

Third Quarter 2023

3

Interim Condensed Consolidated Financial Statements (unaudited)
For the quarter ended September 30, 2023

Intact Financial Corporation

INTACT FINANCIAL CORPORATION

Interim condensed consolidated financial statements (unaudited)

Table of contents

Interim condensed consolidated financial statements

Interim condensed consolidated balance sheets	2
Interim condensed consolidated statements of income	3
Interim condensed consolidated statements of comprehensive income	4
Interim condensed consolidated statements of changes in equity	5
Interim condensed consolidated statements of cash flows	6

Notes to the interim condensed consolidated financial statements

Note 1 – Status of the Company	7
Note 2 – Basis of presentation	7
Note 3 – Adoption of new accounting standards	8
Note 4 – Summary of material accounting policies	9
Note 5 – Business combinations and disposals	9
Note 6 – Investments	11
Note 7 – Financial liabilities related to investments	13
Note 8 – Derivative financial instruments	13
Note 9 – Fair value measurement	15
Note 10 – Financial risk	17
Note 11 – Insurance and reinsurance contracts	18
Note 12 – Other assets and other liabilities	28
Note 13 – Debt outstanding	29
Note 14 – Share capital	30
Note 15 – Accumulated other comprehensive income (loss)	32
Note 16 – Capital management	33
Note 17 – Net investment return and net insurance financial result	33
Note 18 – Other net gains (losses)	35
Note 19 – Income taxes	35
Note 20 – Earnings per share	37
Note 21 – Share-based payments	37
Note 22 – Employee future benefits	38
Note 23 – Segment information	42
Note 24 – Additional information on the interim condensed consolidated statements of cash flows	45
Note 25 – Standards issued but not yet effective	45

INTACT FINANCIAL CORPORATION

Interim condensed consolidated balance sheets (unaudited)

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

As at	Note	September 30, 2023	December 31, 2022 (Restated) ¹	January 1, 2022 (Restated) ¹
Assets				
Investments	6			
Cash and cash equivalents		\$ 1,531	\$ 1,010	\$ 2,276
Debt securities		27,681	27,095	25,307
Preferred shares		1,332	1,421	1,847
Common shares		4,451	4,598	5,686
Investment property		482	476	634
Loans		997	1,001	930
Total investments		36,474	35,601	36,680
Reinsurance contract assets	11	5,261	5,004	4,975
Income taxes receivable		137	254	195
Deferred tax assets		768	722	525
Investments in associates and joint ventures		951	845	760
Property and equipment		769	778	774
Intangible assets		4,668	4,700	4,636
Goodwill		3,482	3,350	3,066
Other assets	12	2,497	2,487	2,952
Assets held for sale		-	-	842
Total assets		\$ 55,007	\$ 53,741	\$ 55,405
Liabilities				
Insurance contract liabilities	11	\$ 30,307	\$ 29,130	\$ 28,946
Financial liabilities related to investments	7	389	189	265
Income taxes payable		43	28	128
Deferred tax liabilities		740	805	771
Debt outstanding	13	4,927	4,522	5,229
Other liabilities	12	2,924	2,939	2,863
Total liabilities		\$ 39,330	\$ 37,613	\$ 38,202
Equity				
Common shares		\$ 8,099	\$ 7,542	\$ 7,576
Preferred shares and other equity		1,619	1,322	1,175
Share capital	14	9,718	8,864	8,751
Contributed surplus		262	269	211
Retained earnings		6,179	7,801	6,602
Accumulated other comprehensive income (loss)	15	(767)	(1,091)	530
Equity attributable to shareholders		15,392	15,843	16,094
Equity attributable to non-controlling interests		285	285	1,109
Total equity		\$ 15,677	\$ 16,128	\$ 17,203
Total liabilities and equity		\$ 55,007	\$ 53,741	\$ 55,405

¹ Restated for the adoption of IFRS 17 – Insurance contracts. Refer to Note 3 – Adoption of new accounting standards.

See accompanying notes to the interim condensed consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim condensed consolidated statements of income (unaudited)

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

Periods ended September 30,	Note	Three-month		Nine-month	
		2023	2022 (Restated) ¹	2023	2022 (Restated) ¹
Insurance revenue	11	\$ 6,385	\$ 6,296	\$ 18,982	\$ 19,510
Insurance service expense	11	(5,948)	(5,555)	(17,044)	(17,129)
Insurance service result from insurance contracts		437	741	1,938	2,381
Allocation of reinsurance premiums	11	(815)	(817)	(2,470)	(2,608)
Amounts recoverable from reinsurers	11	780	746	2,054	2,156
Net expense from reinsurance contracts		(35)	(71)	(416)	(452)
Insurance service result		402	670	1,522	1,929
Net investment income	17	349	232	970	652
Net gains (losses) on investment portfolio	17	(137)	(187)	(283)	(187)
Net investment return		212	45	687	465
Insurance finance income (expense)	17	(211)	72	(412)	655
Reinsurance finance income (expense)	17	62	(37)	91	(134)
Net insurance financial result		(149)	35	(321)	521
Share of profit from investments in associates and joint ventures		16	23	74	85
Other net gains (losses)	18	9	16	28	439
Other income and expense		(136)	(174)	(438)	(457)
Other finance costs		(61)	(43)	(163)	(127)
Acquisition, integration and restructuring costs		(109)	(102)	(321)	(269)
Income before income taxes		184	470	1,068	2,586
Income tax benefit (expense)	19	(21)	(95)	(268)	(489)
Net income		\$ 163	\$ 375	\$ 800	\$ 2,097
Net income attributable to:					
Shareholders		163	375	792	2,108
Non-controlling interests		-	-	8	(11)
		\$ 163	\$ 375	\$ 800	\$ 2,097
Weighted-average number of common shares outstanding (in millions)	20	175.9	175.4	175.5	175.7
Earnings per common share, basic and diluted (in dollars)	20	\$ 0.83	\$ 2.05	\$ 4.19	\$ 11.75
Dividends paid per common share (in dollars)		\$ 1.10	\$ 1.00	\$ 3.30	\$ 3.00

¹ Restated for the adoption of IFRS 17 – Insurance contracts. Refer to Note 3 – Adoption of new accounting standards.

See accompanying notes to the interim condensed consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim condensed consolidated statements of comprehensive income (unaudited)

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

Periods ended September 30,	Note	Three-month		Nine-month	
		2023	2022 (Restated) ¹	2023	2022 (Restated) ¹
Net income		\$ 163	\$ 375	\$ 800	\$ 2,097
Items that may be reclassified subsequently to Net income					
FVTOCI debt securities²:					
Net changes in unrealized gains (losses)		(150)	-	(184)	-
Reclassification of net losses (gains)		5	-	12	-
Income tax benefit (expense)		30	-	38	-
		(115)	-	(134)	-
Available-for-sale securities³:					
Net changes in unrealized gains (losses)		-	(710)	-	(2,173)
Reclassification of net losses (gains)		-	57	-	(327)
Income tax benefit (expense)		-	84	-	459
		-	(569)	-	(2,041)
Cash flow hedges:					
Net changes in unrealized gains (losses)		-	-	-	17
Reclassification of net losses (gains)		-	-	-	(23)
Income tax benefit (expense)		-	-	-	1
		-	-	-	(5)
Foreign currency gains (losses) on:					
Translation of foreign operations		89	295	61	(20)
Reclassification of net losses (gains)		-	(15)	-	(15)
Net investment hedges		(71)	(171)	(26)	(76)
Income tax benefit (expense)		-	(3)	3	(21)
		18	106	38	(132)
Other, net of tax		-	-	-	18
		(97)	(463)	(96)	(2,160)
Items that will not be reclassified subsequently to Net income					
Employee future benefits:					
Actuarial gains (losses), net of other surplus remeasurement	22	(16)	(72)	(1,398)	167
Income tax benefit (expense)		14	9	111	(27)
		(2)	(63)	(1,287)	140
FVTOCI equity securities²:					
Net changes in unrealized gains (losses)		(24)	-	(45)	-
Income tax benefit (expense)		5	-	8	-
		(19)	-	(37)	-
		(21)	(63)	(1,324)	140
Other comprehensive income (loss)		(118)	(526)	(1,420)	(2,020)
Total comprehensive income (loss)		\$ 45	\$ (151)	\$ (620)	\$ 77
Total comprehensive income (loss) attributable to:					
Shareholders		45	(152)	(628)	86
Non-controlling interests		-	1	8	(9)
		\$ 45	\$ (151)	\$ (620)	\$ 77

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

² Not applicable for the three and nine-month periods ended September 30, 2022, as related to IFRS 9 – *Financial instruments*. Refer to *Note 3 – Adoption of new accounting standards*.

³ Not applicable for the three and nine-month periods ended September 30, 2023, as related to IAS 39 – *Financial instruments: recognition and measurement*. Refer to *Note 3 – Adoption of new accounting standards*.

See accompanying notes to the interim condensed consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim condensed consolidated statements of changes in equity (unaudited)

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

	Note	Equity attributable to shareholders				Equity attributable to non-controlling interests	Total Equity
		Share Capital	Contributed surplus	Retained earnings	AOCI		
Balance as at December 31, 2022 (As reported)		\$ 8,864	\$ 269	\$ 7,352	\$ (1,085)	\$ 285	\$ 15,685
Impact of the application of IFRS 17		-	-	449	(6)	-	443
Balance as at December 31, 2022 (Restated) ¹		8,864	269	7,801	(1,091)	285	16,128
Impact of the initial application of IFRS 9	3	-	-	(422)	420	-	(2)
Balance as at January 1, 2023		8,864	269	7,379	(671)	285	16,126
Net income		-	-	792	-	8	800
Other comprehensive income (loss)		-	-	(1,324)	(96)	-	(1,420)
Total comprehensive income (loss)		-	-	(532)	(96)	8	(620)
Issuance of common shares	14	557	-	-	-	-	557
Issuance of preferred shares and other equity	14	297	-	-	-	-	297
Dividends and other distributions:							
Common shares		-	-	(582)	-	-	(582)
Preferred shares and other equity		-	-	(56)	-	-	(56)
Share-based payments		-	(7)	(30)	-	-	(37)
Non-controlling interests:							
Dividends		-	-	-	-	(8)	(8)
Balance as at September 30, 2023		\$ 9,718	\$ 262	\$ 6,179	\$ (767)	\$ 285	\$ 15,677
Balance as at December 31, 2021 (As reported)		\$ 8,751	\$ 211	\$ 6,183	\$ 529	\$ 1,109	\$ 16,783
Impact of the initial application of IFRS 17	3	-	-	419	1	-	420
Balance as at January 1, 2022 (Restated) ¹		8,751	211	6,602	530	1,109	17,203
Net income ¹		-	-	2,108	-	(11)	2,097
Other comprehensive income (loss) ¹		-	-	140	(2,162)	2	(2,020)
Total comprehensive income (loss) ¹		-	-	2,248	(2,162)	(9)	77
Issuance of preferred shares	14	147	-	-	-	-	147
Repurchase of common shares for cancellation		(35)	-	(114)	-	-	(149)
Dividends declared on:							
Common shares		-	-	(527)	-	-	(527)
Preferred shares		-	-	(44)	-	-	(44)
Share-based payments		-	26	(31)	-	-	(5)
Non-controlling interests:							
Dividends		-	-	-	-	(17)	(17)
Redemption		-	-	60	-	(510)	(450)
Sale of business		-	-	-	-	(288)	(288)
Balance as at September 30, 2022 (Restated) ¹		\$ 8,863	\$ 237	\$ 8,194	\$ (1,632)	\$ 285	\$ 15,947

¹ Restated for the adoption of IFRS 17 – Insurance contracts. Refer to Note 3 – Adoption of new accounting standards.

See accompanying notes to the interim condensed consolidated financial statements.

INTACT FINANCIAL CORPORATION
Interim condensed consolidated statements of cash flows (unaudited)

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

Periods ended September 30,	Note	Three-month		Nine-month	
		2023	2022 (Restated) ¹	2023	2022 (Restated) ¹
Operating activities					
Income before income taxes		\$ 184	\$ 470	\$ 1,068	\$ 2,586
Income tax received (paid), net		14	(21)	(77)	(380)
Adjustments for non-cash items	24	298	413	792	466
Changes in other operating assets and liabilities	24	857	592	(318)	65
Net cash flows provided by (used in) operating activities		1,353	1,454	1,465	2,737
Investing activities					
Business combination, net of cash acquired	5	-	(239)	-	(239)
Proceeds from the sale of businesses	5	-	112	-	1,295
Proceeds from sales of investments		8,812	3,188	24,756	13,788
Purchases of investments		(9,837)	(4,497)	(25,720)	(16,342)
Proceeds from (purchases of) brokerages and other equity investments, net		(131)	(46)	(68)	(200)
Purchases of intangibles and property and equipment, net		(122)	(99)	(344)	(292)
Net cash flows provided by (used in) investing activities		(1,278)	(1,581)	(1,376)	(1,990)
Financing activities					
Payment of lease liabilities		(24)	(27)	(62)	(84)
Proceeds from issuance of debt, net	13	396	909	690	1,259
Repayment of debt		(80)	(361)	(147)	(1,328)
Borrowing on (repayment of) the credit facility and commercial paper, net	13	(141)	(150)	(137)	(409)
Proceeds from issuance of common shares, net	14	551	-	551	-
Proceeds from issuance of preferred shares and other equity, net		-	-	296	146
Repurchase of common shares for cancellation		-	(49)	-	(149)
Repurchase of common shares for share-based payments	21	(5)	(9)	(122)	(107)
Payment of dividends on common shares and preferred shares and other equity distributions		(213)	(190)	(638)	(571)
Payment of dividends to non-controlling interests		-	-	(8)	(17)
Redemption of non-controlling interests		-	-	-	(450)
Net cash flows provided by (used in) financing activities		484	123	423	(1,710)
Net increase (decrease) in cash and cash equivalents		559	(4)	512	(963)
Cash and cash equivalents, beginning of period, net of held for sale		976	1,223	1,010	2,276
Exchange rate differences on cash and cash equivalents		(4)	28	9	(3)
Less: cash and cash equivalents held for sale		-	63	-	-
Cash and cash equivalents, end of period		\$ 1,531	\$ 1,310	\$ 1,531	\$ 1,310
Composition of cash and cash equivalents					
Cash		813	1,069	813	1,069
Cash equivalents		718	241	718	241
Cash and cash equivalents, end of period		\$ 1,531	\$ 1,310	\$ 1,531	\$ 1,310
Other relevant cash flow disclosures – operating activities					
Interest paid		59	25	165	107
Interest received		237	136	676	409
Dividends received		103	96	272	267

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

See accompanying notes to the interim condensed consolidated financial statements.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Glossary of abbreviations			
12mECL	12-month expected credit loss	JV	Joint ventures
AFS	Available-for-sale	LRCN	Limited recourse capital notes
AOCI	Accumulated other comprehensive income (loss)	LTECL	Lifetime expected credit loss
CAD	Canadian Dollar	LTIP	Long-term incentive plan
CAN	Canada	MBS	Mortgage-backed securities
CDOR	Canadian Dollar Offered Rate	MD&A	Management's Discussion and Analysis
CPI	Consumer price index	NCI	Non-controlling interests
DB	Defined benefits	NCIB	Normal course issuer bid
DKK (kr.)	Danish krone, Denmark's official currency	NOI	Net operating income
ECL	Expected credit losses	OCI	Other comprehensive income
EPS	Earnings per share to common shareholders	PAA	Premium allocation approach
ESPP	Employee share purchase plan	P&C	Property and casualty
EUR (€)	Euro, European Union's official currency	PTOI	Pre-tax operating income
FVTOCI	Fair value through other comprehensive income	RPI	Retail price index
FVTPL	Fair value through profit or loss	SONIA	Sterling overnight index average
GBP (£)	British pound sterling, UK's official currency	TSX	Toronto Stock Exchange
GDP	Gross domestic product	UK	United Kingdom
GMM	General measurement model	UK&I	United Kingdom and International
IAS	International Accounting Standard	US	United States
IASB	International Accounting Standards Board	USD	US Dollar
IFRS	International Financial Reporting Standards		

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, UK and US P&C insurance markets. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses.

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's significant operating subsidiaries are presented in **Note 31 – Segment information** of the Company's annual consolidated financial statements for the year ended December 31, 2022.

The registered office of the Company is 700 University Avenue, Suite 1500, Toronto, Ontario, Canada, M5G 0A1.

Note 2 – Basis of presentation

2.1 Statement of compliance

These interim condensed consolidated financial statements and the accompanying notes are prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the IASB. They were authorized for issue in accordance with a resolution of the Board of Directors on November 7, 2023.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

2.2 Preparation and presentation of financial statements

These interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022. Comparative information was restated due to the adoption of IFRS 17 - *Insurance Contracts* ("IFRS 17"). In addition, restated 2022 figures include certain reclassifications that do not directly pertain to the adoption of IFRS 17 to align with the presentation adopted in the current year. Therefore, comparative information was restated to ensure comparability. Refer to **Note 3 – Adoption of new accounting standards** for more details.

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

2.3 Seasonality

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

2.4 Foreign currency translation

Table 2.1 – Exchange rates used

	September 30, 2023	December 31, 2022	As at January 1, 2022	Average rate for the nine-month periods ended	
				September 30, 2023	September 30, 2022
USD vs CAD	1.358	1.354	1.265	1.346	1.283
GBP vs CAD	1.657	1.637	1.710	1.675	1.612
EUR vs CAD	1.436	1.449	1.439	1.458	1.364
DKK vs CAD	0.193	0.195	0.193	0.196	0.183

2.5 Global economic environment

Global financial market volatility

The Company continued to observe a significant volatility in financial markets. Several recession indicators are pointing to difficult quarters ahead. Inflation remains elevated, with central banks reaffirming their intention to bring it back to target. The increase in interest rates is affecting asset values and the Company is closely monitoring the impact of lower commercial real estate values and the decrease in lending appetite from US banks.

The increased uncertainty required management to use judgments, estimates and assumptions related to the Company's exposure to the Global economic environment. Refer to **Section 18 – Sensitivity analysis to market risk** of the Company's interim MD&A for the third quarter ended September 30, 2023 and to **Note 3.2 – Global economic environment** of the Company's annual consolidated financial statements for the year ended December 31, 2022 for more details.

Note 3 – Adoption of new accounting standards

The Company adopted IFRS 17 in conjunction with IFRS 9 – *Financial instruments* ("IFRS 9") on January 1, 2023, which replace IFRS 4 – *Insurance Contracts* ("IFRS 4") and IAS 39 – *Financial instruments: recognition and measurement* ("IAS 39"), respectively. While IFRS 9 was effective for annual periods beginning on or after January 1, 2018, IFRS 4 allowed a temporary exemption to delay the implementation of IFRS 9 until IFRS 17 was adopted.

- IFRS 17 was applied retrospectively as at January 1, 2022, as a result comparative information was restated. The Company applied the modified retrospective approach for past business combinations, except for the most recent acquisition of RSA on June 1, 2021; and
- IFRS 9 was applied retrospectively, and the Company elected to recognize any IFRS 9 measurement differences by adjusting its interim condensed consolidated balance sheet on January 1, 2023, as a result comparative information was not restated.

Upon transition to IFRS 17 on January 1, 2022, the Company's Equity attributable to shareholders increased by \$420 million (net of a tax impact of \$133 million) mainly due to the deferral of additional allocated indirect costs which were previously expensed as incurred. The impact on the measurement of claims liabilities was limited due to the short tail nature of the Company's business and the fact that accounting practices under IFRS 4 were generally aligned with IFRS 17.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Upon transition to IFRS 9 on January 1, 2023, the Company's Equity attributable to shareholders decreased by \$2 million which corresponds to the ECL calculated on its investment portfolio measured at amortized cost. The Company also reclassified \$420 million (after-tax) of net unrealized losses from AOCI to Retained earnings as at January 1, 2023, mainly in relation to certain investments previously classified as AFS that were reclassified as FVTPL on adoption of IFRS 9.

Refer to *Note 3 – Adoption of new accounting standards* of the interim condensed consolidated financial statements for the three-month period ended March 31, 2023 and to *Note 36 – Standards issued but not yet effective* of the annual consolidated financial statements for the year ended December 31, 2022 for more details.

Note 4 – Summary of material accounting policies

The accounting policies applied during the nine-month period ended September 30, 2023 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, 2022 except for the new standards and amended standards adopted on January 1, 2023 as described in *Note 4 – Summary of material accounting policies* of the interim condensed consolidated financial statements for the three-month period ended March 31, 2023.

Note 5 – Business combinations and disposals

5.1 Business combinations

a) Business acquisition in 2023

Direct Line Insurance Group plc's brokered Commercial Lines operations

On September 6, 2023, the Company announced that it had entered into an agreement to acquire the brokered Commercial Lines operations of Direct Line Insurance Group plc ("Direct Line"), a P&C company with leading market positions in the UK ("the UK Commercial Lines acquisition"). The acquisition will strengthen the Company's UK Commercial Lines platform, broaden its broker distribution network and expand its current Commercial Lines product offering.

The acquisition was approved by the Board of Directors of both companies and closed subsequent to the quarter, on October 26, 2023, following approval by Direct Line's shareholders on October 19, 2023.

The purchase price includes an initial cash consideration of £520 million (\$869 million) paid on October 26, 2023 with potential for up to a further £30 million (\$50 million) contingent payment under earnout provisions relating to the financial performance of the acquired business lines.

The acquisition was structured through several agreements as described below:

- **Business combination** – The business transfer agreement related to new business franchise and certain operations, renewal rights, data, brands, employees, contractors, third party contracts, and premises and the operational transfer is expected to occur in the second quarter of 2024. The business transfer agreement resulted in a business combination as the Company controls these net assets from the closing date, as a result, the acquired net assets were consolidated from that date.
- **Quota share reinsurance agreement** – The reinsurance agreement related to premiums written but not yet earned starting from October 1, 2023. As a result, substantially all of the future economics of the business were transferred to the Company before policies will be renewed by the Company starting in the second quarter of 2024. The reinsurance agreement will be recognized in direct insurance results in the fourth quarter of 2023. In addition, if approved by the High Court of Justice in England and Wales these policies will be legally transferred to the Company.
- **Administration and transitional services arrangements** – The Company entered into certain arrangements to ensure the servicing of policies during the transition.

As part of the acquisition, Direct Line will retain claims incurred related to premiums earned pre-October 1, 2023. As a result, the Company is not exposed to any development on prior-year claims related to premiums earned pre-October 1, 2023.

Financing for the purchase price of \$869 million (£520 million) and expected related integration costs of approximately \$75 million (£45 million) has been secured through a combination of a \$500 million bought deal public offering of common shares, a \$400 million issuance of medium-term notes, and a new term loan facility. Refer to *Note 14 – Share capital* and *Note 13 – Debt outstanding* for more details.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

The Company economically hedged the purchase price and other items to foreign currency fluctuations. Refer to *Note 8.2 – Currency hedging in relation with the UK Commercial Lines acquisition*.

At the time of the approval of the Company's interim condensed Consolidated financial statements, the initial accounting for the acquisition was incomplete as the transaction closed shortly after the quarter. The Company expects the purchase price to be mainly allocated to intangible assets and goodwill.

For the three and nine-month periods ended September 30, 2023, the Company recognized acquisition costs of \$9 million in the line Acquisition, integration and restructuring costs.

b) Business acquisition completed in 2022

Highland Insurance Solutions

On August 1, 2022, the Company completed the acquisition of Highland Insurance Solutions ("Highland"), the US construction division of Tokio Marine Highland. Highland is a managing general agent specializing in the builder's risk segment of the construction industry and will expand the Company's portfolio of owned distribution assets.

Refer to *Note 5 – Business combinations and disposals* of the annual Consolidated financial statements for the year ended December 31, 2022 for more details.

5.2 Disposals

Codan DK

On June 11, 2021, the Company announced that, together with the Scandinavian P&C leader Tryg A/S ("Tryg"), it had entered into a definitive agreement to sell Codan Forsikring A/S's Danish business ("Codan DK") to Alm. Brand A/S Group ("Alm. Brand"). On May 2, 2022, the sale was completed for a total cash consideration of DKK13.2 billion (\$2.4 billion), including post-closing adjustments. The Company received 50% of the total proceeds, which represents approximately \$1.2 billion. Refer to *Note 19 – Assets held for sale* of the annual Consolidated financial statements for the year ended December 31, 2022 for more details.

RSA Middle East

On April 4, 2022, the Company announced the sale of its 50% shareholding in Royal & Sun Alliance Insurance ("Middle East") BSC (c) ("RSA Middle East") to National Life & General Insurance Company ("NLGIC"). The sale of RSA Middle East follows a strategic review of operations by the Board of Directors. On July 7, 2022, the sale was completed for a total cash consideration of \$175 million (USD135 million). Refer to *Note 5 – Business combinations and disposals* of the annual Consolidated financial statements for the year ended December 31, 2022 for more details.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 6 – Investments
6.1 Classification of investments

Table 6.1 – Classification of investments

As at September 30, 2023 (IFRS 9)	FVTOCI		FVTPL		Amortized cost ¹	Total carrying amount
	Classified as FVTOCI ¹	Designated as FVTOCI	Classified as FVTPL	Designated as FVTPL	Carrying amount	
Cash and cash equivalents	-	-	-	-	1,531	1,531
Short-term notes	1,832	-	-	-	-	1,832
Fixed income						
Investment grade						
Government	3,154	-	-	6,478	-	9,632
Corporate	7,065	-	-	3,513	-	10,578
Asset-backed ²	1,231	-	76	328	-	1,635
Mortgage-backed						
Agency ³	1,231	-	29	255	-	1,515
Non-agency	426	-	106	190	-	722
Below investment grade corporate	127	-	-	25	-	152
Non-rated	-	-	1,615	-	-	1,615
Debt securities	15,066	-	1,826	10,789	-	27,681
Investment grade						
Retractable	-	11	-	-	-	11
Fixed-rate perpetual	-	284	2	-	-	286
Other perpetual	-	656	379	-	-	1,035
Preferred shares	-	951	381	-	-	1,332
Common shares	-	-	4,451	-	-	4,451
Investment property	-	-	482	-	-	482
Loans	-	-	-	-	997	997
	15,066	951	7,140	10,789	2,528	36,474

As at December 31, 2022 (IAS 39)	Fair value			Amortized cost	Total carrying amount
	AFS	Classified as FVTPL	Designated as FVTPL	Carrying amount	
Cash and cash equivalents	-	-	-	1,010	1,010
Short-term notes	1,786	-	-	-	1,786
Fixed income					
Investment grade					
Government	4,828	-	4,880	-	9,708
Corporate	6,974	-	3,327	-	10,301
Asset-backed ²	1,168	-	187	-	1,355
Mortgage-backed					
Agency ³	1,248	-	207	-	1,455
Non-agency	590	-	224	-	814
Below investment grade corporate	156	-	14	-	170
Non-rated	1,506	-	-	-	1,506
Debt securities	18,256	-	8,839	-	27,095
Investment grade					
Retractable	15	-	-	-	15
Fixed-rate perpetual	311	-	-	-	311
Other perpetual	1,095	-	-	-	1,095
Preferred shares	1,421	-	-	-	1,421
Common shares	3,159	12	1,427	-	4,598
Investment property	-	476	-	-	476
Loans	-	-	-	1,001	1,001
	22,836	488	10,266	2,011	35,601

¹ As at September 30, 2023, these investments were classified as stage 1 and the allowance for ECL on securities at amortized cost and classified as FVTOCI were \$2 million and \$10 million, respectively.

² Credit card receivables and auto loans.

³ Publicly traded MBS, which carry the full faith and credit guarantee of the US Government or are guaranteed by a government sponsored entity.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

6.2 Carrying amount of investments

Table 6.2 – Carrying amount of investments

As at	FVTPL	Other investments			Total
	investments	Amortized	Unrealized	Unrealized	investments
	Carrying	cost	gains ²	losses ²	Carrying
	amount				amount
September 30, 2023 (IFRS 9)					
Cash and cash equivalents	-	1,531	-	-	1,531
Debt securities	12,615	16,146	2	(1,082)	15,066
Preferred shares	381	1,148	3	(200)	951
Common shares	4,451	-	-	-	-
Investment property	482	-	-	-	-
Loans	-	997	-	-	997
	17,929	19,822	5	(1,282)	18,545
December 31, 2022 (IAS 39)					
Cash and cash equivalents	-	1,010	-	-	1,010
Debt securities	8,839	19,416	75	(1,235)	18,256
Preferred shares ¹	-	1,637	13	(229)	1,421
Common shares	1,439	3,272	124	(237)	3,159
Investment property	476	-	-	-	-
Loans	-	1,001	-	-	1,001
	10,754	26,336	212	(1,701)	24,847

¹ Includes unrealized gains (losses) on embedded derivatives of \$19 million as at December 31, 2022. These derivatives were presented in Investments, with the related perpetual preferred shares, on the interim condensed consolidated balance sheets. The change in fair value of these derivatives was recognized in Net gains (losses) on investment portfolio.

² Foreign amounts are translated using the period-end exchange rate.

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

Table 6.3 – Credit quality of debt securities

As at	September 30, 2023	December 31, 2022
Debt securities		
AAA	37%	38%
AA	21%	23%
A	23%	22%
BBB	13%	11%
Not rated	6%	6%
	100%	100%

Table 6.4 – Credit quality of preferred shares

As at	September 30, 2023	December 31, 2022
Preferred shares		
P1	0%	1%
P2	68%	72%
P3	32%	27%
	100%	100%

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 7 – Financial liabilities related to investments

Table 7.1 – Financial liabilities related to investments

As at	September 30, 2023	December 31, 2022
Accounts payable to investment brokers on unsettled trades	247	33
Derivative financial liabilities (<i>Table 8.1</i>)	133	147
Equities sold short positions	9	9
	389	189

Note 8 – Derivative financial instruments
8.1 Fair value and notional amount of derivatives

The Company generally uses derivatives for economic hedging purposes and to improve 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, cash flow hedges and fair value hedges.

Table 8.1 – Fair value and notional amount of derivatives

As at	September 30, 2023			December 31, 2022		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign currency contracts						
Forwards	6,991	38	111	6,317	29	117
Interest rate contracts						
Futures	368	-	-	478	-	-
Swaps	90	39	-	89	29	-
Foreign currency and interest rate contracts						
Cross currency interest rate swaps	79	-	13	82	-	15
Equity contracts						
Swaps	1,533	52	-	1,411	60	-
Futures	781	-	-	776	-	-
Inflation contracts						
Swaps	199	43	9	196	47	15
	10,041	172	133	9,349	165	147
Held for risk management purposes						
Designated as:						
Net investment hedges	4,010	10	60	4,953	23	95
Cash flow hedges	73	-	12	74	-	13
Fair value hedges	96	39	1	97	29	2
Not designated	5,653	123	60	4,184	113	37
	9,832	172	133	9,308	165	147
Held for trading purposes	209	-	-	41	-	-
	10,041	172	133	9,349	165	147
Term to maturity:						
Less than one year	9,528			8,981		
From one to five years	197			56		
Over five years	316			312		
	10,041			9,349		

Notes to the interim condensed consolidated financial statements (unaudited)

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

8.2 Currency hedging in relation with the UK Commercial Lines acquisition

Purchase price hedges

In September 2023, in connection with the UK Commercial Lines acquisition, the Company entered into foreign currency forward contracts to hedge the £520 million (\$869 million) purchase price to exposures from fluctuations in the CAD/GBP currency pair. These derivatives have a notional amount of £500 million (\$835 million) of which £265 million (\$443 million) were contingent on the closing of the acquisition.

These derivatives, while providing effective economic hedges, did not qualify as cash flow hedges because the transaction was not highly probable as it was not yet approved by Direct Line's shareholders. As a result, the changes in the fair value were recognized in Other net gains (losses) in Net income. The Company recognized a loss of \$28 million for the three and nine-month periods ended September 30, 2023, related to these derivatives. Refer to *Note 18 – Other net gains (losses)* for more details.

These derivatives were settled upon closing of the acquisition.

Net investment hedges

In September 2023, the Company also entered into a foreign currency forward contract for a notional amount of £235 million (\$393 million) to hedge the currency risk related to the initial carrying value of the business to be acquired. The change in the fair value of this derivative was recognized through Other net gains (losses) in Net income until closing of the transaction as the Company did not have any book value exposure to the business until the acquisition closed. The Company recognized a gain of \$11 million for the three and nine-month periods ended September 30, 2023 related to this derivative. Refer to *Note 18 – Other net gains (losses)* for more details.

After the closing of the acquisition, this derivative was designated as a hedge of net investments in foreign operations, with changes in fair value recognized in OCI.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 9 – Fair value measurement
9.1 Categorization of fair value

Table 9.1 – Fair value hierarchy of financial assets, investment property and financial liabilities measured at fair value

As at	Level 1	Level 2	Level 3	Total
	Valued using quoted (unadjusted) market prices	Valued using models with observable inputs	Valued using models without observable inputs	
September 30, 2023 (IFRS 9)				
Short-term notes	1,832	-	-	1,832
Fixed income				
Investment grade				
Government	4,324	5,308	-	9,632
Corporate	-	10,578	-	10,578
Asset-backed	-	1,635	-	1,635
Mortgage-backed				
Agency	-	1,515	-	1,515
Non-agency	-	722	-	722
Below investment grade corporate	-	152	-	152
Non-rated	-	-	1,615	1,615
Debt securities	6,156	19,910	1,615	27,681
Preferred shares	1,332	-	-	1,332
Common shares	4,306	-	145	4,451
Investment property	-	-	482	482
Derivative financial assets (Table 8.1)	-	172	-	172
Financial assets and investment property measured at fair value	11,794	20,082	2,242	34,118
Financial liabilities measured at fair value (Table 7.1)	9	133	-	142
December 31, 2022 (IAS 39)				
Short-term notes	1,786	-	-	1,786
Fixed income				
Investment grade				
Government	4,354	5,354	-	9,708
Corporate	-	10,301	-	10,301
Asset-backed	-	1,355	-	1,355
Mortgage-backed				
Agency	-	1,455	-	1,455
Non-agency	-	814	-	814
Below investment grade corporate	-	170	-	170
Non-rated	-	-	1,506	1,506
Debt securities	6,140	19,449	1,506	27,095
Preferred shares¹	1,421	-	-	1,421
Common shares	4,433	-	165	4,598
Investment property	-	-	476	476
Derivative financial assets (Table 8.1)	-	165	-	165
Financial assets and investment property measured at fair value	11,994	19,614	2,147	33,755
Financial liabilities measured at fair value (Table 7.1)	9	147	-	156

¹ Includes perpetual preferred shares with call options amounting to \$1,196 million as at December 31, 2022. The fair value of the embedded derivatives component amounting to \$62 million as at December 31, 2022 was determined using a Level 3 methodology.

The fair value of loans was \$951 million as at September 30, 2023 (\$971 million as at December 31, 2022). The carrying amount of certain short-term financial instruments not measured at fair value is a reasonable approximation of their fair value.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

9.2 Reconciliation of fair value measurement of Level 3 financial assets and investment property

Table 9.2 – Reconciliation of fair value measurement of Level 3 financial assets and investment property

Nine-month period ended	Classified as FVTPL			Total
	Debt securities	Common shares	Investment property	
September 30, 2023 (IFRS 9)				
Balance, beginning of the period	1,506	165	476	2,147
Total gains (losses) recognized in Net income	9	(7)	(3)	(1)
Purchases	244	-	20	264
Disposals	(129)	(14)	(15)	(158)
Exchange rate differences	(6)	1	4	(1)
Transfers to Level 2	(9)	-	-	(9)
Balance, end of the period	1,615	145	482	2,242

Nine-month period ended	AFS		Classified as FVTPL		Total
	Debt securities	Common shares	Common shares	Investment property	
September 30, 2022 (IAS 39)					
Balance, beginning of the period	1,444	210	5	634	2,293
Total gains (losses) recognized in:					
Net income	3	3	(2)	39	43
OCI	(33)	14	-	-	(19)
Purchases	402	24	-	10	436
Disposals	(159)	(53)	-	(113)	(325)
Exchange rate differences	(11)	(13)	-	(67)	(91)
Balance, end of the period	1,646	185	3	503	2,337

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 10 – Financial risk

The adoption of IFRS 17 and IFRS 9 has not changed the way the Company manages financial risk. Refer to *Note 10 – Financial risk* of the annual consolidated financial statements for the year ended December 31, 2022 for more details.

10.1 Exposure to currency risk

Table 10.1 – Net foreign currency and translation exposure

As at	September 30, 2023			December 31, 2022 (Restated) ¹		
	USD	GBP	EUR	USD	GBP	EUR
All amounts in CAD						
Investments supporting Canadian operations	3,640	-	-	3,373	-	-
Foreign-currency derivatives, notional amount	(3,682)	-	-	(3,349)	-	-
	(42)	-	-	24	-	-
Consolidated net assets of foreign operations	2,497	3,229	538	2,494	3,572	588
Foreign-currency derivatives, notional amount	-	(549)	(244)	-	(974)	(279)
	2,497	2,680	294	2,494	2,598	309
Other net assets in foreign currency	105	(51)	-	150	(56)	-
Total net currency exposure	2,560	2,629	294	2,668	2,542	309

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

10.2 Credit risk

a) Impairment assessment

The Company's ECL assessment and measurement method is set out below.

Expected credit loss

The Company assesses the possible default events within 12 months for the calculation of the 12mECL for investments in stage 1 of the ECL. Given the investment policy, the probability of default for new instruments acquired is generally determined to be minimal. Lifetime ECL is required to be calculated for instruments in stages 2 or 3. In all instances, the expected loss given default is based on external historical data.

Significant increase in credit risk and default

The Company continuously monitors all assets subject to ECLs. To determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

The Company considers that there has been a significant increase in credit risk when any contractual payments are more than 30 days past due. In addition, the Company also considers a variety of instances that may indicate unlikelihood to pay by assessing whether there has been a significant increase in credit risk. Such events include:

- The internal rating of the counterparty indicating default or near-default;
- The counterparty having past due liabilities to public creditors or employees;
- The counterparty (or any legal entity within the debtor's group) filing for bankruptcy application/protection; and
- The counterparty's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

The Company considers a financial instrument credit impaired for ECL calculations in all cases when the counterparty becomes 90 days past due on its contractual payments. The Company may also consider an instrument to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full. In such cases, the Company recognizes a LTECL.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Forward-looking information

In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as GDP growth, unemployment, equity markets indexes and other economic inputs.

The Company's debt instruments measured at FVTOCI and loans measured at amortized cost are in stage 1 of the ECL model. Due to the high quality of the Company's investment portfolio, the allowance for ECL was not significant as at September 30, 2023. Refer to *Table 6.1 – Classification of investments* for more details.

Note 11 – Insurance and reinsurance contracts

Table 11.1 – Net carrying amounts of insurance and reinsurance contracts

As at	September 30, 2023			December 31, 2022		
	Remaining coverage	Incurred claims	Total	Remaining coverage	Incurred claims	Total
Insurance contracts:						
Canada	3,333	13,868	17,201	3,594	13,219	16,813
UK&I	4,230	4,452	8,682	4,784	3,588	8,372
US	1,687	2,737	4,424	1,313	2,632	3,945
Total insurance contract liabilities	9,250	21,057	30,307	9,691	19,439	29,130
Reinsurance contracts:						
Canada	300	1,068	1,368	336	1,048	1,384
UK&I	1,278	1,722	3,000	1,523	1,234	2,757
US	219	674	893	261	602	863
Total reinsurance contract assets	1,797	3,464	5,261	2,120	2,884	5,004
Net insurance and reinsurance contracts	7,453	17,593	25,046	7,571	16,555	24,126

11.1 Insurance revenue

Table 11.2 – Insurance revenue

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Contracts measured under PAA	5,990	5,626	17,381	16,737
Contracts measured under the GMM¹				
Amounts related to changes in liability for remaining coverage				
Risk adjustment recognized for the risk expired	14	27	63	113
Expected incurred claims and other insurance service expense	381	643	1,538	2,660
Total insurance revenue	6,385	6,296	18,982	19,510

¹ Insurance revenue from contracts measured under the GMM was related to acquired claims.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

11.2 Reconciliation of carrying amounts

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts changed during the period as a result of cash flows and amounts recognized in Comprehensive income.

The Company presents tables that separately analyze movements in the liability for remaining coverage and the liability for incurred claims and reconcile these movements to the line items in Comprehensive income (Refer to *Tables 11.3* and *11.5*).

A second reconciliation is presented for contracts measured under the GMM, which separately analyzes changes in the estimates of the present value of future cash flows, the risk adjustment and the contractual service margin (Refer to *Tables 11.4* and *11.6*).

Table 11.3 – Insurance contracts analysis by remaining coverage and incurred claims

	September 30, 2023					
	Liability for remaining coverage		Liability for incurred claims			Total
	Excluding loss component	Loss Component ¹	Contracts under PAA			
Contracts under GMM			Present value of future cash flows	Risk adjustment		
Nine-month period ended						
Insurance contract liabilities, beginning of period	7,350	2,341	52	18,642	745	29,130
Changes in comprehensive income:						
Insurance revenue	(18,982)	-	-	-	-	(18,982)
Incurred claims and other insurance service expense	-	(912)	1,142	12,162	251	12,643
Amortization of insurance acquisition cash flows	3,752	-	-	-	-	3,752
Losses and reversals on onerous contracts	-	1,201	-	-	-	1,201
Prior-year development	-	-	-	(314)	(238)	(552)
Insurance service expense	3,752	289	1,142	11,848	13	17,044
Investment component	(118)	-	-	118	-	-
Insurance service result from insurance contracts	(15,348)	289	1,142	11,966	13	(1,938)
Insurance finance expense (income)	39	36	2	319	16	412
Exchange rate differences	34	9	1	72	4	120
Total changes in comprehensive income	(15,275)	334	1,145	12,357	33	(1,406)
Cash flows						
Premiums received	18,418	-	-	-	-	18,418
Claims and other insurance service expense paid	-	-	(1,189)	(10,728)	-	(11,917)
Insurance acquisition cash flows	(3,918)	-	-	-	-	(3,918)
Total cash flows	14,500	-	(1,189)	(10,728)	-	2,583
Insurance contract liabilities, end of period	6,575	2,675	8	20,271	778	30,307

¹ Loss component related to acquired claims was \$2,642 million as at September 30, 2023 (\$2,250 million as at December 31, 2022) and mostly reflects claims that the Company will settle later than initially anticipated. The loss component not related to acquired claims is mainly due to certain groups of insurance contracts in the UK&I.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Nine-month period ended	September 30, 2022						Total
	Liability for remaining coverage		Liability for incurred claims			Risk adjustment	
	Excluding loss component	Loss component ¹	Contracts under GMM	Contracts under PAA Present value of future cash flows			
Insurance contract liabilities, beginning of period	10,886	1,030	61	16,284	685	28,946	
Changes in comprehensive income:							
Insurance revenue	(19,510)	-	-	-	-	(19,510)	
Incurred claims and other insurance service expense	-	(359)	1,345	11,088	245	12,319	
Amortization of insurance acquisition cash flows	3,584	-	-	-	-	3,584	
Losses and reversals on onerous contracts	-	1,712	-	-	-	1,712	
Prior-year development	-	-	-	(283)	(203)	(486)	
Insurance service expense	3,584	1,353	1,345	10,805	42	17,129	
Investment component	(100)	-	-	100	-	-	
Insurance service result from insurance contracts	(16,026)	1,353	1,345	10,905	42	(2,381)	
Insurance finance expense (income)	(190)	(122)	-	(321)	(22)	(655)	
Exchange rate differences	(339)	(89)	(4)	(136)	7	(561)	
Total changes in comprehensive income	(16,555)	1,142	1,341	10,448	27	(3,597)	
Cash flows:							
Premiums received	17,523	-	-	-	-	17,523	
Claims and other insurance service expense paid	-	-	(1,349)	(8,865)	-	(10,214)	
Insurance acquisition cash flows	(3,971)	-	-	-	-	(3,971)	
Total cash flows	13,552	-	(1,349)	(8,865)	-	3,338	
Disposal and other²	(48)	-	-	(131)	-	(179)	
Insurance contract liabilities, end of period	7,835	2,172	53	17,736	712	28,508	

¹ Loss component related to acquired claims was \$2,136 million as at September 30, 2022 and mostly reflects claims that the Company will settle later than initially anticipated. The loss component not related to acquired claims is mainly due to certain groups of insurance contracts in the UK&I.

² Assets and associated liabilities held for sale related to RSA Middle East. Refer to *Note 5 – Business combinations and disposals* for more details.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 11.4 – Insurance contracts analysis by measurement component – Contracts measured under the GMM

Nine-month periods ended September 30,	2023			2022		
	Present value of future cash flows	Risk adjustment	Total	Present value of future cash flows	Risk adjustment	Total
Insurance contract liabilities, beginning of period	6,447	251	6,698	8,866	371	9,237
Changes in comprehensive income:						
Changes that relate to current services:						
Risk adjustment recognized for the risk expired	-	(96)	(96)	-	(127)	(127)
Experience adjustments	(1,184)	-	(1,184)	(1,638)	-	(1,638)
Changes that relate to future services:						
Changes in estimates that do not adjust the contractual service margin	1,109	67	1,176	1,622	62	1,684
Insurance service result from insurance contracts	(75)	(29)	(104)	(16)	(65)	(81)
Insurance finance expense (income)	50	22	72	(303)	(25)	(328)
Exchange rate differences	41	1	42	(506)	(20)	(526)
Total changes in comprehensive income	16	(6)	10	(825)	(110)	(935)
Cash flows:						
Claims and other insurance service expense paid	(1,189)	-	(1,189)	(1,349)	-	(1,349)
Total cash flows	(1,189)	-	(1,189)	(1,349)	-	(1,349)
Insurance contract liabilities, end of period	5,274	245	5,519	6,692	261	6,953

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 11.5 – Reinsurance contracts analysis by remaining coverage and incurred claims

Nine-month period ended	September 30, 2023						Total
	Asset for remaining coverage		Asset for incurred claims			Total	
	Excluding loss recovery component	Loss recovery component ¹	Contracts under PAA		Risk adjustment		
			Contracts under GMM	Present value of future cash flows			
Reinsurance contract assets, beginning of period	1,458	662	157	2,608	119	5,004	
Changes in comprehensive income:							
Allocation of reinsurance premiums	(2,470)	-	-	-	-	(2,470)	
Amounts recoverable for incurred claims and other expenses	-	(267)	440	1,526	37	1,736	
Loss recoveries and reversals on onerous contracts	-	351	-	-	-	351	
Prior-year development	-	-	-	4	(29)	(25)	
Changes in non-performance risk of reinsurers	-	-	-	(8)	-	(8)	
Amounts recoverable from reinsurers	-	84	440	1,522	8	2,054	
Net expense from reinsurance contracts	(2,470)	84	440	1,522	8	(416)	
Reinsurance finance income (expense)	27	11	-	51	2	91	
Exchange rate differences	15	4	2	9	-	30	
Total changes in comprehensive income	(2,428)	99	442	1,582	10	(295)	
Cash flows							
Premiums paid	2,007	-	-	-	-	2,007	
Amounts received	(1)	-	(504)	(950)	-	(1,455)	
Total cash flows	2,006	-	(504)	(950)	-	552	
Reinsurance contract assets, end of period	1,036	761	95	3,240	129	5,261	

¹ Loss recovery component related to acquired claims was \$757 million as at September 30, 2023 (\$649 million as at December 31, 2022) and is related to the underlying loss component that was recoverable under the terms of the reinsurance contracts held.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

	September 30, 2022						Total
	Asset for remaining coverage		Asset for incurred claims				
	Excluding loss recovery component	Loss recovery component ¹	Contracts under GMM	Contracts under PAA			
			Present value of future cash flows	Risk adjustment			
Nine-month period ended							
Reinsurance contract assets, beginning of period	2,642	281	195	1,775	82	4,975	
Changes in comprehensive income							
Allocation of reinsurance premiums	(2,608)	-	-	-	-	(2,608)	
Amounts recoverable for incurred claims and other expenses	-	(97)	426	1,213	33	1,575	
Loss recoveries and reversals on onerous contracts	-	493	-	-	-	493	
Prior-year development	-	-	-	102	(11)	91	
Changes in non-performance risk of reinsurers	3	-	-	(6)	-	(3)	
Amounts recoverable from reinsurers	3	396	426	1,309	22	2,156	
Net expense from reinsurance contracts	(2,605)	396	426	1,309	22	(452)	
Reinsurance finance income (expense)	(49)	(37)	-	(44)	(4)	(134)	
Exchange rate differences	(128)	(33)	(9)	(12)	3	(179)	
Total changes in comprehensive income	(2,782)	326	417	1,253	21	(765)	
Cash flows							
Premiums paid	1,819	-	-	-	-	1,819	
Amounts received	(3)	-	(445)	(747)	-	(1,195)	
Total cash flows	1,816	-	(445)	(747)	-	624	
Disposal and other²	27	-	-	(46)	-	(19)	
Reinsurance contract assets, end of period	1,703	607	167	2,235	103	4,815	

¹ Loss recovery component related to acquired claims was \$598 million as at September 30, 2022 and is related to the underlying loss component that was recoverable under the terms of the reinsurance contracts held.

² Assets and associated liabilities held for sale related to RSA Middle East. Refer to *Note 5 – Business combinations and disposals* for more details.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 11.6 – Reinsurance contracts analysis by measurement component – Contracts measured under the GMM

Nine-month period ended	September 30, 2023			Total
	Present value of future cash flows	Risk adjustment	Contractual Service margin	
Reinsurance contract assets, beginning of period	2,173	84	12	2,269
Changes in comprehensive income				
Changes that relate to current services				
Contractual service margin recognized for services received	-	-	(2)	(2)
Risk adjustment recognized for the risk expired	-	(26)	-	(26)
Experience adjustments	(379)	-	-	(379)
Changes that relate to future services				
Changes in estimates that do not adjust the contractual service margin	355	(4)	-	351
Changes in non-performance risk of reinsurers	1	-	-	1
Net expense from reinsurance contracts	(23)	(30)	(2)	(55)
Reinsurance finance income (expense)	38	1	-	39
Exchange rate differences	20	1	-	21
Total changes in comprehensive income	35	(28)	(2)	5
Cash flows				
Amounts received	(504)	-	-	(504)
Total cash flows	(504)	-	-	(504)
Reinsurance contract assets, end of period	1,704	56	10	1,770

Nine-month period ended	September 30, 2022			Total
	Present value of future cash flows	Risk adjustment	Contractual Service margin	
Reinsurance contract assets, beginning of period	2,957	135	18	3,110
Changes in comprehensive income				
Changes that relate to current services				
Contractual service margin recognized for services received	-	-	(4)	(4)
Risk adjustment recognized for the risk expired	-	(24)	-	(24)
Experience adjustments	(531)	-	-	(531)
Changes that relate to future services				
Changes in estimates that do not adjust the contractual service margin	515	14	-	529
Changes in non-performance risk of reinsurers	3	-	-	3
Net expense from reinsurance contracts	(13)	(10)	(4)	(27)
Reinsurance finance income (expense)	(81)	(26)	-	(107)
Exchange rate differences	(179)	(9)	(1)	(189)
Total changes in comprehensive income	(273)	(45)	(5)	(323)
Amounts received	(445)	-	-	(445)
Reinsurance contract assets, end of period	2,239	90	13	2,342

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

11.3 Material accounting judgments, estimates and assumptions

Liability for incurred claims – Estimate of undiscounted future cash flows

The Company establishes claims liabilities to cover the estimated liability for the cash flows associated with incurred losses as at the balance sheet date, including claims not yet reported and loss adjustment expenses incurred with respect to insurance contracts underwritten and reinsurance contracts placed by the Company. The ultimate cost of claims liabilities is estimated by using generally accepted standard actuarial techniques.

The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim (severity) and average number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analyzed by accident year, geographical area, as well as significant business line and claim type. Catastrophic weather events are separately projected to reflect the fact that their development might differ from historical losses while very large losses are typically left reserved at the face value of claims adjuster estimates.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) to arrive at the estimated ultimate cost of claims that present the probability-weighted expected value outcome from the range of possible outcomes, taking into account all the uncertainties involved.

The Company uses additional judgment in reviewing inflationary trends and the impact of COVID-19 on certain lines of business. Refer to *Note 11.3 – Significant accounting judgments, estimates and assumptions* of the Company's annual Consolidated financial statements for the year ended December 31, 2022 for more details.

Discount rates

The liability for incurred claims under the PAA and GMM and the liability for remaining coverage under the GMM are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk-free rates are determined by reference to the yields of highly liquid sovereign securities in the currency of the insurance contracts. The illiquid premium is determined by reference to observable market rates of investment grade bonds that the Company believes reflects the nature of the liabilities and are a suitable proxy for assessing the value of illiquidity.

Discount rates applied for discounting of future cash flows are listed below:

Table 11.7 – Yield curves used to discount cash flows for insurance and reinsurance contracts for major currencies

As at	September 30, 2023				December 31, 2022			
	1 year	3 years	5 years	10 years	1 year	3 years	5 years	10 years
CAD	5.7%	5.1%	4.8%	4.5%	5.0%	4.8%	4.6%	4.6%
USD	5.8%	5.2%	5.0%	4.9%	5.0%	4.9%	4.9%	5.0%
GBP	6.1%	6.3%	6.0%	5.6%	4.9%	4.9%	5.0%	5.0%
EUR	3.9%	3.9%	3.8%	3.7%	3.3%	3.6%	3.8%	3.9%
Periodic payment orders	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Risk adjustment

The risk adjustment is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. It reflects an amount the Company would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Company has estimated the risk adjustment based on a percentile (80%) of the loss distribution of the Company's economic capital model less the mean of the loss distribution. Percentile estimates for loss distribution are highly uncertain. The loss distribution is estimated using standard statistical techniques in accordance with generally accepted actuarial principles.

The main assumptions underlying these techniques are:

- Historical claims development can be used to generate the full range of potential outcomes; and
- Expert judgments to allow for the correlation between line of business and region.

Additional qualitative judgment is used to assess the extent to which there are events not included in the historical data.

Liability for remaining coverage under the GMM – Estimate of undiscounted future cash flows

The Company's objective in estimating future cash flows is to determine the expected value of the full range of possible outcomes, considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability-weighted and discounted using current assumptions.

When estimating future cash flows, the Company includes all cash flows that are within the contract boundary. The Company incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows.

Coverage units

Recognition of deferred profit in Net income through the amortization of the contractual service margin is dictated by coverage units which quantify the amount of insurance service provided in any given period. In the context of retrospective reinsurance contracts and acquired claims, the Company deems the expected settlement pattern of outstanding future cash flows to be the best representation of service provided.

11.4 Sensitivity analysis

The liability for incurred claims' sensitivity to certain key assumptions is outlined below. It is not possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process. The analysis is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on Net income. Movements in these assumptions may be non-linear and may be correlated with one another.

Table 11.8 – Sensitivity analysis (liability for incurred claims) – Impact on Net income

As at	September 30, 2023				December 31, 2022			
	Direct ¹		Net ²		Direct ¹		Net ²	
	Reserves +5%	Discount rate +1%	Reserves +5%	Discount rate +1%	Reserves +5%	Discount rate +1%	Reserves +5%	Discount rate +1%
Canada	(558)	209	(508)	190	(546)	216	(495)	195
UK&I ³	(472)	159	(283)	87	(466)	150	(270)	79
US	(106)	36	(78)	27	(100)	35	(72)	26

¹ Represents the liability for incurred claims before net payables included in incurred claims and the reclass of claims reported under the GMM.

² Represents the net liability for incurred claims before net payables included in incurred claims and the reclass of net claims reported under the GMM.

³ Excludes periodic payment orders. A change of +1% in the discount rate of the direct periodic payment orders would increase Net income by \$36 million and \$35 million as at September 30, 2023 and December 31, 2022, respectively. A change of +0.5% in the discount rate of net periodic payment orders would increase Net income by \$20 million and \$19 million as at September 30, 2023 and December 31, 2022, respectively.

11.5 Insurance risk

The adoption of IFRS 17 has not changed the way the Company manages insurance risk. Refer to **Note 13 – Insurance risk** of the annual Consolidated financial statements for the year ended December 31, 2022 for more details.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

11.6 Fair value of the net liability for incurred claims

The Company estimates that the fair value of its net liability for incurred claims approximates its carrying amount.

Table 11.9 – Carrying amount of the net liability for incurred claims

As at	September 30, 2023			December 31, 2022 (Restated) ¹		
	Direct	Ceded	Net	Direct	Ceded	Net
Undiscounted value	27,163	4,824	22,339	26,243	4,707	21,536
Effect of time value of money	(2,763)	(451)	(2,312)	(2,419)	(438)	(1,981)
Undiscounted risk adjustment	1,123	217	906	1,084	266	818
Periodic payment orders ²	406	177	229	399	181	218
Net liability for incurred claims before net payables and claims reported under the GMM	25,929	4,767	21,162	25,307	4,716	20,591
Net payables included in incurred claims	639	362	277	778	268	510
Reclass of claims reported under the GMM ³	(5,511)	(1,665)	(3,846)	(6,646)	(2,100)	(4,546)
Net liability for incurred claims	21,057	3,464	17,593	19,439	2,884	16,555

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

² Net periodic payment orders are net of the discount and risk adjustment of \$332 million as at September 30, 2023 (\$327 million as at December 31, 2022).

³ Includes the acquired claims and retroactive reinsurance reclassifications from liability for incurred claims to liability for remaining coverage.

11.7 Company's reinsurance net retention and coverage limits by nature of risk

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

The Company has a corporate reinsurance program which covers single risk events and multi-risk events and catastrophes. The following table shows the Company's reinsurance retention and coverage limits for multi-risk events and catastrophes.

Table 11.10 – Company's reinsurance net retention and coverage limits by nature of risk

As at	September 30, 2023	December 31, 2022
Canadian events (in million of CAD)		
Retention ¹	250	200
Coverage limits ²	6,400	7,200
US events (in million of CAD)		
Retention ¹	150	125
Coverage limits ²	1,300	1,225
UK events (in million of GBP)		
Retention ¹	125	75
Coverage limits ²	1,600	1,350

¹ Excludes reinstatement premiums and co-participations between the retention level and coverage limits.

² Represents the ground up limits before co-participations.

Effective January 1, 2023, the Company reduced its coverage limits for Canadian events to reflect the reduction in earthquake exposure in British Columbia. In addition, the Company increased its retention for Canadian events to reflect reinsurance market conditions. For US and UK events, the Company has increased its coverage limits for 2023 to reflect changes in exposures including inflationary impacts.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 12 – Other assets and other liabilities

12.1 Other assets

Table 12.1 – Components of other assets

As at	September 30, 2023	December 31, 2022 (Restated) ¹
Financial assets related to investments	620	216
Other receivables and recoverables	540	515
Other investments	341	400
Pension plans in a surplus position (<i>Table 22.1</i>)	306	671
Accrued investment income	236	178
Prepays	207	215
Restricted funds	54	67
Other	193	225
	2,497	2,487

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

12.2 Other liabilities

Table 12.2 – Components of other liabilities

As at	September 30, 2023	December 31, 2022 (Restated) ¹
Lease liabilities	636	622
Accounts payable and accrued expenses	483	435
Accrued salaries and related compensation	465	513
Other payables to broker	188	153
Pension plans in a deficit position and unfunded plans (<i>Table 22.1</i>)	187	176
Industry pool payables	149	151
Facility carrier payables	127	117
Premiums payable by brokers to insurers	121	107
Collaterals from third parties	107	105
Provisions	84	85
Other post-employment benefits and other post-retirement benefits	82	85
Other	295	390
	2,924	2,939

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 13 – Debt outstanding

13.1 Summary of debt outstanding Carrying amount of debt outstanding

Table 13.1 – Carrying amount of debt outstanding

As at	Maturity date	Initial term (years)	Fixed rate	Coupon (payment)	Principal amount	September 30, 2023	December 31, 2022
Medium-term notes							
Series 2	Nov. 2039	30	6.40%	May & Nov.	250	248	248
Series 3	Jul. 2061	50	6.20%	Jan. & Jul.	100	99	99
Series 5	Jun. 2042	30	5.16%	Jun. & Dec.	250	249	249
Series 6	Mar. 2026	10	3.77%	Mar. & Sep.	250	250	249
Series 7	Jun. 2027	10	2.85%	Jun. & Dec.	425	424	424
Series 8	Mar. 2025	5	3.69%	Mar. & Sep.	300	299	299
Series 9	Dec. 2030	10	1.93%	Jun. & Dec.	300	299	299
Series 10	Dec. 2050	30	2.95%	Jun. & Dec.	300	298	298
Series 11	May 2024	3	1.21%	May & Nov.	375	375	374
Series 12	May 2028	7	2.18%	May & Nov.	375	373	373
Series 13	May 2053	32	3.77%	May & Nov.	250	248	248
Series 14	Sep. 2054	31	5.28%	Mar. & Sep.	400	396	-
2022 US senior notes	Sep. 2032	10	5.46%	Mar. & Sep.	USD500	672	669
Term loans (Refer to 13.2)							
GBP tranche	Feb. 2024	1			£100	166	-
CAD tranche	Feb. 2024	1			50	50	-
Guaranteed subordinated							
GBP notes (Refer to 13.3)	Oct. 2045	31	5.13%	Oct.	£120	212	285
US bonds	Oct. 2029	30	8.95%	Apr. & Oct.	USD9	16	17
Commercial paper							
Credit facility	May 2027					-	2
Other debt	Various					6	7
Total debt outstanding before hybrid subordinated notes						4,680	4,275
Hybrid subordinated notes							
Series 1	Mar. 2081	60	4.13%	Mar. & Sep.	250	247	247
Total debt outstanding						4,927	4,522

The medium-term notes may be redeemed at the option of the issuer, in whole or in part at any time, at a redemption price equal to the greater of the Government of Canada Yield at the date of redemption plus a margin or their par value.

The fair value of debt outstanding amounted to \$4,524 million as at September 30, 2023 (\$4,189 million as at December 31, 2022) and was established using valuation data from a benchmark firm.

13.2 New financing issued

Series 14 Unsecured Medium-Term Notes	<ul style="list-style-type: none"> On September 14, 2023, the Company completed an offering of \$400 million principal amount of Series 14 unsecured medium-term notes through a private placement in Canada. These notes bear interest at an annual rate of 5.276% until maturity on September 13, 2054, payable in semi-annual instalments, commencing on March 14, 2024. The net proceeds received were used to partially fund the UK Commercial Lines acquisition. Refer to Note 5 – Business combinations and disposals for more details. As at September 30, 2023, these funds were temporarily invested.
--	--

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Term loan	<ul style="list-style-type: none"> • On February 27, 2023, the Company entered into a 12-month agreement to issue a term loan in two tranches, one being denominated in GBP for an amount of \$164 million (£100 million) (the “GBP tranche”) and the other in CAD for an amount of \$130 million (the “CAD tranche”) (together the “Term loans”). <ul style="list-style-type: none"> ○ The GBP tranche and the CAD tranche are bearing interest at a rate of SONIA plus 80 basis points (“bps”) and CDOR plus 55 bps, respectively. ○ The proceeds of the Term loans were used for the purpose of partially funding the execution of the UK pension plans buy-in transaction. Refer to <i>Note 22.6 – UK DB pension plans</i> for more details. ○ The Company designated the GBP tranche as a net investment hedge of its UK foreign operations. ○ On August 4, 2023 and on September 28, 2023, the Company repaid \$30 million and \$50 million, respectively, of the CAD tranche using available excess cash. • On October 24, 2023, the Company entered into a 24-month term loan agreement for an amount of \$109 million (£65 million), bearing interest at a rate of SONIA + 70 bps. The proceeds were used to partially fund the UK Commercial Lines acquisition. Refer to <i>Note 5 – Business combinations and disposals</i> for more details.
------------------	---

13.3 Other financing

Redemption of guaranteed subordinated GBP notes

On June 6, 2023, the Company redeemed \$67 million (£40 million) principal amount of the GBP notes ahead of the maturity date using its commercial paper and available cash and cash equivalents. The redemption price was \$65 million (£39 million), and the notes had a carrying value of \$72 million (£43 million). A gain on redemption of \$7 million (£4 million) was recognized in Other finance costs in Net income.

Credit facility

As at September 30, 2023, the Company had an unsecured revolving term credit facility of \$1.5 billion, which matured on May 17, 2027, under which no balance was drawn (\$2 million as at December 31, 2022). On October 19, 2023, the balance available under this credit facility was increased from \$1.5 billion to \$1.8 billion and a new maturity date was set to October 19, 2028. This increase was initiated to provide incremental liquidity.

Note 14 – Share capital

14.1 Issued and outstanding

Table 14.1 – Issued and outstanding shares

As at	September 30, 2023		December 31, 2022	
	Number of shares	Carrying amount	Number of shares	Carrying amount
Common shares	178,322,868	8,099	175,256,968	7,542
Preferred shares - Class A shares				
Series 1	10,000,000	244	10,000,000	244
Series 3	10,000,000	245	10,000,000	245
Series 5	6,000,000	147	6,000,000	147
Series 6	6,000,000	147	6,000,000	147
Series 7	10,000,000	245	10,000,000	245
Series 9	6,000,000	147	6,000,000	147
Series 11	6,000,000	147	6,000,000	147
Total Class A	54,000,000	1,322	54,000,000	1,322
Other equity				
LRCN Series 1 Notes	n/a	297	n/a	-
Preferred shares and other equity		1,619		1,322
Share capital		9,718		8,864

Issued and outstanding Class A shares rank in priority to common shares with regards to payment of dividends.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 14.2 – Reconciliation of share capital

	September 30, 2023						
	Common shares		Preferred shares Class A shares		Other equity		Share capital
	Number of shares	Carrying amount	Number of shares	Carrying amount	Number of units	Carrying amount	Carrying amount
Nine-month period ended							
Balance, beginning of period	175,256,968	7,542	54,000,000	1,322	n/a	-	8,864
Issued	3,065,900	557	-	-	n/a	297	854
Balance, end of period	178,322,868	8,099	54,000,000	1,322	n/a	297	9,718

	September 30, 2022						
	Common shares		Preferred shares Class A shares		Share capital		
	Number of shares	Carrying amount	Number of shares	Carrying amount	Carrying amount		
Nine-month period ended							
Balance, beginning of period			176,081,958	7,576	48,000,000	1,175	8,751
Issued			-	-	6,000,000	147	147
Repurchased and cancelled			(817,790)	(35)	-	-	(35)
Balance, end of period			175,264,168	7,541	54,000,000	1,322	8,863

14.2 New financing

Common shares	<ul style="list-style-type: none"> On September 13, 2023, the Company issued 2,666,000 common shares at a price of \$187.60 per common share for gross proceeds of \$500 million pursuant to a bought deal public offering in Canada, and a private offering to qualified institutional buyers in the United States. On that same date, the Company issued another 399,900 common shares for additional gross proceeds of \$75 million following the exercise, in full, of an over-allotment option. Share issuance costs of \$24 million (\$18 million after tax) were accounted for as a reduction in common shares on the Consolidated balance sheets. \$500 million of net proceeds from the issuance of common shares were used to partially fund the purchase price of the UK Commercial Lines acquisition. Refer to <i>Note 5 – Business combinations and disposals</i> for more details. As at September 30, 2023, these funds were temporarily invested and used for the repayment of Commercial papers. The remaining \$51 million of the net proceeds will be used for other general corporate purposes.
----------------------	--

Other equity	<ul style="list-style-type: none"> On March 7, 2023, the Company issued \$300 million of Limited Recourse Capital Notes Series 1 ("LRCN Series 1 Notes") maturing on June 30, 2083. Holders of the LRCN Series 1 Notes are entitled to receive semi-annual payments at a rate of 7.338% per annum until June 30, 2028. Thereafter, the yield will reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.95%. In connection with the issuance of the Notes, the Company issued 300,000 Non-Cumulative Rate Reset Class A Shares, Series 12 (the "Series 12 Preferred Shares") which are held by a trustee of a newly formed trust (the "Limited Recourse Trust") and which are eliminated from the Company's consolidated financial statements. The net proceeds of \$297 million are presented as equity instruments under Preferred shares and other equity. Semi-annual payments are recorded as equity distributions, and, for tax purposes, are considered as interest. In case of non-payment of interest on or the principal or redemption price of the LRCN Series 1 Notes when due, the recourse of each holder of LRCN Series 1 Notes will be limited to that holder's proportionate share of the Limited Recourse Trust's assets, which will consist of Series 12 Preferred Shares except in limited circumstances. The net proceeds from the LRCN Series 1 Notes were used for the purpose of partially funding the execution of the UK pension plans buy-in transaction. Refer to <i>Note 22.6 – UK DB pension plans</i> for more details.
---------------------	---

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

14.3 Preferred share conversions and dividend rate reset

Series 7 Preferred Shares

On May 31, 2023, the Company announced that it did not intend to exercise its right to redeem the Company's Non-cumulative Rate Reset Class A Series 7 Preferred Shares (the "Series 7 Preferred Shares") on June 30, 2023. Holders of Series 7 Preferred shares could elect to convert all or any of their shares into Non-cumulative Floating Rate Class A Series 8 Preferred Shares (the "Series 8 Preferred Shares") on a one-for-one basis on June 30, 2023. There were less Series 7 Preferred Shares tendered for conversion than the minimum required for the ability to proceed with the conversion, in accordance with the terms of the Series 7 Preferred Shares. As a result, no conversion took place and the dividend rate was reset on June 30, 2023 to 6.012%, which will prevail from and including June 30, 2023 to but excluding June 30, 2028.

14.4 Normal course issuer bid

On February 17, 2023, the Company renewed its NCIB to repurchase, for cancellation, up to 5,257,709 common shares during the next 12 months, representing approximately 3% of its issued and outstanding common shares. The actual number of common shares purchased for cancellation and the timing of any such purchases will be determined by the Company.

The Company has entered into an automatic share purchase plan ("ASPP") with a designated broker to repurchase its common shares during the NCIB. The ASPP allows for purchases of shares during pre-determined black-out periods, subject to certain parameters. Outside of these black-out periods, shares will be purchased at management's discretion. The price for any shares will be the market price at the time of acquisition or such other price as may be permitted by the TSX.

The following table presents the summary of the common shares repurchased for cancellation under the NCIB.

Table 14.3 – NCIB

Periods ended September 30,	Three-month	Nine-month
	2022	2022
Common shares repurchased for cancellation (in shares)	261,350	817,790
Average price (in dollars)	187.49	181.92
Total consideration paid	49	149

No common shares were repurchased for cancellation by the Company during the three and nine-month periods ended September 30, 2023.

Note 15 – Accumulated other comprehensive income (loss)

Table 15.1 – Components of AOCI

As at	September 30, 2023	December 31, 2022 (Restated) ¹
FVTOCI securities ²	(787)	-
Available-for-sale securities ³	-	(1,124)
Translation of foreign operations, net of hedges	20	(14)
Other	-	47
	(767)	(1,091)

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

² Not applicable as at December 31, 2022, as related to IFRS 9 – *Financial instruments*. Refer to *Note 3 – Adoption of new accounting standards*.

³ Not applicable as at September 30, 2023, as related to IAS 39 – *Financial instruments: recognition and measurement*. Refer to *Note 3 – Adoption of new accounting standards*.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 16 – Capital management

16.1 Capital management objectives

As at September 30, 2023 and December 31, 2022, each of the Company's regulated P&C insurance subsidiaries was in compliance with regulatory capital requirements. Refer to **Note 23 – Capital management** of the annual Consolidated financial statements for the year ended December 31, 2022 for more details on the management of the Company's capital.

In Canada, where the regulatory capital requirements were impacted by IFRS 17 changes, the transition to the new standard did not have a significant impact on the Company's regulatory capital position. In other jurisdictions where the Company is regulated, the regulatory capital calculations are independent of IFRS 17, therefore there was no impact upon transition. The new standard did not change the Company's overall capital framework and how it manages its capital.

Note 17 – Net investment return and net insurance financial result

Table 17.1 – Net investment return and net insurance financial result

Periods ended September 30,	Three-month		Nine-month	
	2023 (IFRS 9)	2022 (IAS 39)	2023 (IFRS 9)	2022 (IAS 39)
Net investment income	349	232	970	652
Net gains (losses) on investment portfolio	(137)	(187)	(283)	(187)
Net investment return	212	45	687	465
Net insurance financial result	(149)	35	(321)	521
	63	80	366	986

Table 17.2 – Net investment income

Periods ended September 30,	Three-month		Nine-month	
	2023 (IFRS 9)	2022 (IAS 39)	2023 (IFRS 9)	2022 (IAS 39)
Interest income calculated using the effective interest method:				
Debt securities classified or designated as FVTOCI ¹	135	-	343	-
Debt securities classified as AFS ²	-	85	-	230
Loans and cash and cash equivalents	25	16	74	41
Interest and similar income on securities classified or designated as FVTPL	117	58	314	157
Interest income	277	159	731	428
Dividend income (expense) from:				
Common shares, net				
Classified as AFS ²	-	33	-	106
Classified as FVTPL	55	20	187	62
Preferred shares, net				
Designated as FVTOCI ¹	17	-	49	-
Classified as AFS ²	-	22	-	62
Classified as FVTPL	5	-	16	-
Investments, at cost	-	-	-	1
Dividend income	77	75	252	231
Investment property rental income	5	6	16	18
Investment income	359	240	999	677
Expense	(10)	(8)	(29)	(25)
	349	232	970	652

¹ Not applicable for the three and nine-month periods ended September 30, 2022, as related to IFRS 9 – *Financial instruments*. Refer to **Note 3 – Adoption of new accounting standards**.

² Not applicable for the three and nine-month periods ended September 30, 2023, as related to IAS 39 – *Financial instruments: recognition and measurement*. Refer to **Note 3 – Adoption of new accounting standards**.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 17.3 – Net gains (losses) on investment portfolio

Three-month periods ended September 30,	2023 (IFRS 9)			2022 (IAS 39)		
	Fixed income	Equity and property	Total	Fixed income	Equity and property	Total
Portfolios						
Financial instruments:						
Classified or designated as FVTOCI ¹	(5)	-	(5)	-	-	-
Classified as AFS ²	-	-	-	(11)	(13)	(24)
Designated as FVTPL	(106)	-	(106)	(227)	(83)	(310)
Classified as FVTPL	-	(123)	(123)	-	-	-
	(111)	(123)	(234)	(238)	(96)	(334)
Derivatives ³ :						
Swap agreements	-	41	41	-	89	89
Forwards and futures	(12)	31	19	-	(16)	(16)
	(12)	72	60	-	73	73
Embedded derivatives	-	-	-	-	31	31
Investment property	-	(14)	(14)	-	(21)	(21)
Net foreign currency gains (losses)	51	-	51	98	-	98
ECL expense ¹	-	-	-	-	-	-
Impairment losses from common shares ²	-	-	-	-	(34)	(34)
	(72)	(65)	(137)	(140)	(47)	(187)
Portfolios						
Financial instruments:						
Classified or designated as FVTOCI ¹	(12)	-	(12)	-	-	-
Classified as AFS ²	-	-	-	(31)	409	378
Designated as FVTPL	(115)	-	(115)	(916)	(82)	(998)
Classified as FVTPL	11	(161)	(150)	-	(2)	(2)
	(116)	(161)	(277)	(947)	325	(622)
Derivatives ³ :						
Swap agreements	-	39	39	-	87	87
Forwards and futures	9	2	11	19	(26)	(7)
	9	41	50	19	61	80
Embedded derivatives	-	-	-	-	54	54
Investment property	-	(3)	(3)	-	39	39
Net foreign currency gains (losses)	(51)	-	(51)	308	-	308
ECL expense ¹	(2)	-	(2)	-	-	-
Impairment losses from common shares ²	-	-	-	-	(46)	(46)
	(160)	(123)	(283)	(620)	433	(187)

¹ Not applicable for the three and nine-month periods ended September 30, 2022, as related to IFRS 9 – *Financial instruments*. Refer to **Note 3 – Adoption of new accounting standards**.

² Not applicable for the three and nine-month periods ended September 30, 2023, as related to IAS 39 – *Financial instruments: recognition and measurement*. Refer to **Note 3 – Adoption of new accounting standards**.

³ Excluding foreign currency contracts, which are recognized in Net foreign currency gains (losses) on investments.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 17.4 – Net insurance financial result

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Change in the carrying amount of insurance contracts due to:				
Unwind of discount	(260)	(112)	(769)	(337)
Changes in discount rates and other financial assumptions	106	278	283	1,284
Net foreign currency gains (losses)	(57)	(94)	74	(292)
Insurance finance income (expense)	(211)	72	(412)	655
Change in the carrying amount of reinsurance contracts due to:				
Unwind of discount	49	24	156	85
Changes in discount rates and other financial assumptions	(1)	(98)	(45)	(283)
Net foreign currency gains (losses)	14	37	(20)	64
Reinsurance finance income (expense)	62	(37)	91	(134)
	(149)	35	(321)	521

Note 18 – Other net gains (losses)

Table 18.1 – Components of other net gains (losses)

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Gain on sale of businesses ¹	-	-	-	423
Currency derivative hedges related to acquisitions (<i>Note 8.2</i>)				
Purchase price	(28)	-	(28)	-
Net investment	11	-	11	-
Other net foreign currency gains (losses)	7	(5)	3	4
Other ²	19	21	42	12
	9	16	28	439

¹ Related to the sale of the Codan DK business to Alm. Brand completed on May 2, 2022. Refer to *Note 19.1 – Codan DK* of the annual consolidated financial statements for the year ended December 31, 2022 for more details.

² Includes an impairment loss on remeasurement of RSA Middle East to fair value less cost to sell recognized during the nine-month period ended September 30, 2022. Refer to *Note 5 – Business combinations and disposals* for more details.

Note 19 – Income taxes

19.1 Income tax expense recognized in Net income

Table 19.1 – Components of income tax expense recognized in Net income

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Current income tax expense (benefit)	96	123	282	434
Deferred income tax expense (benefit)	(75)	(28)	(14)	55
	21	95	268	489

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

19.2 Effective income tax rate

The effective income tax rates are different from the combined Canadian federal and provincial statutory income tax rates. The interim condensed 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 19.2 – Effective income tax rate reconciliation

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Statutory tax rates	25.9%	25.9%	25.9%	25.9%
Increase (decrease) in income tax rates resulting from:				
Non-deductible losses (non-taxable gains)	(2.6)%	(1.5)%	(0.5)%	(4.2)%
Non-taxable investment income	(9.5)%	(1.9)%	(6.0)%	(0.9)%
Non-deductible losses (non-taxable income) from subsidiaries and associates	(2.5)%	(1.2)%	(1.9)%	(0.9)%
Change in unrecognized deferred income taxes	(1.6)%	(1.1)%	4.9%	0.2%
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	1.0%	0.2%	2.0%	(1.1)%
Non-deductible expenses	0.8%	0.1%	0.5%	0.2%
Other	(0.1)%	(0.3)%	0.2%	(0.3)%
Effective income tax rate	11.4%	20.2%	25.1%	18.9%

19.3 Tax legislative changes

Pillar two

In October 2021, various countries and jurisdictions, including Canada, UK and Ireland, agreed to implement the Organization for Economic Co-operation and Development's Pillar Two rules. The proposed rules are designed to ensure that large multinational enterprises pay a minimum effective corporate tax rate (currently agreed upon at 15%) on the income arising in each jurisdiction where they operate.

In order to implement these rules, each country has to enact them into its local legislation. As such, the Company is actively monitoring the status of Pillar Two legislation in jurisdictions in which it operates. In July 2023, the UK enacted legislation and in August 2023, the Government of Canada released draft legislation, to implement Pillar Two rules with respect to accounting periods beginning on or after December 31, 2023. The US has not yet initiated the implementation.

In May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules*, which amended IAS 12 – *Income taxes*, for fiscal years beginning as of December 31, 2023. The amendments include a temporary exception from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. This exception will allow entities time to assess the implications of the new rules and to avoid diverse interpretations of IAS 12 which could result in inconsistent applications until the IASB can complete further work. The Company has applied this exception in jurisdictions in which the rules have been enacted and/or substantially enacted as it is currently continuing to assess potential impacts.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 20 – 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. There was no dilution effect during the three and nine-month periods ended September 30, 2023 and 2022; therefore, diluted EPS was the same as basic EPS.

Table 20.1 – Earnings per share

Periods ended September 30,	Three-month		Nine-month	
	2023	2022 (Restated) ¹	2023	2022 (Restated) ¹
Net income attributable to shareholders	163	375	792	2,108
Less: dividends declared on preferred shares and other equity, net of tax	(17)	(15)	(56)	(44)
Net income attributable to common shareholders	146	360	736	2,064
Weighted-average number of common shares outstanding (in millions)	175.9	175.4	175.5	175.7
EPS – basic and diluted (in dollars)	0.83	2.05	4.19	11.75

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

Note 21 – Share-based payments

The following tables present information on key share-based payment plans.

21.1 Long-term incentive plan

Table 21.1 – Reconciliation of LTIP share units

Periods ended September 30,	Three-month		Nine-month	
	2023 (in units)	2022 (in units)	2023 (in units)	2022 (in units)
Outstanding, beginning of period	1,608,038	1,437,796	1,733,703	1,509,976
Awarded (forfeited)	2,608	2,589	393,402	443,811
Net change in estimate of units outstanding	2,471	168,366	91,541	234,485
Units settled	-	(18,332)	(605,529)	(597,853)
Outstanding, end of period	1,613,117	1,590,419	1,613,117	1,590,419

The LTIP expense was \$17 million and \$68 million for the three and nine-month periods ended September 30, 2023, respectively (\$44 million and \$89 million for the three and nine-month periods ended September 30, 2022, respectively).

21.2 Employee share purchase plan

Table 21.2 – Reconciliation of restricted common shares

Periods ended September 30,	Three-month		Nine-month	
	2023 (in units)	2022 (in units)	2023 (in units)	2022 (in units)
Outstanding, beginning of period	118,588	116,312	114,637	113,728
Accrued	33,698	29,540	93,058	87,672
Awarded and vested	(30,457)	(29,857)	(84,052)	(83,130)
Forfeited	(648)	(829)	(2,462)	(3,104)
Outstanding, end of period	121,181	115,166	121,181	115,166

The ESPP expense was \$5 million and \$18 million for the three and nine-month periods ended September 30, 2023, respectively (\$4 million and \$15 million for the three and nine-month periods ended September 30, 2022, respectively).

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

21.3 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 21.3 – Settlement in shares (LTIP and ESPP plans)

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Value of common shares repurchased for share-based payments	5	9	122	107
Less: cumulative cost of the units for the Company	5	7	82	63
Excess of market price over the cumulative cost for the Company	-	2	40	44
Amount recognized in Retained earnings, net of taxes	-	2	30	31

Certain units vested during the period and were settled through the plan administrator purchasing common shares on the market and remitting them to the participants. The cumulative cost of these units 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 recognized in Retained earnings.

Note 22 – Employee future benefits

22.1 Funded status

The DB obligation, net of the fair value of plan assets, is recognized on the Consolidated balance sheets as an asset, when the plan is in a surplus position, or as a liability, when the plan is in a deficit position. This classification is determined on a plan-by-plan basis.

Table 22.1 – DB pension plan asset (liability) by country

As at	September 30, 2023			December 31, 2022		
	UK&I ¹	Canada	Total	UK&I	Canada	Total
DB obligation	(8,292)	(2,822)	(11,114)	(8,939)	(2,898)	(11,837)
Fair value of plan assets	8,311	2,931	11,242	9,480	3,040	12,520
Other net surplus remeasurement	(3)	(6)	(9)	(180)	(8)	(188)
Net DB asset (liability)	16	103	119	361	134	495
Recognized in:						
Other assets – plans in a surplus position	39	267	306	368	303	671
Other liabilities – plans in a deficit position and unfunded plans	(23)	(164)	(187)	(7)	(169)	(176)
	16	103	119	361	134	495

¹ The Company completed the purchase of annuity buy-in insurance contracts for its two major UK DB pension plans (the "UK buy-in transaction") during the nine-month period ended September 30, 2023. Refer to *Note 22.6 – UK DB pension plans* for more details.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

22.2 Employee future benefit expense recognized in Net income

Table 22.2 – Employee future benefit expense recognized in Net income

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Current service cost	13	21	38	65
Net interest expense:				
Interest expense on DB obligation	147	89	440	273
Interest income on plan assets	(166)	(93)	(491)	(289)
Other	6	6	16	14
	-	23	3	63

22.3 Actuarial gains (losses) on employee future benefits, net of other surplus remeasurement, recognized in OCI

Table 22.3 – Actuarial gains (losses) on employee future benefits, net of other surplus remeasurement, recognized in OCI

Periods ended September 30,	Three-month		Nine-month	
	2023	2022	2023	2022
Changes in discount rate used to determine the benefit obligation	562	1,775	891	6,555
Actual return on plan assets	(654)	(1,509)	(1,067)	(5,996)
Plan experience and changes in other financial assumptions ¹	(49)	(361)	(121)	(293)
Changes in demographic assumptions	125	-	125	-
Annuity buy-in insurance contracts ²	-	-	(1,404)	-
Other net surplus remeasurements ²	-	23	178	(99)
	(16)	(72)	(1,398)	167

¹ Changes in other financial assumptions are mainly related to inflation rate.

² The UK buy-in transaction completed on February 27, 2023 resulted in a net impact of \$1,195 million (£727 million), composed of a remeasurement loss on plan assets of \$1,404 million (£854 million) included in annuity buy-in insurance contracts and the derecognition of a tax expense on surplus of \$209 million (£127 million) included in other net surplus remeasurements. Refer to *Note 22.6 – UK DB pension plans* for more details.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

22.4 Composition of pension plan assets

The pension plan assets were mainly composed of annuity buy-in insurance contracts as at September 30, 2023 and of securities from the government and financial sectors as at December 31, 2022. The change in composition in UK&I pension plans was due to the UK buy-in transaction completed during the nine-month period ended September 30, 2023. Refer to *Note 22.6 – UK DB pension plans* for more details.

Table 22.4 – Composition of fair value of pension plan assets

As at	September 30, 2023			December 31, 2022		
	UK&I	Canada	Total	UK&I	Canada	Total
Cash and cash equivalents	436	-	436	2,091	3	2,094
Debt securities						
Government	83	738	821	6,626	826	7,452
Non-government	24	638	662	2,915	614	3,529
Debt securities	107	1,376	1,483	9,541	1,440	10,981
Annuity buy-in insurance contracts	8,171	956	9,127	43	1,021	1,064
Common shares	24	795	819	37	805	842
Derivative financial instruments	(14)	(18)	(32)	(30)	(9)	(39)
Investment property	2	-	2	690	-	690
Other	121	-	121	453	-	453
Securities sold under repurchase agreements	-	(178)	(178)	-	(220)	(220)
Total investments	8,847	2,931	11,778	12,825	3,040	15,865
Value of asset and longevity swaps	-	-	-	(3,345)	-	(3,345)
Deferred annuity premium	(536)	-	(536)	-	-	-
Total net plan assets	8,311	2,931	11,242	9,480	3,040	12,520

22.5 Assumptions used

The following table presents changes of certain key assumptions as disclosed in *Note 3 – Significant accounting judgments, estimates and assumptions* of the Company's annual consolidated financial statements for the year ended December 31, 2022.

Table 22.5 – Key weighted-average assumptions used in measuring the DB obligation

As at	September 30, 2023		December 31, 2022	
	UK	Canada	UK	Canada
Discount rate	5.58%	5.61%	4.86%	5.27%
Rate of inflation (CPI) ¹	2.67%	1.96%	2.46%	2.32%
Rate of inflation (RPI)	3.29%	n/a	3.11%	n/a

¹ For Canada: 6.51% for 2023, 5.00% for 2024 and 3.00% for 2025 as at September 30, 2023 and December 31, 2022, and 1.96% and 2.32% per year thereafter as at September 30, 2023 and December 31, 2022, respectively.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

22.6 UK DB pension plans

Purchase of annuity buy-in insurance contracts

On February 27, 2023, the Company announced that the Trustees of its two major UK DB pension plans (the “UK plans”) entered into an agreement with Pension Insurance Corporation plc (“PIC”), a specialist insurer of defined benefit pension plans, to purchase annuity buy-in insurance contracts (the “buy-ins”), as part of their de-risking strategy. The buy-in agreement transferred the remaining economic and demographic risks associated with the UK plans to PIC and removed the volatility in relation to the UK plans from the Company’s consolidated balance sheet. The main risks that the Company retains are the counterparty risk and the market risk on the assets remaining in the UK plans described below.

At the transaction date, the UK plans transferred the majority of their plan assets and an upfront contribution of \$791 million (£481 million) to PIC. Of the total buy-in premium of \$10,368 million (£6,307 million), an amount of \$904 million (£550 million) was deferred and will be paid through the sale of certain less liquid assets retained by the UK plans which are expected to be mostly liquidated by the end of 2023. During the nine-month period ended September 30, 2023, the UK plans paid \$394 million (£237 million) of the deferred annuity premium. Subsequent to the quarter, the UK plans paid an additional amount of \$365 million (£220 million) of the deferred premiums. The Company has committed to the UK plans to fund any shortfall in the deferred annuity premium obligation resulting from the liquidation of the assets. In addition, the UK plans retained longevity swaps that were already in place. Refer to *Asset and longevity swaps* below for more details.

The buy-in comprised of various contracts which were considered in aggregate as one single contract because they form a structure designed together to exactly match the amount and timing of all the benefits payable by the UK plans. The Company was not legally relieved of the primary responsibility for the obligation since the contracts simply cover the benefit payments that continue to be payable by the UK plans. The contracts provide the option to convert the buy-ins into individual policies which would transfer the UK plan assets and obligation to PIC (known as a “buy-out”). While this course of action may be considered in the future, a separate decision would be required, and certain significant conditions would need to be met before any buy-out can be executed. Consequently, the transaction was considered a buy-in as opposed to a buy-out under IAS 19. As a result, an initial actuarial loss of \$1,195 million (£727 million) was recognized in OCI during the nine-month period ended September 30, 2023. The fair value of annuity buy-in insurance contracts subsequently fluctuates based on changes in the value of the associated DB obligation.

The UK buy-in transaction was funded through the issuance of short-term loans for an amount of \$294 million, issuing LRCN Series 1 Notes in an amount of \$300 million and excess capital held by the Company. Refer to *Note 13.2 – New financing issued* and *Note 14.2 – New financing*, respectively.

Asset and longevity swaps

In 2009, RSA had entered into an arrangement that provided coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the UK plans at that time. The arrangement provided for reimbursement of the covered pension obligations in return for the contractual return receivable on a portfolio made up of quoted government debt which was offset by asset swaps and longevity swaps held by the pension funds. On the UK buy-in transaction date, the portfolio and asset swaps were novated to PIC and the longevity swaps remained in place as plan assets of the UK plans. In combination with the other buy-in insurance policies purchased from PIC, these longevity swaps were accounted for as qualifying insurance policies at the UK buy-in transaction date, based on the value of the associated DB obligation under IAS 19.

Funding arrangement

As part of its funding arrangements in place prior to the UK buy-in transaction, the Company paid its last annual contribution of \$123 million (£75 million) plus expenses and regulatory levies during the nine-month period ended September 30, 2023. As it was agreed with the Trustees of the UK plans, the Company will not be required to make any additional annual mandatory funding contribution but will continue to provide a parental guarantee of the obligations.

During the nine-month period ended September 30, 2023, the Company contributed a total of \$1,003 million (£610 million) to the UK plans, including the annual contribution and upfront contribution to PIC.

Other net surplus remeasurement

Prior to the UK buy-in transaction, the net DB asset (liability) of the UK plans was presented net of a 35% tax expense of an authorized return of surplus, which was classified with Other net surplus remeasurements. Since the surplus of the UK plans was derecognized through the UK buy-in transaction, the 35% tax provision totaling \$209 million (£127 million) has also been derecognized through OCI during the nine-month period ended September 30, 2023.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

Note 23 – Segment information

23.1 Reportable segments

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

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. The underwriting results of Canadian Northern Shield Insurance Company and British Columbia auto lines were excluded from operating performance.
- Distribution income includes the operating results from the Company's wholly owned subsidiaries, BrokerLink Inc. and broker associates as well as supply chain operations from On Side Developments LTD.

UK & International

- Underwriting of automobile, home, pet and business insurance contracts to individuals and businesses in the UK, Europe, Ireland and the Middle East as well as internationally through the Company's global network. The Company distributes insurance through a wide network of affinity partners and brokers or directly to consumers. Effective January 1, 2022 and until its disposal on July 7, 2022, the underwriting results of RSA Middle East were excluded from operating performance. Effective January 1, 2023, the underwriting results of UK personal lines motor market were excluded from operating performance. The Company recorded restructuring costs of \$7 million and \$76 million for the three and nine-month periods ended September 30, 2023, respectively, in Acquisition, integration and restructuring costs.
- Effective October 1, 2023, results from the UK Commercial Lines acquisition will be included in this segment. Refer to *Note 5 – Business combinations and disposals* for more details.

US

- Underwriting of specialty contracts mainly to small to medium-sized businesses in the United States. The Company distributes insurance through independent agencies, brokers, wholesalers and managing general agencies. Effective January 1, 2022, the underwriting results from Intact Public Entities were excluded from operating performance.
- Distribution income includes the operating results from the Company's wholly owned subsidiary, Highland Insurance Solutions since its acquisition on August 1, 2022.

Corporate and Other ("Corporate" or "Corp.") consists of investment management, treasury and capital management activities, corporate reinsurance, including certain internal and external agreements, the discount build and unwind of discount as well as other corporate activities. Effective January 1, 2022 and until its disposal on July 7, 2022, the investment results of RSA Middle East were excluded from Corporate.

23.2 Segment operating performance

All segment operating revenues presented in *Table 23.1* are generated from external customers.

Management measures the profitability of the Company's segments based on PTOI which excludes elements that are not representative of the Company's operating performance because they include elements that arise mostly from changes in market conditions, relate to acquisition-related items or special items, or because they are not part of the Company's normal activities. Refer to *Section 19 – Non-GAAP and other financial measures* of the Company's interim MD&A for the definition and reconciliation of related operating measures.

The reconciliation of the segment operating revenue and PTOI to the amounts recognized in the interim condensed consolidated statements of income is presented in *Table 23.2* and *Table 23.3* respectively.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 23.1 – Segment operating performance

Three-month periods ended September 30,	2023					2022 (Restated) ¹				
	CAN	UK&I	US	Corp	Total	CAN	UK&I	US	Corp	Total
Operating income										
Operating net underwriting revenue	3,586	1,103	530	7	5,226	3,447	993	475	3	4,918
Operating net investment income	-	-	-	349	349	-	-	-	232	232
Other operating income	107	-	16	2	125	106	-	17	3	126
Segment operating revenue	3,693	1,103	546	358	5,700	3,553	993	492	238	5,276
Operating net claims	(2,529)	(636)	(258)	255	(3,168)	(2,081)	(544)	(246)	65	(2,806)
Operating net underwriting expenses	(1,123)	(385)	(210)	-	(1,718)	(1,109)	(353)	(178)	-	(1,640)
Net unwind of discount on claims liabilities	-	-	-	(225)	(225)	-	-	-	(90)	(90)
Share of profit from invest. in associates & JV	32	-	-	-	32	37	-	-	-	37
Total finance costs	(2)	-	-	(61)	(63)	(3)	-	-	(43)	(46)
Other operating expense	(28)	-	(11)	(36)	(75)	(35)	-	(12)	(45)	(92)
PTOI	43	82	67	291	483	362	96	56	125	639
Operating income tax expense					(96)					(136)
Net income (loss) attributable to NCI					-					-
Non-operating component of NCI					-					-
Preferred share dividends and other equity distributions					(17)					(15)
NOI attributable to common shareholders					370					488
PTOI is comprised of:										
Underwriting income (loss)	(66)	82	62	262	340	257	96	51	68	472
Operating net investment result	-	-	-	124	124	-	-	-	142	142
Distribution income	111	-	5	-	116	108	-	5	-	113
Total finance costs	(2)	-	-	(61)	(63)	(3)	-	-	(43)	(46)
Other operating income (expense)	-	-	-	(34)	(34)	-	-	-	(42)	(42)
PTOI	43	82	67	291	483	362	96	56	125	639

Nine-month periods ended September 30,	2023					2022 (Restated) ¹				
	CAN	UK&I	US	Corp	Total	CAN	UK&I	US	Corp	Total
Operating income										
Operating net underwriting revenue	10,428	3,132	1,524	22	15,106	10,077	3,070	1,320	14	14,481
Operating net investment income	-	-	-	970	970	-	-	-	648	648
Other operating income	387	-	43	7	437	370	-	17	11	398
Segment operating revenue	10,815	3,132	1,567	999	16,513	10,447	3,070	1,337	673	15,527
Operating net claims	(6,779)	(1,815)	(756)	681	(8,669)	(5,986)	(1,790)	(667)	327	(8,116)
Operating net underwriting expenses	(3,363)	(1,119)	(609)	(2)	(5,093)	(3,193)	(1,083)	(508)	(2)	(4,786)
Net unwind of discount on claims liabilities	-	-	-	(667)	(667)	-	-	-	(261)	(261)
Share of profit from invest. in associates & JV	129	-	-	-	129	134	-	-	-	134
Total finance costs	(10)	-	-	(163)	(173)	(7)	-	-	(127)	(134)
Other operating expense	(174)	-	(27)	(119)	(320)	(162)	-	(12)	(136)	(310)
PTOI	618	198	175	729	1,720	1,233	197	150	474	2,054
Operating income tax expense					(347)					(412)
Net income (loss) attributable to NCI					(8)					11
Non-operating component of NCI					-					(24)
Preferred share dividends and other equity distributions					(56)					(44)
NOI attributable to common shareholders					1,309					1,585
PTOI is comprised of:										
Underwriting income (loss)	286	198	159	701	1,344	898	197	145	339	1,579
Operating net investment result	-	-	-	303	303	-	-	-	387	387
Distribution income	342	-	16	-	358	342	-	5	-	347
Total finance costs	(10)	-	-	(163)	(173)	(7)	-	-	(127)	(134)
Other operating income (expense)	-	-	-	(112)	(112)	-	-	-	(125)	(125)
PTOI	618	198	175	729	1,720	1,233	197	150	474	2,054

¹ Restated for the adoption of IFRS 17 – Insurance contracts. Refer to Note 3 – Adoption of new accounting standards.

INTACT FINANCIAL CORPORATION
Notes to the interim condensed consolidated financial statements (unaudited)

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

Table 23.2 – Reconciliation of segment operating revenue to amounts recognized in the interim condensed consolidated statements of income

Periods ended September 30,	Three-month		Nine-month	
	2023	2022 (Restated) ¹	2023	2022 (Restated) ¹
Segment operating revenue (Table 23.1)	5,700	5,276	16,513	15,527
Allocation of reinsurance premiums	815	817	2,470	2,608
Net insurance revenue from claims acquired in a business combination	245	478	1,107	2,026
Assumed commissions and premium adjustment	67	36	181	143
Net insurance revenue from retroactive reinsurance contracts	(31)	(16)	(98)	(105)
Other income included in Operating net underwriting expenses	21	18	69	44
Net underwriting revenue from exited lines	63	63	216	357
Net investment income from exited lines	-	-	-	4
Revenue, as reported	6,880	6,672	20,458	20,604
Represented by:				
Insurance revenue	6,385	6,296	18,982	19,510
Net investment income	349	232	970	652
Other income included in Other income and expense ^{2,3}	146	144	506	442
	6,880	6,672	20,458	20,604

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

² Other income and expense of \$(136) million includes other income of \$146 million and other expense of \$(282) million for the three-month period ended September 30, 2023 (\$174) million, \$144 million and \$(318) million respectively for the three-month period ended September 30, 2022).

³ Other income and expense of \$(438) million includes other income of \$506 million and other expense of \$(944) million respectively for the nine-month period ended September 30, 2023 (\$457) million, \$442 million and \$(899) million respectively for the nine-month period ended September 30, 2022).

Table 23.3 – Reconciliation of segment PTOI to amounts recognized in the interim condensed consolidated statements of income

Periods ended September 30,	Three-month		Nine-month	
	2023	2022 (Restated) ¹	2023	2022 (Restated) ¹
Segment PTOI (Table 23.1)	483	639	1,720	2,054
Non-operating items:				
Net gains (losses) on investment portfolio	(137)	(187)	(283)	(187)
Changes in discount rate and other financial assumptions	105	180	238	1,001
Normalisation of discount build in transition year	-	111	-	118
Net foreign currency gains (losses) included in net insurance financial result	(43)	(57)	54	(228)
Other net gains (losses)	9	16	28	439
Income (loss) from exited lines	(58)	(49)	(155)	(91)
Amortization of acquired intangible assets	(66)	(63)	(196)	(188)
Acquisition, integration and restructuring costs	(109)	(102)	(321)	(269)
Net result from claims acquired in a business combination	-	(1)	(2)	(4)
Other	7	(9)	13	(29)
Pre-tax income, as reported in the interim MD&A	191	478	1,096	2,616
Less: share of income tax expense from broker associates	(7)	(8)	(28)	(30)
Income before income taxes, as reported	184	470	1,068	2,586

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

INTACT FINANCIAL CORPORATION

Notes to the interim condensed consolidated financial statements (unaudited)

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

23.3 Selected segment assets and liabilities

Table 23.4 – Selected segment assets and liabilities

As at	September 30, 2023					December 31, 2022 (Restated) ¹				
	CAN	UK&I	US	Corp	Total	CAN	UK&I	US	Corp	Total
Investments (<i>Note 6</i>)	-	-	-	36,474	36,474	-	-	-	35,601	35,601
Net liability for incurred claims ²	13,793	5,366	2,002	1	21,162	13,415	5,280	1,891	5	20,591

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

² Represents the net liability for incurred claims before net payables included in incurred claims and the reclass of net claims reported under the GMM. Refer to *Table 11.9 – Carrying amount of the net liability for incurred claims*.

Note 24 – Additional information on the interim condensed consolidated statements of cash flows

Table 24.1 – Cash flows from operating activities

Periods ended September 30,	Three-month		Nine-month	
	2023	2022 (Restated) ¹	2023	2022 (Restated) ¹
Adjustments for non-cash items				
Net (gains) losses on investment portfolio (<i>Note 17</i>)	137	187	283	187
Other net (gains) losses	(9)	(16)	(28)	(439)
Depreciation of property and equipment ²	36	43	123	129
Amortization of intangible assets	109	97	324	291
Net premiums on debt securities classified as FVTOCI / AFS	(14)	30	(3)	109
DB pension expense (<i>Note 22</i>)	-	23	3	63
Share-based payment expense	23	49	88	107
Share of profit from investments in associates and joint ventures	(16)	(23)	(74)	(85)
Other	32	23	76	104
	298	413	792	466
Changes in operating assets and liabilities				
Contributions to the defined benefit pension plans	(13)	(24)	(1,022)	(204)
Changes in insurance and reinsurance contracts	854	542	830	268
Share-based payments	(1)	-	(16)	(15)
Other operating assets	8	(65)	(47)	(66)
Other operating liabilities	3	118	(86)	46
Dividends received from investments in associates and joint ventures	6	21	23	36
	857	592	(318)	65

¹ Restated for the adoption of IFRS 17 – *Insurance contracts*. Refer to *Note 3 – Adoption of new accounting standards*.

² Includes depreciation of right-of-use assets of leases.

Cash and cash equivalents with restricted use was approximately \$267 million and \$375 million as at September 30, 2023 and 2022, respectively.

Note 25 – Standards issued but not yet effective

There have been no significant updates to *Note 36 – Standards issued but not yet effective* of the Company's annual consolidated financial statements for the year ended December 31, 2022, except for the new standard, amendments to existing standards and interpretation adopted on January 1, 2023 (see *Note 3 – Summary of significant accounting policies*).