(5,464)	(6,565)	424,130	437,917
Net change in estimate of units outstanding	25,703	22,260	89,897	70,091
Units settled	-	-	(271,579)	(253,834)
<b>Outstanding, end of period</b>	<b>1,330,059</b>	<b>1,028,957</b>	<b>1,330,059</b>	<b>1,028,957</b>

The LTIP expense was \$13 million and \$44 million for the three- and nine-month periods ended September 30, 2019, respectively (\$12 million and \$35 million for the three- and nine-month periods ended September 30, 2018, respectively).

### 15.2 Employee share purchase plan

Table 15.2 – Movements in restricted common shares

For the periods ended September 30,	Three months		Nine months	
	2019 (in units)	2018 (in units)	2019 (in units)	2018 (in units)
Outstanding, beginning of period	128,532	134,991	131,681	132,491
Accrued	24,773	29,999	91,741	101,436
Awarded and vested	(29,682)	(30,797)	(95,670)	(95,806)
Forfeited	(659)	(1,088)	(4,788)	(5,016)
<b>Outstanding, end of period</b>	<b>122,964</b>	<b>133,105</b>	<b>122,964</b>	<b>133,105</b>

The ESPP expense was \$4 million and \$12 million for the three- and nine-month periods ended September 30, 2019, respectively (\$3 million and \$11 million for the three- and nine-month periods ended September 30, 2018, respectively).

### 15.3 Deferred share unit

The DSU provision amounted to \$15 million as at September 30, 2019 (\$10 million as at December 31, 2018).

### 15.4 Common shares repurchased for share-based payments

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

Table 15.3 – Settlement in shares (LTIP and ESPP plans)

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
Value of common shares repurchased for share-based payments	5	3	39	32
Cumulative cost of the units for the Company	4	3	33	27
Excess of market price over the cumulative cost for the Company	1	-	6	5
Amount recognized in Retained earnings, net of taxes	-	-	4	4

The cumulative cost of the units that vested during the period through the plan administrator purchasing common shares on the market and remitting them to the participants was removed from Contributed surplus.

The difference between the market price of the shares and the cumulative cost for the Company of these vested units, net of income taxes, was recorded in Retained earnings in the interim Consolidated financial statements.

**INTACT FINANCIAL CORPORATION**

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

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

**Note 16 – Employee future benefits**

**16.1 Employee future benefit expense recognized in net income**

Table 16.1 – Employee future benefit expense recognized in net income

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2019	2018	2019	2018
Current service cost	13	18	40	56
Net interest expense				
Interest expense on defined benefit obligation	21	20	63	58
Interest income on plan assets	(19)	(18)	(57)	(53)
Other	1	1	3	3
	16	21	49	64

**16.2 Net actuarial gains (losses) recognized in OCI**

Table 16.2 – Net actuarial gains (losses) recognized in OCI

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2019	2018	2019	2018
Re-measurements related to:				
change in discount rate used to determine the benefit obligation	(36)	81	(405)	147
actual return on plan assets	49	(51)	315	(45)
	13	30	(90)	102

**16.3 Discount rates used**

Table 16.3 – Discount rates used

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2019	2018	2019	2018
<b>To determine the defined benefit obligation as at:</b>				
beginning of period	3.06%	3.70%	3.86%	3.53%
end of period	3.03%	3.91%	3.03%	3.91%
Increase (decrease) in discount rate	(0.03)%	0.21%	(0.83)%	0.38%
<b>To determine the benefit expense for the periods</b>				
Current service cost	3.91%	3.58%	3.91%	3.58%
Interest expense and income	3.62%	3.30%	3.62%	3.30%

## INTACT FINANCIAL CORPORATION

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

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

#### Note 17 – Segment information

##### 17.1 Reportable segments

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

###### Canada

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

###### U.S.

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

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

##### 17.2 Segment operating performance

All segment operating revenues presented in *Table 17.1 – Segment operating performance* are generated from external customers.

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

The reconciliation of the segment information to the amounts reported in the interim Consolidated statements of income is presented in *Table 17.2 – Reconciliation of segment information to amounts reported in the interim Consolidated statements of income*.

As at January 1, 2019, the Company refined the reporting of its segment information and reclassified the comparative information accordingly.

The following summarizes the changes:

- Investment expenses were previously presented at market value with the offset presented in Other expenses and now reflect the actual cost. For the three- and nine-month period ended September 30, 2018, this resulted in a decrease of \$3 million and \$9 million respectively in Investment expenses, with a corresponding offset in Other expenses.
- Net distribution income has been replaced by Distribution EBITA which includes operating income before interest and taxes from both consolidated brokers and broker associates. Broker associates are joint ventures and brokers over which the Company has significant influence. Previously, net distribution income included operating income from consolidated brokers before interest and taxes, and from broker associates after interest and taxes. For the three- and nine-month period ended September 30, 2018, this resulted in an increase of \$5 million and \$15 million respectively in PTOI with a corresponding offset in operating tax expense and there was no impact on NOI.

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

 Table 17.1 – Segment operating performance<sup>1</sup>

For the three-month periods ended Sept. 30,	2019				2018			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Operating income</b>								
NEP	2,234	346	1	2,581	2,114	347	1	2,462
Investment income	-	-	151	151	-	-	142	142
Other	40	-	3	43	34	-	6	40
<b>Segment operating revenues</b>	<b>2,274</b>	<b>346</b>	<b>155</b>	<b>2,775</b>	<b>2,148</b>	<b>347</b>	<b>149</b>	<b>2,644</b>
Net claims incurred (before MYA)	(1,430)	(199)	-	(1,629)	(1,382)	(190)	-	(1,572)
Underwriting expenses <sup>2</sup>	(621)	(133)	-	(754)	(603)	(135)	-	(738)
Investment expenses	-	-	(5)	(5)	-	-	(6)	(6)
Share of profit from invest. in associates & JV <sup>3,5</sup>	23	-	-	23	20	-	-	20
Finance costs <sup>4,5</sup>	(3)	-	(27)	(30)	(2)	-	(25)	(27)
Other	(7)	-	(18)	(25)	(13)	-	(11)	(24)
<b>PTOI<sup>5</sup></b>	<b>236</b>	<b>14</b>	<b>105</b>	<b>355</b>	<b>168</b>	<b>22</b>	<b>107</b>	<b>297</b>
Operating income taxes <sup>5</sup>				(78)				(60)
<b>NOI<sup>5</sup></b>				<b>277</b>				<b>237</b>
<b>PTOI is comprised of:</b>								
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)

  

For the nine-month periods ended Sept. 30,	2019				2018			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Operating income</b>								
NEP	6,473	1,042	4	7,519	6,203	1,001	2	7,206
Investment income	-	-	451	451	-	-	415	415
Other	116	-	13	129	98	-	10	108
<b>Segment operating revenues</b>	<b>6,589</b>	<b>1,042</b>	<b>468</b>	<b>8,099</b>	<b>6,301</b>	<b>1,001</b>	<b>427</b>	<b>7,729</b>
Net claims incurred (before MYA)	(4,472)	(591)	-	(5,063)	(4,205)	(565)	-	(4,770)
Underwriting expenses <sup>2</sup>	(1,822)	(398)	-	(2,220)	(1,794)	(378)	-	(2,172)
Investment expenses	-	-	(17)	(17)	-	-	(17)	(17)
Share of profit from invest. in associates & JV <sup>3,5</sup>	78	-	-	78	65	-	-	65
Finance costs <sup>4,5</sup>	(8)	-	(84)	(92)	(8)	-	(76)	(84)
Other	(30)	-	(34)	(64)	(30)	-	(31)	(61)
<b>PTOI<sup>5</sup></b>	<b>335</b>	<b>53</b>	<b>333</b>	<b>721</b>	<b>329</b>	<b>58</b>	<b>303</b>	<b>690</b>
Operating income taxes <sup>5</sup>				(119)				(132)
<b>NOI<sup>5</sup></b>				<b>602</b>				<b>558</b>
<b>PTOI is comprised of:</b>								
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)

<sup>1</sup> See Table 17.2 for the reconciliation to the interim Consolidated statements of income.

<sup>2</sup> Other underwriting revenues are netted against Underwriting expenses when assessing segment performance, as such, are not included in segment operating revenues.

<sup>3</sup> Represents the Company's share of operating income before interest and taxes from broker associates.

<sup>4</sup> Comprised of finance costs presented in the interim Consolidated statements of income, plus the Company's share of finance costs from broker associates.

<sup>5</sup> See Section 16 – Non IFRS financial measures of the Company's interim MD&A for the definition and reconciliation of related operating measures.

## INTACT FINANCIAL CORPORATION

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

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

Table 17.2 – Reconciliation of segment information to amounts reported in the interim Consolidated statements of income

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
<b>Segment operating revenues (Table 17.1)</b>	2,775	2,644	8,099	7,729
Add: other underwriting revenues	30	28	87	82
Add: NEP from OneBeacon exited lines	23	9	26	43
<b>Revenues, as reported in the interim Consolidated statements of income</b>	<b>2,828</b>	<b>2,681</b>	<b>8,212</b>	<b>7,854</b>
<b>Segment PTOI (Table 17.1)</b>	<b>355</b>	<b>297</b>	<b>721</b>	<b>690</b>
<b>Non-operating items:</b>				
net gains (losses)	(38)	(24)	196	(46)
positive (negative) impact of MYA on underwriting	(10)	42	(160)	133
amortization of intangible assets recognized in business combinations	(25)	(23)	(73)	(68)
integration and restructuring costs	(14)	(10)	(26)	(49)
difference between expected return and discount rate on pension assets	(12)	(12)	(36)	(37)
underwriting results from OneBeacon exited lines	(15)	(3)	(32)	(22)
other non-operating costs	(5)	(7)	(17)	(14)
Pre-tax income, as reported in the interim MD&A	236	260	573	587
Less: income taxes from broker associates	(4)	(4)	(14)	(12)
<b>Pre-tax income, as reported in the interim Consolidated statements of income</b>	<b>232</b>	<b>256</b>	<b>559</b>	<b>575</b>

### 17.3 Selected segment assets and liabilities

Table 17.3 – Selected segment assets and liabilities

As at	September 30, 2019				December 31, 2018			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
<b>Investments</b>	-	-	17,766	17,766	-	-	16,897	16,897
<b>Net claims liabilities (Table 8.1)</b>	8,626	1,653	-	10,279	8,151	1,726	-	9,877

### 17.4 Information by geographic areas

Table 17.4 – Information by geographic areas

	Revenues				Total assets	
	For the periods ended September 30				As at	
	Three months		Nine months		September 30,	December 31,
	2019	2018	2019	2018	2019	2018
Canada	2,433	2,299	7,060	6,740	23,348	22,023
U.S.	395	382	1,152	1,114	6,755	6,438
	2,828	2,681	8,212	7,854	30,103	28,461

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

## INTACT FINANCIAL CORPORATION

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

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

## Note 18 – Additional information on the interim Consolidated statements of cash flows

### 18.1 Adjustments for non-cash items

Table 18.1 – Adjustments for non-cash items

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
Depreciation of property and equipment <sup>1</sup>	26	8	70	26
Amortization of intangible assets	33	31	98	89
Net premiums on debt securities classified as AFS	4	5	11	15
Defined benefit pension expense	16	21	49	64
Share-based payments expense	17	15	56	46
Share of profit from investments in associates and joint ventures	(4)	(3)	(26)	(20)
Other	1	(5)	-	(5)
	93	72	258	215

<sup>1</sup>2019 includes depreciation of right-of-use assets of leases (see Note 3.1 – Leases).

### 18.2 Changes in other operating assets and liabilities

Table 18.2 – Changes in other operating assets and liabilities

For the periods ended September 30,	Three months		Nine months	
	2019	2018	2019	2018
Unearned premiums, net	290	116	473	218
Premium receivables, net	(122)	(48)	(270)	(177)
Deferred acquisition costs	(27)	(3)	(88)	(44)
Other operating assets	(32)	(15)	5	35
Other operating liabilities	96	130	(63)	43
Dividends received from investments in associates and joint ventures	4	4	16	11
	209	184	73	86

## Note 19 – Commitments and contingencies

### 19.1 On Side Restoration

On August 6, 2019, the Company announced that it had entered into a definitive agreement to acquire On Side Developments Ltd., the parent company of On Side Restoration (collectively known as "On Side Restoration"), a leading Canadian restoration firm based in Vancouver. The acquisition will deepen the Company's claims expertise and strengthen its supply chain network.

The transaction closed on October 1, 2019 and the Company acquired control of On Side Restoration on the same date. The Company will gain full ownership over a two-year period for a variable cash consideration which is based in part on future profitability metrics.

At the time of the approval of the Company's interim Consolidated financial statements, the initial accounting for the acquisition of On Side Restoration was incomplete.

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

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

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**19.2 The Guarantee Company of North America and Frank Cowan Company Limited**

On August 15, 2019, the Company announced that it had entered into a definitive agreement with Princeton Holdings Limited to acquire The Guarantee Company of North America, a specialty lines insurer in Canada and the U.S., and Frank Cowan Company Limited, a managing general agent focused on specialty insurance for a cash consideration of approximately \$1 billion. The transaction is expected to close in the fourth quarter of 2019, subject to satisfaction of customary closing conditions, including receipt of regulatory approvals in Canada and the U.S.

The acquisition is expected to bolster the Company's position and adds new products for the high net worth customer segment and meaningfully advances its North American specialty lines platform solidifying prominent positions in public entity and surety. The transaction will also contribute to additional distribution-related earnings.

A portion of the \$1 billion purchase price, as well as related transaction expenses, was secured by the completion of a \$461 million common equity financing in the form of subscription receipts as described below. The remaining balance is expected to be financed through excess capital and short-term debt upon closing.

On August 26, 2019, the Company completed a 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 the Company upon closing of the acquisition. The cash proceeds from the subscription receipts are held in escrow and are not under the control of the Company. As a result, the cash and subscription receipts are not included in the balance sheet as at September 30, 2019. While they remain outstanding, the subscription receipt holders are entitled to an amount equivalent to any common share dividends declared by the Company.

**Note 20 – Standards issued but not yet effective**

**20.1 Interest rate benchmark reform**

In September 2019, the IASB issued amendments to IFRS 9 – *Financial Instruments*, IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosures*. The objective of these amendments is to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates. The amendments enable entities to use hedge accounting despite the uncertainties surrounding the use of interbank offered rates and require entities to provide additional information about their hedging relationships which are directly affected by these uncertainties.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company will not early adopt the amendments and does not expect a significant impact.