HERE FOR YOU

NOW AND IN THE FUTURE

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2016 ANNUAL REPORT | REPORTS.INTACTFC.COM/2016

We are the largest provider of property and casualty ("P&C") insurance in Canada with over $8 billion in annual direct premiums written ("DPW") and an estimated market share of 17%. We insure more than five million individuals and businesses through our insurance subsidiaries and are the largest private sector provider of P&C insurance in British Columbia, Alberta, Ontario, Québec, Nova Scotia and Newfoundland & Labrador. We distribute insurance under the Intact Insurance brand through a wide network of brokers and our wholly owned subsidiary, BrokerLink, and directly to consumers through belairdirect. We internally manage our investments, which total $14.4 billion.

We are customer driven. We listen to customers, understand their needs, offer the best solutions and deliver on our promises.

SEE THE FULL STORY ONLINE

REPORTS.INTACTFC.COM/2016

Please visit our online annual report to view videos, interactive features and additional information on how we are preparing for the future.

FINANCIAL HIGHLIGHTS

(EXCLUDING MYA, IN MILLIONS OF CANADIAN DOLLARS, EXCEPT AS NOTED)

	2016	2015	2014	2013	2012
Consolidated performance					
Written insured risks (thousands)	**7,697**	7,419	7,062	7,115	6,729
Direct premiums written	**8,293**	7,922	7,461	7,345	6,854
Net premiums earned	**7,946**	7,535	7,207	7,014	6,571
Combined ratio	**95.3%**	91.7%	92.8%	98.0%	93.1%
Underwriting income	**375**	628	519	142	451
Net investment income	**414**	424	427	406	389
Net distribution income	**111**	104	75	75	83
Net operating income	**660**	860	767	500	675
Net investment gains (losses)	**(72)**	(64)	174	(83)	37
Net income	**541**	706	782	431	571
Net operating income per share ($)	**4.88**	6.38	5.67	3.62	5.00
Earnings per share ($)	**3.97**	5.20	5.79	3.10	4.20
Book value per share ($)	**42.72**	39.83	37.75	33.94	33.03
Operating return on equity	**12.0%**	16.6%	16.3%	11.2%	16.8%
Adjusted return on equity	**11.0%**	14.3%	16.8%	10.3%	16.1%

HERE FOR YOU

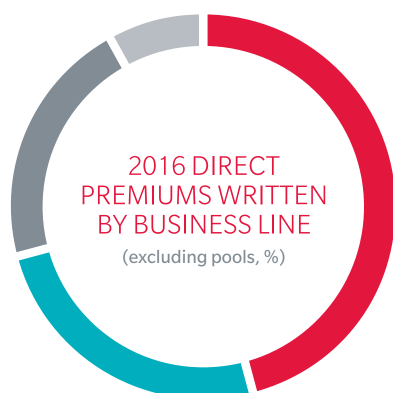
NOW AND IN THE FUTURE

The world is changing fast, as are the needs of customers. At Intact, we continue to improve, invest and innovate. Building on our track record, we will work to deliver a customer experience that is second to none, be a best employer and make Intact Financial Corporation one of the most respected companies in Canada. The investments we are making will ensure that we'll be here for customers, employees, brokers and communities in the future, as we are today.

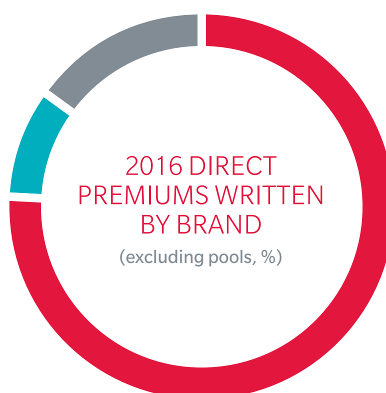
This annual report contains forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, as a number of factors could cause the Company's actual results, performance or achievements, or future events or developments to differ materially from those expressed or implied by the forward-looking statements. Additional information about our forward-looking statements and risk factors can be found under the cautionary note regarding forward-looking statements and the Risk Management sections of our Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

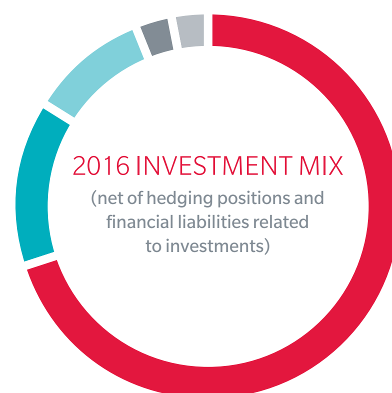
Our superior operating performance and financial strength have translated into 12% compound annual growth in dividends per share, and 13% compound annual total return since our IPO in 2004.



Personal auto	46%
Personal property	25%
Commercial P&C	21%
Commercial auto	8%



Intact Insurance	76%
BrokerLink	9%
belairdirect	15%

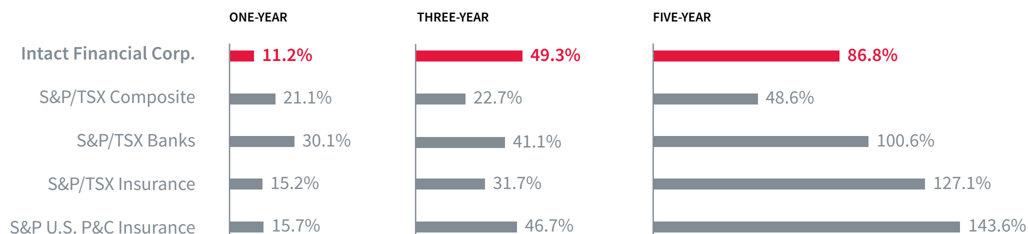


Fixed income	70%
Common shares	14%
Preferred shares	10%
Loans	3%
Cash and short-term notes	3%

TOTAL SHAREHOLDER RETURN

On a total shareholder return basis (including dividends), our **13% CAGR over the past five years** compares favourably versus our peers.

Source: Bloomberg

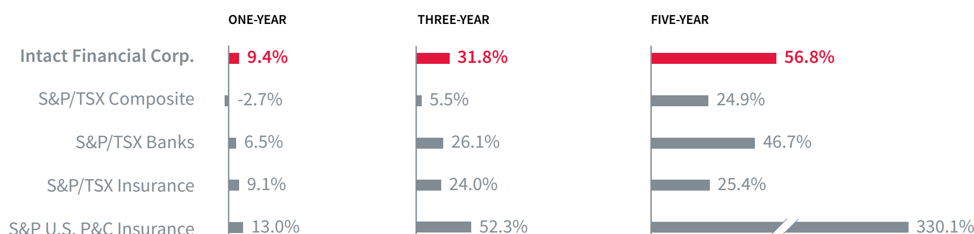


	ONE-YEAR	THREE-YEAR	FIVE-YEAR
Intact Financial Corp.	11.2%	49.3%	86.8%
S&P/TSX Composite	21.1%	22.7%	48.6%
S&P/TSX Banks	30.1%	41.1%	100.6%
S&P/TSX Insurance	15.2%	31.7%	127.1%
S&P U.S. P&C Insurance	15.7%	46.7%	143.6%

DIVIDENDS PER SHARE GROWTH

We are proud of our dividend growth track record, including a **five-year CAGR of 9%**, which compares favourably versus our peers.

Source: Bloomberg

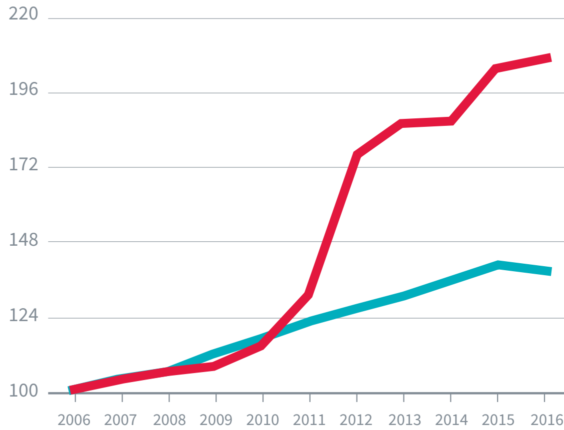


	ONE-YEAR	THREE-YEAR	FIVE-YEAR
Intact Financial Corp.	9.4%	31.8%	56.8%
S&P/TSX Composite	-2.7%	5.5%	24.9%
S&P/TSX Banks	6.5%	26.1%	46.7%
S&P/TSX Insurance	9.1%	24.0%	25.4%
S&P U.S. P&C Insurance	13.0%	52.3%	330.1%

DIRECT PREMIUMS WRITTEN GROWTH

(%) (base 100 = 2006)

● IFC ● Industry

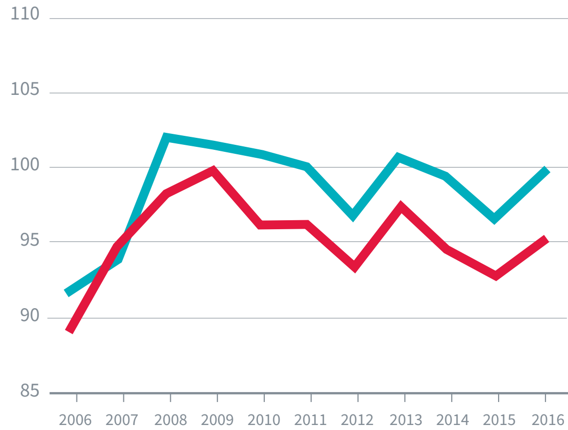


The combination of our organic growth and accretive acquisitions has led to a significant growth outperformance versus the industry.

COMBINED RATIO[1]

(%)

● IFC ● Industry

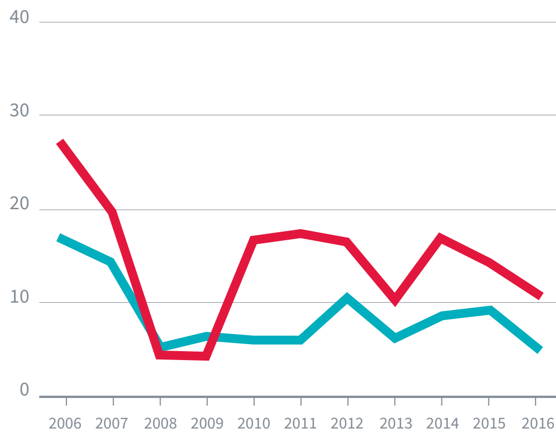


Our sophisticated pricing, underwriting discipline and in-house claims expertise have enabled us to outperform the industry's combined ratio.

RETURN ON EQUITY[2]

(%)

● IFC ● Industry



Our superior underwriting results, investment performance and capital management have led to a better ROE than the industry.

MARKET SHARE BY COMPANY

● Market share (%) ● Direct premiums written ($ billions)

With an estimated market share of 17%, we are approximately 19 times the size of the average company in the industry.

Industry data: IFC estimate based on MSA Research Inc. data, excluding Lloyd's, ICBC, SGI, SAF, Genworth, Canada Guaranty Mortgage Insurance Company and IFC, as at December 31, 2016

1 Combined ratio includes the market yield adjustment ("MYA").
2 ROEs reflect IFRS beginning in 2010. Since 2011, IFC's ROE is adjusted return on common shareholders' equity ("AROE"), as defined in our Glossary.

HERE FOR YOU

NOW AND IN THE FUTURE

Building the Best Team

Transforming the Customer Experience

We were honoured to be recognized a second time as an Aon Best Employer at the platinum level, as one of Canada's Top 100 Employers, and as a Greater Toronto Top Employer by Mediacorp Canada Inc. Intact was also named one of Canada's Top Employers for Young People for 2017, by Mediacorp Canada Inc., for the first time.

TRANSFORMING THE CUSTOMER EXPERIENCE

Customers are at the heart of our business. From coast to coast, one in five Canadians count on us to protect what matters – their homes, cars and businesses. Not only do we design products to meet their changing lifestyles and needs – we also continue to simplify insurance and offer better solutions. Our Intact Service Centres™ make things easier for customers after an automobile accident. With our quick quote tool, Intact Insurance and belairdirect customers can get a quote in minutes. And we are working with Intact Insurance brokers across the country to play an increasingly important role in digital distribution.

LEADING THROUGH INNOVATION

Software and big data are changing the way we live. Through data and technology, we pursue innovation at our Intact Lab – transforming the digital experience for customers, businesses and brokers.

To deepen our strength and expertise in data, we created the Intact Data Lab – to explore new sources of data and further leverage artificial intelligence. We are also investing in partnerships with institutions to combine our expertise with academic research.

In addition, we are accelerating our learning by working with disruptors. Through Intact Ventures Inc., we partner with companies that have the potential to redefine the P&C insurance landscape with innovative business models and new technology.

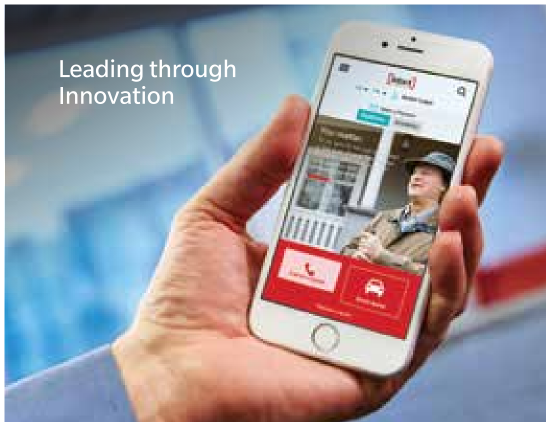
Our strategic partnerships, combined with the investments we are making in data and software, will help us improve how we serve customers and deliver a second-to-none experience.

SUPPORTING BUSINESSES

As Canada's largest commercial P&C insurer, Intact Insurance continues to improve its commercial offerings to protect businesses and design new products to meet customers' changing needs. Some of these new products include:

Fleet telematics: offers fleet managers access to personalized metrics based on driving habits to help them better manage their insurance risk

We are reaching more Canadians now than ever. belairdirect is now a visible brand from coast to coast, and BrokerLink continues to expand its footprint in Ontario, Alberta and Atlantic Canada.



We are helping Canadians protect themselves from increases in severe weather events by offering them solutions to adapt to climate change, and providing them with information on ways to protect their homes.

Usage-based insurance: enables businesses with individual commercial automobiles to save up to 25% on their insurance premiums through better driving behaviours

Cyber protection: covers businesses in the event of data and security breaches

Intact Insurance is also strengthening its capabilities in specialty lines. Our new national specialty solutions team, combined with our comprehensive suite of solutions, will provide brokers with the expertise and support they need to help customers with unique business needs.

With the growing popularity of the sharing economy, Intact Financial Corporation worked with Uber to develop tailored insurance products for ridesharing. These products were launched in 2016 in Alberta, Ontario and Québec (pilot project).

In providing commercial insurance to Turo™, we protect Canadians who wish to participate in peer-to-peer car sharing in Canada.

As Canada celebrates its 150th birthday and its rich history, we are reflecting on our own journey.

Charles Brindamour
Chief Executive Officer

HERE FOR CANADIANS
NOW AND IN THE FUTURE

Our business has grown significantly over the years, but we have never lost sight of our purpose – to help people, businesses and society prosper in good times and be resilient in bad times. We'll continue to invest in our people, transform the customer experience, enhance our core capabilities, and strengthen our network from coast to coast to meet the changing needs of customers.

Building on our track record, we will work to make Intact Financial Corporation one of the most respected companies in Canada. We'll be here for customers, employees, brokers and communities in the future, as we are today.

YEAR IN REVIEW

Last year, severe weather events and unprecedented wildfires in Fort McMurray impacted communities across the country. These catastrophes are a stark reminder of the impacts of climate change. They reinforce the urgency to adapt to increases in severe weather events and help Canadians better protect their homes. I am proud of how our employees rallied to help customers get back on track. In adversity we found strength, witnessed compassion and saw communities, government and businesses come together.

In spite of record-breaking industry catastrophe losses, Intact delivered a solid combined ratio of 95.3% in 2016, resulting in net operating income of $660 million. Looking ahead, we remain confident in the action plans we have put in place, and in the underlying strength of our operations.

Direct premiums written grew by a robust 5% to reach $8.3 billion. Overall, we delivered a healthy operating return on equity of 12% despite $385 million in pre-tax catastrophe losses.

From a capital perspective, we ended the year with a strong balance sheet and $970 million in total excess capital. We also announced a 10% dividend increase, our 12th consecutive annual increase since we became a public company.

BUILDING ON OUR STRENGTHS

The world we live in is changing fast. Having a strong track record is not a guarantee of success. We are building on our strengths to improve what we do to meet changing customer expectations.

Innovation is at the heart of our approach. We encourage employees to challenge themselves, see things from the customer's perspective and provide an experience that is second to none. That is why one in five Canadians trust us to protect what matters most to them.

To harness growth opportunities, and better support brokers and businesses with unique needs, Intact Insurance created a new national team for specialty solutions that leverages our expertise across the country. We will use the strength of our broker network to reach our growth target of $1 billion by 2020.

We are also working hard to provide Canadians more options to access our services. BrokerLink continues to expand its footprint in Ontario, Alberta and Atlantic Canada. On the direct distribution front, with Canadian Direct Insurance fully integrated into our business, belairdirect is now available coast-to-coast. We are also closer to reaching our growth objective of $2 billion in premiums for direct distribution with the acquisition of InnovAssur. As we capitalize on opportunities across our distribution channels, we are reaching more Canadians now than ever.

WINNING IN A CHANGING WORLD

Software and data are transforming the way we live. Canada is one of the top five most connected countries in the world. Seven in 10 Canadians have a smartphone. Ninety per cent of our population uses the Internet. These changes are having a profound impact on how people interact, share and live. We need to continue to challenge the status quo and innovate to stay ahead of our customers' expectations.

We are using technology to design relevant products and provide options for customers to connect with us. Our Intact Service Centres™ offer Intact Insurance and belairdirect customers a simpler and more convenient process when they have an auto claim. Our quick quote and home quick quote tools provide customers quotes in minutes. In parallel, Intact Insurance's Buy Online strategy continues to grow and generate new business for brokers.

We are centralizing our experts and data, and adding talent, to help us improve our margin, grow our book of business and improve the customer experience. The Intact Data Lab explores new sources of data and uses it to expand our competencies in artificial intelligence.

We have had good success from our telematics product. The data is 30% more powerful than what had previously been our most predictive variable. More than 350,000 drivers have participated in the program so far.

To strengthen our systems, we invest more than $100 million annually in software development. At the same time, we are investing in and developing relationships with research institutions and universities to stay on the cutting edge of advancements in technology.

At Intact, we are accelerating our learning by working with disruptors. Through Intact Ventures Inc., we partner with companies that have the potential to redefine the P&C insurance landscape with innovative business models and new technology. Our plan is to invest about $300 million over the next few years. In Brazil, for example, we have invested in one of the country's leading digital insurance brokerages. In the U.S., we are invested in Metromile – a pay-per-mile insurance company that is changing the way people insure themselves.

Our strategic partnerships, combined with the investments we are making in data and software, will help us improve how we serve customers and deliver a second-to-none experience.

"Innovation is at the heart of our approach. We encourage employees to challenge themselves, see things from the customer's perspective and provide an experience that is second to none. That is why one in five Canadians trust us to protect what matters most to them."

We remain committed to addressing climate change, one of the most significant issues facing Canadians in the coming decade. We have expanded our offer to help Canadians protect themselves from natural disasters and are seeing solid growth as a result. Our investment in the Intact Centre on Climate Adaptation™ continues to foster innovative solutions to help reduce the physical, financial and social impacts of extreme weather on Canadian communities.

INDUSTRY OUTLOOK

Overall, we believe the P&C insurance environment remains favourable. We expect premiums to grow at a low to mid-single-digit rate over the next 12 months.

In personal auto, claims cost inflation should lead to rate increases in all markets. In personal property, we expect the current firm market conditions to continue, as companies adjust

to changing weather patterns. In commercial lines, business remains competitive and the economy in Western Canada continues to pressure industry growth.

We expect the industry's ROE to improve but remain slightly below its long-term average of 10% over the next 12 months. We outperformed the industry's ROE by 6 points in 2016, and feel strongly about outperforming the industry's ROE by 5 points going forward.

2017 AND BEYOND

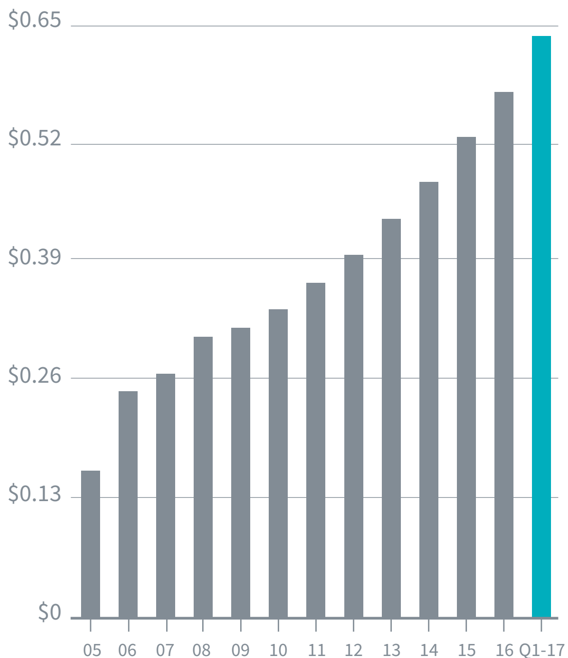
It is an exciting time for the P&C insurance industry. It is important that we prepare today for what is needed for tomorrow. We see many opportunities to drive change and to continue to outperform the industry – by putting customers first and leveraging our strengths.

We have accomplished much and delivered a solid performance in a year that saw unprecedented catastrophes. Our people's hard work, engagement, and commitment to our values are key to our success. We will continue to experience headwinds but I am more confident than ever in our ability to adapt and respond to changing needs.

I want to thank customers, shareholders and brokers for their continued support. I also extend my appreciation to our Board of Directors for their continued insight and counsel. We will continue to stay true to our values, and strive to maintain your confidence and reward it in the years ahead.

Charles Brindamour
Chief Executive Officer

QUARTERLY DIVIDENDS PER SHARE



Claude Dussault
Chairman of the Board

DELIVERING SUSTAINABLE GROWTH

In 2016, Intact delivered strong results and demonstrated resiliency in the face of unprecedented catastrophe losses in Canada – remaining focused on its strategy and executing plans with a disciplined approach.

Canada is experiencing change at a record pace, giving rise to the need to adapt faster and respond to disruption. While this is not unique to the insurance industry, Intact is focused on leading through industry disruption and building long-term growth through the stewardship of the Board.

Maintaining diligence in a competitive marketplace will be fundamental to delivering sustainable long-term growth. Through enhanced risk selection, segmentation and leveraging data analytics, the Board is confident that Intact is well positioned to deliver products and services that meet the needs of customers today and in the future.

In addition to providing guidance on the overall strategy, the Board participated in discussions regarding the Company's diversity and people strategy. Through the leadership of Charles Brindamour and the management team, Intact became a member of the 30% Club, a membership that reinforces a commitment to gender diversity at the senior-most levels of the organization and on the Board. Today 33.9% of the roles in the management team (Vice President and higher) are held by women, and 33.3% at the Board level (with an expectation to reach 41.6% in 2017). It should also be noted that beyond gender diversity, 14.8% of employees at Intact self-identify as belonging to a visible minority. Employees and management should be proud of their commitment to diversity and the tremendous value it brings to the organization.

During the year, the Board continued its review and renewal of governance best practices. This effort and Intact's continued drive to be one of the most respected companies in Canada are paying off. The Globe and Mail's 2016 Board Games awarded Intact with top marks for good governance, ranking Intact second (tied) out of 231 companies, up from fifth position in 2015.

Additionally, for the first time, Intact was presented with the prestigious Award of Excellence in electronic disclosure, and also received an honourable mention in the financial reporting category at the CPA Canada's corporate reporting awards, a national program that showcases the best corporate reporting models in the country.

On behalf of my colleagues, I would like to thank Intact's employees for their continued dedication and hard work. Their unwavering commitment to deliver a customer experience that is second to none is what sets Intact apart. I would also like to thank the management team for their leadership, and customers and shareholders for their continued support.

Claude Dussault
Chairman of the Board

MD&A AND FINANCIAL STATEMENTS

Please note that the following MD&A and Financial Statements are provided as distinct sections with individual pagination: MD&A – pages 1 to 68; Financial Statements – pages 1 to 64.

Intact Financial Corporation

Management's Discussion and Analysis

For the year ended December 31, 2016

INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the year ended December 31, 2016

(in millions of dollars, except as otherwise noted)

The following MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors (or "Board") for the year ended December 31, 2016. This MD&A is intended to enable the reader to assess our results of operations and financial condition for the three- and twelve-month periods ended December 31, 2016 compared to the corresponding periods in 2015. It should be read in conjunction with our Consolidated financial statements for our fiscal year ended December 31, 2016. All amounts herein are expressed in Canadian dollars. This MD&A is dated February 7, 2017.

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

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Non-IFRS financial measures

We use both IFRS and non-IFRS financial measures to assess our performance. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. See Section 23 – *Non-IFRS financial measures* for the definition and reconciliation to the most comparable IFRS measures. Management analyzes performance based on underwriting ratios such as combined, expense, loss and claims ratios, MCT, and debt-to-capital, as well as other non-IFRS financial measures, namely DPW, Underlying current year loss ratio, Underwriting income, NOI, NOIPS, OROE, ROE, AROE, Non-operating results, AEPS, Cash flow available for investment activities, and Market-based yield. These measures and other insurance-related terms used in this MD&A are defined in the glossary available in the "Investors" section of our web site at www.intactfc.com.

Cautionary note regarding forward-looking statements

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

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: the Company's ability to implement its strategy or operate its business as management currently expects; its ability to accurately assess the risks associated with the insurance policies that the Company writes; unfavourable capital market developments or other factors which may affect the Company's investments, floating rate securities and funding obligations under its pension plans; the cyclical nature of the P&C insurance industry; management's ability to accurately predict future claims frequency and severity, including in the Ontario line of business, as well as the evaluation of losses relating to the Fort McMurray wildfires, catastrophe losses caused by severe weather and other weather-related losses; government regulations designed to protect policyholders and creditors rather than investors; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; the Company's reliance on brokers and third parties to sell its products to clients and provide services to the Company; the Company's ability to successfully pursue its acquisition strategy; the Company's ability to execute its business strategy; the Company's ability to achieve synergies arising from successful integration plans relating to acquisitions, as well as management's estimates and expectations in relation to resulting accretion, internal rate of return and debt-to-capital ratio; the Company's participation in the Facility Association (a mandatory pooling arrangement among all industry participants) and similar mandated risk-sharing pools; terrorist attacks and ensuing events; the occurrence of catastrophe events, including a major earthquake; the Company's ability to maintain its financial strength and issuer credit ratings; access to debt financing and the Company's ability to compete for large commercial business; the Company's ability to alleviate risk through reinsurance; the Company's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); the Company's ability to contain fraud and/or abuse; the Company's reliance on information technology and telecommunications systems and potential failure of or disruption to those systems, including evolving cyber-attack risk; the Company's dependence on key employees; changes in laws or regulations; general economic, financial and political conditions; the Company's dependence on the results of operations of its subsidiaries; the volatility of the stock market and other factors affecting the Company's share price; and future sales of a substantial number of its common shares.

All of the forward-looking statements included in this MD&A are qualified by these cautionary statements and those made in the section entitled *Risk management* (Sections 17-21) hereafter. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Glossary of abbreviations

	Description		Description
AEPS	Adjusted EPS	**LoB**	Line of business
AFS	Available for sale	**LTIP**	Long-term incentive plan
AMF	Autorité des marchés financiers	**MCT**	Minimum capital test
AOCI	Accumulated OCI	**MD&A**	Management's Discussion and Analysis
AROE	Adjusted ROE	**Moody's**	Moody's Investor Service Inc.
BVPS	Book value per share	**MYA**	Market yield adjustment
CAD	Canadian Dollar	**NCIB**	Normal course issuer bid
CAGR	Compound annual growth rate	**NEP**	Net earned premiums
CAT	Catastrophe	**NOI**	Net operating income
CSR	Corporate Social Responsibility	**NOIPS**	NOI per share
DBRS	Dominion Bond Rating Services	**OCI**	Other comprehensive income
DPW	Direct premiums written	**OROE**	Operating ROE
EPS	Earnings per share to common shareholders	**OSFI**	Office of the Superintendent of Financial Institutions
ESG	Environmental, social and corporate governance	**PYD**	Prior year claims development
Fitch	Fitch Ratings Inc.	**ROE**	Return on equity
FVTPL	Fair value through profit and loss	**S&P**	Standard & Poor's
IFRS	International Financial Reporting Standards	**U.S.**	United States
KPI	Key performance indicator	**USD**	U.S. Dollar

Important notes

- Unless otherwise noted, DPW refers to DPW normalized for the effect of multi-year policies, excluding industry pools (referred to as "DPW" in this MD&A). This normalized measure is not significantly different from the comparable IFRS-based measure given that the impact of multi-year policies is no longer material to our results. See Table 30 for the reconciliation.
- All underwriting results and related ratios exclude the MYA, but include our share of the underwriting results of jointly held insurance operations, unless otherwise noted.
- The expense and general expense ratios are presented herein net of other underwriting revenues.
- Net investment income includes our share of the net investment results of jointly held insurance operations, unless otherwise noted.
- Catastrophe claims are any one claim, or group of claims, equal to or greater than $7.5 million, related to a single event.
- A large loss is defined as a single claim larger than $0.25 million but smaller than the CAT threshold of $7.5 million.
- A non-catastrophe weather event ("non-CAT weather event") is a group of claims which is considered significant but that is smaller than the CAT threshold of $7.5 million, related to a single weather event.
- All references to "total excess capital" in this MD&A include excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries, unless otherwise noted.
- Unless otherwise noted, market share and market related data are based on the latest available data (Q3-2016) from MSA Research Inc. ("MSA") and excludes Lloyd's Underwriters Canada, Insurance Corporation of British Columbia, Saskatchewan Government Insurance, Saskatchewan Auto Fund, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company. MSA data excludes certain Quebec regulated entities. Market share and market positioning reflect the impact of announced or completed acquisitions and are therefore presented on a pro forma basis.
- In an effort to maximize disclosure effectiveness, we aim to reduce duplication in our disclosures. As such, we have made a cross reference to the Consolidated financial statements in our MD&A in situations where the information that would have been provided as part of the MD&A would have been substantially the same.
- Certain totals, subtotals and percentages may not agree due to rounding. Not meaningful (nm) is used to indicate that the current and prior year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%.

OVERVIEW

Section 1 – About Intact Financial Corporation

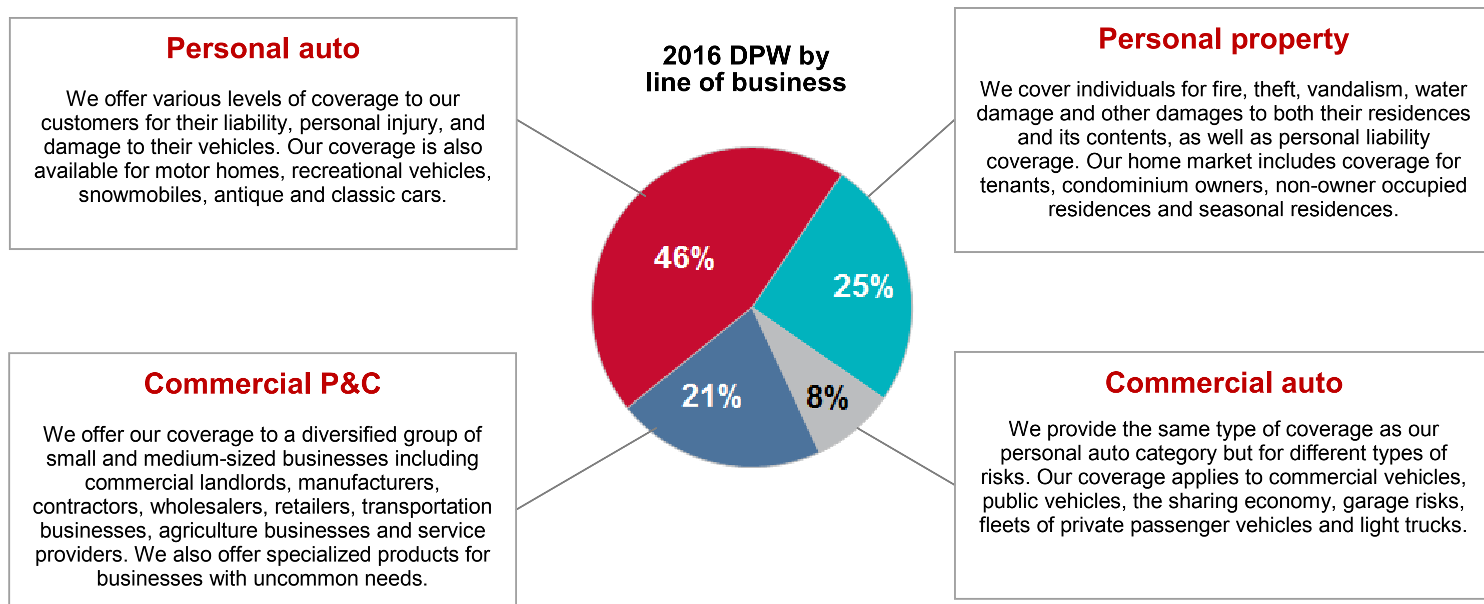
1.1 Our family of brands – the power of choice

Who we are:

- Largest provider of P&C insurance in Canada with over $8 billion in annual DPW and an approximate market share of 17%.
- We distribute insurance under the Intact Insurance brand through a wide network of brokers, including our wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect.
- Trusted by more than five million individuals and businesses who are insured through our multi-channel distribution strategy.
- Proven industry consolidator with a track record of 15 successful acquisitions since 1988.
- Largest private sector provider of P&C insurance in British Columbia, Alberta, Ontario, Québec, Nova Scotia and Newfoundland & Labrador.
- Canada's largest provider of commercial insurance, with an approximate market share of 13% and a leading provider of specialized coverages such as Surety, Long Haul Trucking, Farm and sharing economy solutions.
- Close to 12,000 employees from coast to coast.

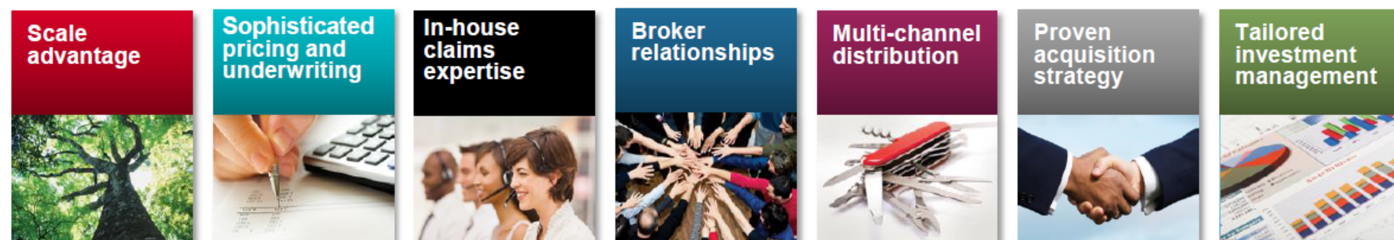
1.2 What we offer

With our comprehensive and broad range of car, home and business insurance products, we offer customers protection tailored to meet their unique needs. Across Intact, we may have different jobs but we share the same goal. We are here to help people, businesses and society prosper in good times and be resilient in bad times. Making a difference is important to us; it is our purpose.



Section 2 – Critical capabilities

We have several critical capabilities which have enabled us to sustainably outperform other P&C insurers in Canada. These critical capabilities are described in the table below.



Critical capabilities	Outperformance
Scale advantage	• Our large database of customer and claims information enables us to identify trends in claims and more accurately model the risk of each policy. • We can negotiate preferred terms with suppliers, including service and quality guarantees for repairs and workmanship, and lower material costs.
Sophisticated pricing and underwriting	• Our superior underwriting expertise and proprietary segmentation models are used to price risks which allow us to identify certain segments of the market that are more profitable than others and in turn establish a model that will both attract new clients and maintain existing clients with profitable profiles.
In-house claims expertise	• Substantially all of our claims are handled in house, which translates to claims settled faster and at a lower cost, with a more consistent service experience created for the customer.
Broker relationships	• We have more than 2,000 relationships across Canada for customers that prefer the highly-personalized and community-based service that an insurance broker provides. • We provide our brokers with a variety of services including technology, sales training and financing to enable them to continue to grow and expand their businesses.
Multi-channel distribution	• Our multi-channel distribution strategy includes broker and direct-to-consumer brands. This strategy maximizes growth in the market and enables us to appeal to different customer preferences while being more responsive to consumer trends.
Proven acquisition strategy	• We are a proven industry consolidator with 15 successful acquisitions since 1988. • Our primary strategy is to pursue consolidation in the Canadian market and expansion in foreign markets where we can deploy our expertise in pricing, underwriting, claims management and multi-channel management. With these acquisitions, we look to expand our product offering and improve customer experience. • Our outperformance is driven by three key factors: thorough due diligence to assess all the risks and opportunities; swift and effective integration with seamless impact to our customers; and financial benefit from significant synergies due to our scale.
Tailored investment management	• In-house management provides greater flexibility in support of our insurance operations at competitive costs. In establishing our asset allocation, we consider a variety of factors including prospective risk and return of various asset classes, the duration of claim obligations, the risk of underwriting activities and the capital supporting our business. • Our primary investment objective is to maximize after-tax total return via appropriate asset allocation and active management of investment strategies.

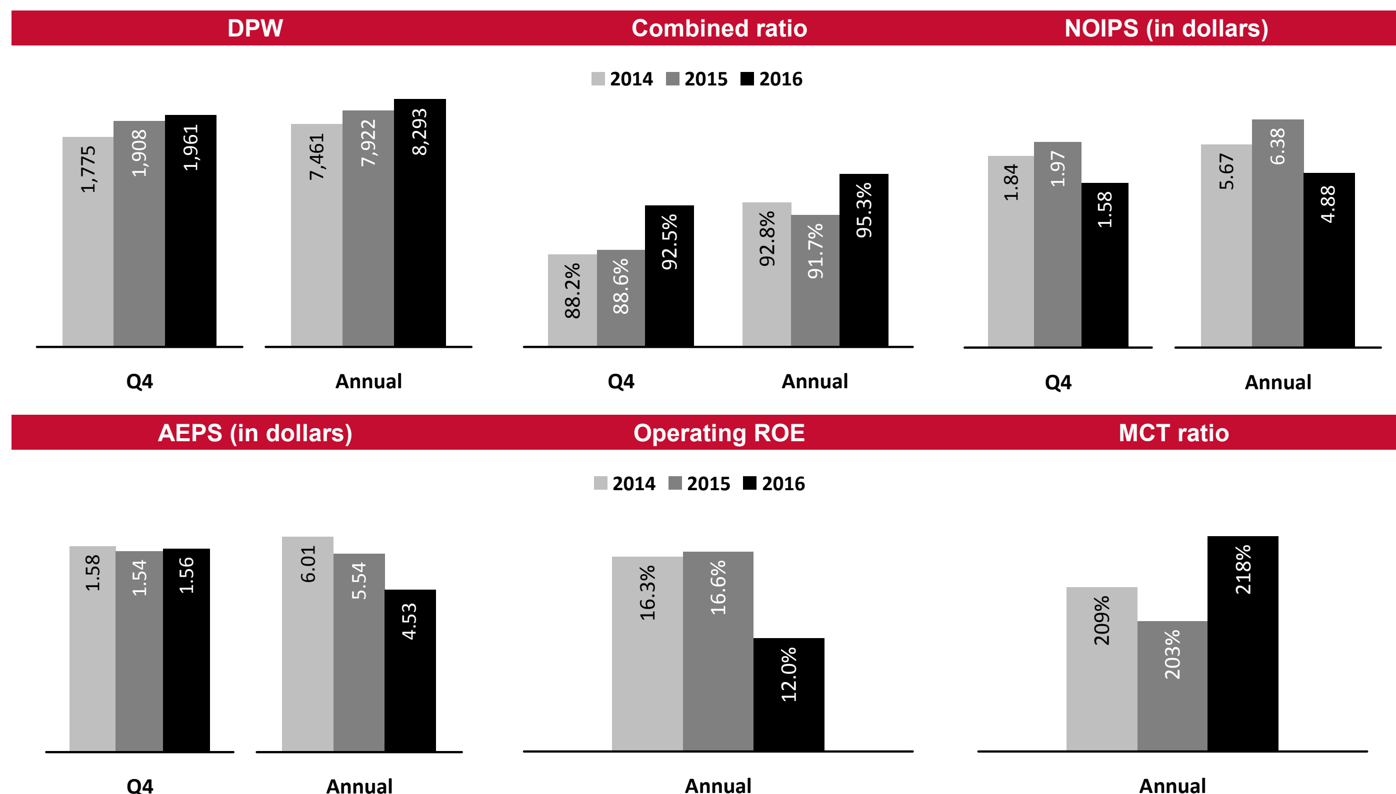
PERFORMANCE

Section 3 – Our performance at a glance

2016 Highlights

Growth	Combined ratio	OROE	MCT	BVPS
+5%	95.3%	12.0%	218%	+7%

- Net operating income per share of $1.58 for Q4-2016 and $4.88 for the full year
- Q4-2016 combined ratio of 92.5% from strong property lines performance, offset by weaker results in personal auto from weather-related frequency and industry pools
- Premiums grew 3% in the quarter and a robust 5% for the full year
- Operating ROE of 12.0% despite $385 million in pre-tax catastrophe losses and total excess capital of $970 million at year end
- Book value per share grew 7% year-over-year
- Quarterly dividend increase of 10% to $0.64 per share



Section 4 – Consolidated performance

4.1 Consolidated performance

Table 1 – Consolidated performance[1]

	Q4-2016	Q4-2015	Change	2016	2015	Change
DPW	**1,961**	1,908	3%	**8,293**	7,922	5%
Personal auto	**829**	808	3%	**3,792**	3,591	6%
Personal property	**486**	452	7%	**2,030**	1,864	9%
Commercial P&C	**466**	480	(3)%	**1,768**	1,796	(2)%
Commercial auto	**180**	168	8%	**703**	671	5%
NEP	**2,043**	1,948	5%	**7,946**	7,535	5%
Operating income						
Underwriting income	**153**	221	(68)	**375**	628	(253)
Net investment income	**104**	110	(6)	**414**	424	(10)
Finance costs	**(18)**	(16)	(2)	**(72)**	(64)	(8)
Distribution income, net	**24**	22	2	**111**	104	7
Other income (expense)[2]	**13**	3	10	**10**	(1)	11
Pre-tax operating income	**276**	340	(64)	**838**	1,091	(253)
NOI	**212**	265	(53)	**660**	860	(200)
Effective income tax rate	**23.7%**	17.8%	5.9 pts	**21.1%**	19.3%	1.8 pts
Net income	**171**	198	(27)	**541**	706	(165)
Combined ratio	**92.5%**	88.6%	3.9 pts	**95.3%**	91.7%	3.6 pts
Per share measures, basic and diluted (in dollars)						
NOIPS	**1.58**	1.97	(20)%	**4.88**	6.38	(24)%
EPS	**1.27**	1.46	(13)%	**3.97**	5.20	(24)%
Return on equity for the last 12 months						
OROE	**12.0%**	16.6%	(4.6) pts			
ROE	**9.6%**	13.4%	(3.8) pts			
BVPS (in dollars) ***(see Section 27.5)***	**42.72**	39.83	7%			
Total excess capital	**970**	625	345			
MCT	**218%**	203%	15.0 pts			
Debt-to-capital ratio	**18.6%**	16.6%	2.0 pts			

[1] Refer to Section 23 – *Non-IFRS financial measures*.
[2] Tends to fluctuate from quarter to quarter.

Table 2 – Combined ratio by line of business

	Q4-2016	Q4-2015	Change	2016	2015	Change
Personal lines	**92.2%**	88.9%	3.3 pts	**96.9%**	92.3%	4.6 pts
Personal auto	**100.9%**	96.9%	4.0 pts	**99.9%**	95.4%	4.5 pts
Personal property	**75.6%**	72.7%	2.9 pts	**90.9%**	85.9%	5.0 pts
Commercial lines	**93.2%**	88.0%	5.2 pts	**91.5%**	90.3%	1.2 pts
Commercial P&C	**89.4%**	80.1%	9.3 pts	**90.2%**	86.8%	3.4 pts
Commercial auto	**101.9%**	107.9%	(6.0) pts	**94.6%**	99.0%	(4.4) pts

Management's Discussion and Analysis for the year ended December 31, 2016

(in millions of dollars, except as otherwise noted)

	Q4-2016 vs Q4-2015	2016 vs 2015
DPW growth	• **Premiums grew by 3%,** despite recently implemented profitability actions in all lines of business. Rate increases impacted growth in personal auto, while commercial P&C was impacted by profitability actions and continued difficult conditions in Western Canada. Personal property and commercial auto saw strong growth in the quarter.	• **On an annual basis, solid premium growth of 5%,** mainly organic, as customers responded positively to new products, improved digital experiences, as well as distribution and branding initiatives. Growth was particularly strong in personal lines, while commercial lines encountered difficult conditions in Western Canada.
Underwriting performance	• We delivered a **combined ratio of 92.5%** with strong results in property lines and weaker results in auto lines. • **Personal auto's** combined ratio of 100.9% was mainly impacted by weather-driven claims frequency, losses from industry pools and lower PYD. We are continuing to improve results through rate increases and tighter underwriting rules. • **Personal property** delivered another very strong performance with a combined ratio of 75.6% thanks to ongoing profitability measures. • **Commercial P&C** also delivered a solid combined ratio of 89.4% due to our profitability initiatives. The 9.3 points deterioration over last year's very strong results was due to higher CATs and large losses. • **Commercial auto** had a challenging quarter, with a combined ratio of 101.9%. The 6.0 point improvement was driven by a better underlying performance and lower variable commissions, offset by unfavourable PYD.	• We delivered a solid **combined ratio of 95.3**% in 2016, after absorbing losses from the costliest natural disaster in Canadian history and facing challenges in auto lines. Our discipline, over time, has led to strong performances in property lines, despite the impact of elevated CAT losses. • **Personal auto's** combined ratio deteriorated by 4.5 points to 99.9%, mainly due to lower favourable PYD and claims cost inflation, while rate increases were not yet fully earned. • **Personal property's** combined ratio was very strong at 90.9%, after absorbing 11.6 points of CAT losses. More importantly, on an annual basis, we outperformed our target to operate at a combined ratio of 95% or better even with elevated CATs, a strong proof point that profitability actions have been effective over time. • **Commercial P&C** also had a very strong underlying performance for the year with a combined ratio of 90.2%, despite absorbing higher CAT losses including the Fort McMurray wildfires. • **Commercial auto's** annual combined ratio of 94.6% improved substantially from last year as we rolled out our profitability actions. We continue to implement our action plan to drive a combined ratio sustainably in the low 90s.
Net Investment income	• **On a quarterly and annual basis, investment income decreased slightly**, as expected, as the low rate environment outweighed the positive impact of higher invested assets.	
Distribution income, net	• **Up $2 million to $24 million**, due to growth in our broker network, offset in part by lower variable commissions.	• **Up $7 million to $111 million**, due to growth in our broker network and improved profitability.
NOIPS	• **NOIPS down 20% to $1.58**, reflecting challenges in personal auto, as well as higher large losses and higher CATs.	• **NOIPS down $1.50 to $4.88** on higher CAT losses, including the Fort McMurray wildfires and severe summer storms.
Net income	• **Down 14% to $171 million,** substantially due to the decrease in underwriting income.	• **Down $165 million to $541 million**, mainly due to the impact of elevated CAT losses, with Fort McMurray wildfires accounting for $128 million, as well as mark-to-market losses on FVTPL bonds.

OROE was at 12.0%, after absorbing elevated CAT losses including severe storms and the Fort McMurray wildfires**. BVPS increased 7%** from a year ago to $42.72. **Debt-to-capital ratio at December 31, 2016 was 18.6%**. **MCT was at 218% with total excess capital of $970 million**.

Section 5 – Underwriting performance

Table 3 – Consolidated underwriting results[1]

	Q4-2016	Q4-2015	Change	2016	2015	Change
NEP, before reinstatement premiums	**2,045**	1,948	97	**7,975**	7,533	442
Reinstatement premiums recovery (ceded)	**(2)**	-	(2)	**(29)**	2	(31)
NEP, as reported	**2,043**	1,948	5%	**7,946**	7,535	5%
Net claims:						
Current year claims (excluding CAT claims)	**1,313**	1,196	117	**5,165**	4,976	189
Current year CAT claims	**34**	2	32	**385**	116	269
PYD (favourable)	**(62)**	(75)	13	**(389)**	(477)	88
Total net claims	**1,285**	1,123	162	**5,161**	4,615	546
Commissions, premium taxes and general expenses	**605**	604	1	**2,410**	2,292	118
Underwriting income	**153**	221	(68)	**375**	628	(253)
Underwriting ratios						
Underlying current year loss ratio	**64.2%**	61.4%	2.8 pts	**64.8%**	66.1%	(1.3) pts
CAT loss ratio[2]	**1.8%**	-	1.8 pts	**5.0%**	1.5%	3.5 pts
PYD ratio (favourable)	**(3.1)%**	(3.8)%	0.7 pts	**(4.9)%**	(6.3)%	1.4 pts
Claims ratio	**62.9%**	57.6%	5.3 pts	**64.9%**	61.3%	3.6 pts
Expense ratio	**29.6%**	31.0%	(1.4) pts	**30.4%**	30.4%	-
Combined ratio	**92.5%**	88.6%	3.9 pts	**95.3%**	91.7%	3.6 pts

[1] Refer to Section 23 – *Non-IFRS financial measures*. Underlying current year loss ratio is calculated using NEP before reinstatement premiums.
[2] CAT loss ratio includes current year CAT claims and the impact of reinstatement premiums.

Table 4 – Components of expense ratio

	Q4-2016	Q4-2015	Change	2016	2015	Change
Commissions	**15.6%**	16.3%	(0.7) pts	**16.3%**	16.3%	-
General expenses	**10.3%**	11.2%	(0.9) pts	**10.5%**	10.6%	(0.1) pts
Premium taxes	**3.7%**	3.5%	0.2 pts	**3.6%**	3.5%	0.1 pts
Expense ratio	**29.6%**	31.0%	(1.4) pts	**30.4%**	30.4%	-

Q4-2016 vs Q4-2015

- **Underlying current year loss ratio increased by 2.8 points** from higher weather-related claims frequency and the negative impact of industry pools in personal auto, as well as fire-related losses in Commercial P&C. The benefits of profitability actions partly mitigated this deterioration.
- **CAT losses of $34 million** mainly attributable to rain storms including the remnants of hurricane Matthew in the Atlantic. Last year was exceptionally low in terms of CAT losses.
- **Favourable PYD ratio of 3.1%,** comparable to prior year and in line with long-term expectations.
- **Expense ratio improved by 1.4 points** due to lower general expenses and variable commissions. General expenses were lower as a result of cost saving initiatives introduced in Q4-2016, with further benefits expected in 2017.
- **Strong performances in property lines led to a combined ratio of 92.5%,** despite early winter conditions and challenges in personal auto.

2016 vs 2015

- **Underlying current year loss ratio improved 1.3 points overall,** owing to successful results of profitability actions in property lines.
- **Elevated CAT loss ratio of 5.0%** largely attributable to the Fort McMurray wildfires and severe summer storms across Canada, compared to unusually low CAT losses last year.
- **Favourable PYD ratio of 4.9%** was lower than last year's elevated level but remained consistent with long-term historical levels.
- **Solid combined ratio of 95.3%**, after absorbing losses from the Fort McMurray wildfires and severe storms across Canada, **demonstrating the resilience of our operations.**

5.1 Personal auto

Table 5 – Underwriting results for personal auto

	Q4-2016	Q4-2015	Change	2016	2015	Change
DPW	**829**	808	3%	**3,792**	3,591	6%
Written insured risks (in thousands)	**928**	899	3%	**4,358**	4,159	5%
NEP	**942**	909	4%	**3,704**	3,508	6%
Underwriting income (loss)	**(9)**	28	(132)%	**5**	161	(97)%
Underlying current year loss ratio	**78.5%**	73.9%	4.6 pts	**76.5%**	75.4%	1.1 pts
CAT loss ratio (including reinst. premiums)	**0.4%**	0.4%	-	**2.0%**	1.1%	0.9 pts
PYD ratio (favourable)	**(1.4)%**	(3.3)%	1.9 pts	**(3.1)%**	(6.1)%	3.0 pts
Claims ratio	**77.5%**	71.0%	6.5 pts	**75.4%**	70.4%	5.0 pts
Expense ratio	**23.4%**	25.9%	(2.5) pts	**24.5%**	25.0%	(0.5) pts
Combined ratio	**100.9%**	96.9%	4.0 pts	**99.9%**	95.4%	4.5 pts

Q4-2016 vs Q4-2015

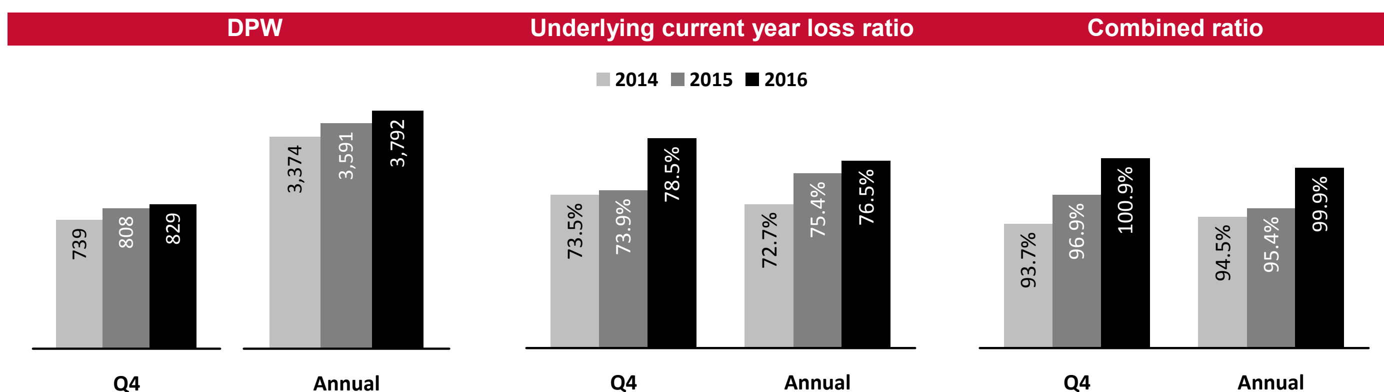
- **DPW growth of 3%** reflects a combination of recently implemented rate actions and our growth initiatives.
- **Underlying current year loss ratio of 78.5% deteriorated 4.6 points**, due to higher weather-related claims frequency and industry pool losses. Rate actions have been implemented but were not yet fully earned.
- **Favourable PYD ratio of 1.4%** deteriorated from last year's 3.3%, driven in part by losses from industry pools.
- **Industry pools** were impacted by deteriorating trends across the country, affecting both current year and prior year results.
- **Expense ratio improved by 2.5 points to 23.4%** due to lower variable commissions and general expenses.

2016 vs 2015

- **Solid growth of 6%** due to initiatives such as our telematics offer, improved digital experiences, and distribution and branding initiatives. Growth included one point from the acquisition of Canadian Direct Insurance ("CDI").
- **Underlying current year loss ratio deteriorated slightly to 76.5%** due to cost inflation in a flat rate environment, offset in part by the benefits of our claims actions.
- **CAT loss ratio of 2.0%** was mainly attributable to the severe summer storms across Canada.
- **Favourable PYD ratio at 3.1%** reflected less favourable development from industry pools and declined from last year's unusually high level.
- While **industry pools** had minimal impact on underlying underwriting results from a full year perspective, they led to a slight deterioration in PYD as last year's results were more favourable than usual.

- **The combined ratio was 100.9% in the quarter and 99.9% in the full year.** The underperformance in this line has led to corrective measures. Given the current rate momentum, claims actions, tighter risk selection and additional benefits from recently implemented reforms, we expect a meaningful improvement within the next 12 months.

Also see Section 11.4 – *Industry pools* for more details.



5.2 Personal property

Table 6 – Underwriting results for personal property

	Q4-2016	Q4-2015	Change	2016	2015	Change
DPW	**486**	452	7%	**2,030**	1,864	9%
Written insured risks (in thousands)	**562**	547	3%	**2,393**	2,294	4%
NEP	**494**	453	9%	**1,880**	1,736	8%
Underwriting income	**120**	123	(2)%	**170**	244	(30)%
Underlying current year loss ratio	**39.9%**	41.6%	(1.7) pts	**48.9%**	53.5%	(4.6) pts
CAT loss ratio (including reinst. premiums)	**2.6%**	-	2.6 pts	**11.6%**	2.3%	9.3 pts
PYD ratio (favourable)	**(2.8)%**	(2.8)%	-	**(4.7)%**	(4.0)%	(0.7) pts
Claims ratio	**39.7%**	38.8%	0.9 pts	**55.8%**	51.8%	4.0 pts
Expense ratio	**35.9%**	33.9%	2.0 pts	**35.1%**	34.1%	1.0 pts
Combined ratio	**75.6%**	72.7%	2.9 pts	**90.9%**	85.9%	5.0 pts

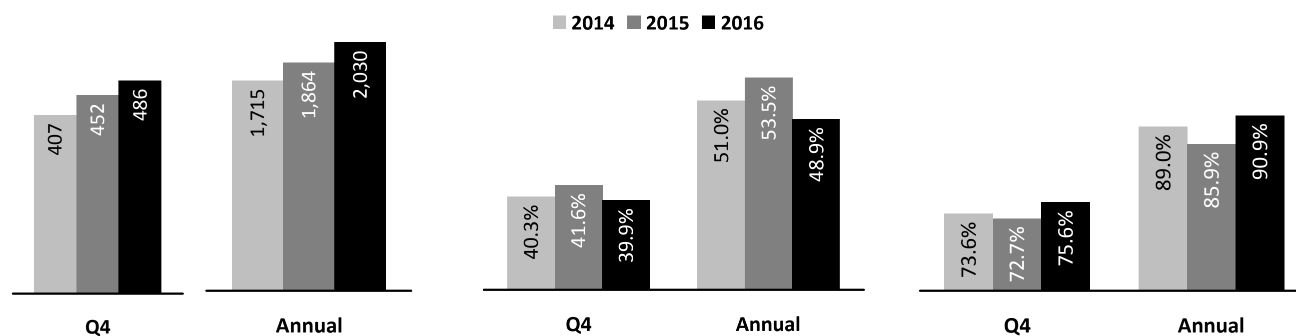
Q4-2016 vs Q4-2015

- **DPW grew at a solid 7%** in continued favourable market conditions, driven by new product offerings, distribution and branding initiatives, as well as rate increases.
- **Underlying current year loss ratio was very strong at 39.9%,** an improvement of 1.7 points, mainly driven by the effectiveness of profitability actions.
- **CAT loss ratio of 2.6% is in line with expectations** and included losses from rain storms and the remnants of hurricane Matthew. Last year's CAT losses were unusually low.
- **Favourable PYD ratio at 2.8%** remained healthy and in line with last year and expectations.
- **Expense ratio deteriorated 2.0 points,** mainly due to a reallocation of variable commissions to this line of business in Q4-2016.

2016 vs 2015

- **Strong growth of 9% for the year**, as growth initiatives and rate increases were deployed in favourable market conditions. Growth included one point from the acquisition of CDI.
- **Underlying current year loss ratio was very strong at 48.9%,** having improved meaningfully on the effectiveness of profitability actions and our efforts to adapt our products to changing weather patterns.
- Industry record-breaking CAT losses, including the Fort McMurray wildfires and severe storms across Canada drove a **CAT loss ratio of 11.6%**.
- **Favourable PYD ratio contributed 4.7 points**, slightly better than last year but in line with historical levels.
- **Expense ratio deteriorated 1.0 point** mainly due to higher variable commissions.

- **The combined ratio was very strong at 75.6% in the quarter,** a testament to the continued effectiveness of profitability actions. For the **full year, the combined ratio was very strong at 90.9%,** after absorbing losses from the Fort McMurray wildfires and severe storms across Canada, **meeting our target to operate at 95% or better** even with elevated CAT losses.



5.3 Commercial P&C

Table 7 – Underwriting results for commercial P&C

	Q4-2016	Q4-2015	Change	2016	2015	Change
DPW	**466**	480	(3)%	**1,768**	1,796	(2)%
Written insured risks (in thousands)	**107**	109	(2)%	**445**	443	-
NEP	**419**	418	-	**1,657**	1,640	1%
Underwriting income	**45**	83	(46)%	**162**	216	(25)%
Underlying current year loss ratio	**57.5%**	49.5%	8.0 pts	**56.0%**	58.1%	(2.1) pts
CAT loss ratio (including reinst. premiums)	**4.0%**	(0.7)%	4.7 pts	**6.1%**	2.0%	4.1 pts
PYD ratio (favourable)	**(10.1)%**	(8.1)%	(2.0) pts	**(11.0)%**	(12.2)%	1.2 pts
Claims ratio	**51.4%**	40.7%	10.7 pts	**51.1%**	47.9%	3.2 pts
Expense ratio	**38.0%**	39.4%	(1.4) pts	**39.1%**	38.9%	0.2 pts
Combined ratio	**89.4%**	80.1%	9.3 pts	**90.2%**	86.8%	3.4 pts

Q4-2016 vs Q4-2015

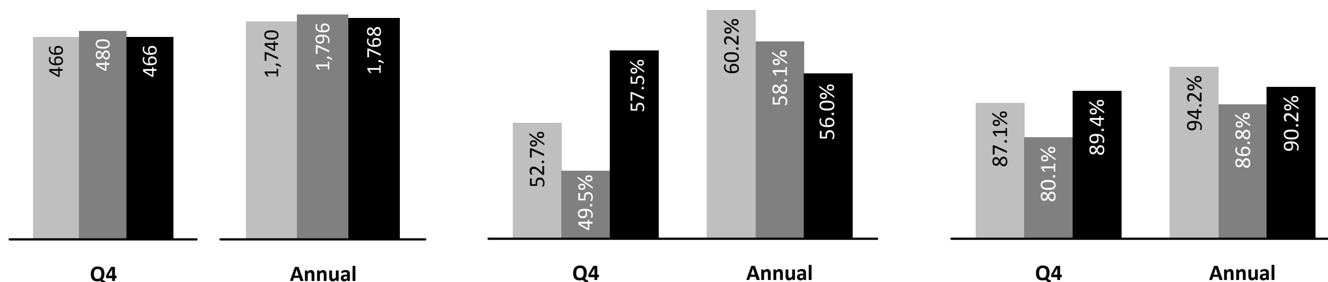
- **Decrease in DPW of 3%** reflecting difficult economic conditions in Western Canada and segmented rate increases deployed in competitive markets.
- **Underlying current year loss ratio was very strong at 57.5%,** despite a deterioration of 8.0 points mainly due to fire-related losses.
- **CAT loss ratio of 4.0%** mainly due to a large fire, compared to none last year.
- **PYD ratio was 2.0 points better** mainly due to favourable PYD on large losses.
- **Expense ratio improved by 1.4 points**, mainly on lower general expenses.

2016 vs 2015

- **DPW declined 2%** mainly due to difficult conditions in Western Canada and the impact of profitability initiatives.
- **Very strong underlying current year loss ratio of 56.0%,** improved 2.1 points, driven by our profitability actions.
- **CAT loss ratio of 6.1%**, a deterioration of 4.1 points mainly attributable to the Fort McMurray wildfires.
- **Favourable PYD ratio at 11.0% was strong,** but consistent with historical average.

- **We delivered another solid performance with combined ratios of 89.4% in the quarter and 90.2% in the full year**, despite elevated CAT losses, thanks to the effectiveness of profitability actions. We continue our actions to ensure these results are sustainable over the long term.

DPW | **Underlying current year loss ratio** | **Combined ratio**



5.4 Commercial auto

Table 8 – Underwriting results for commercial auto

	Q4-2016	Q4-2015	Change	2016	2015	Change
DPW	**180**	168	8%	**703**	671	5%
Written insured risks (in thousands)	**121**	125	(3)%	**501**	523	(4)%
NEP	**188**	168	12%	**705**	651	8%
Underwriting income (loss)	**(3)**	(13)	77%	**38**	7	443%
Underlying current year loss ratio	**72.2%**	77.4%	(5.2) pts	**66.4%**	69.5%	(3.1) pts
CAT loss ratio (including reinst. premiums)	**0.5%**	0.1%	0.4 pts	**1.1%**	0.6%	0.5 pts
PYD ratio unfavourable (favourable)	**3.6%**	1.1%	2.5 pts	**(0.4)%**	0.7%	(1.1) pts
Claims ratio	**76.3%**	78.6%	(2.3) pts	**67.1%**	70.8%	(3.7) pts
Expense ratio	**25.6%**	29.3%	(3.7) pts	**27.5%**	28.2%	(0.7) pts
Combined ratio	**101.9%**	107.9%	(6.0) pts	**94.6%**	99.0%	(4.4) pts

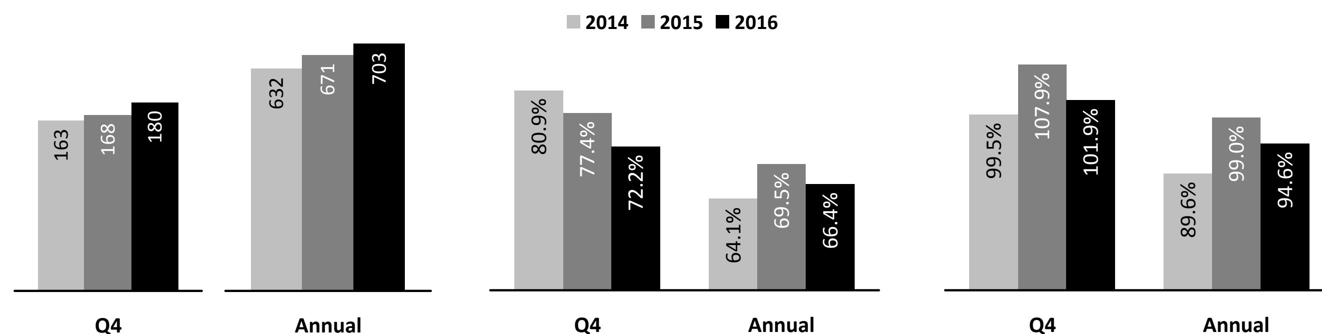
Q4-2016 vs Q4-2015

- **DPW grew 8%**, driven by the introduction of innovative products for the sharing economy, offset in part by profitability measures.
- **Underlying current year loss ratio of 72.2% improved by 5.2 points,** mainly driven by lower large losses and the impact of profitability actions.
- **Unfavourable PYD ratio was 2.5 points worse** largely on the adverse development of large losses.
- **Expense ratio improved 3.7 points,** mainly due to a reallocation of variable commissions by line of business in Q4-2016.

2016 vs 2015

- **DPW grew 5%**, driven by the launch of innovative products, offset by profitability actions and difficult conditions in Western Canada.
- **Underlying current year loss ratio improved 3.1 points to 66.4%,** mainly due to profitability actions and lower large losses.
- **CAT losses of 1.1%** caused mainly by severe summer storms.
- **Favourable PYD ratio of 0.4%** improved 1.1 points from last year's unfavourable level.

- **While performance was unsatisfactory in the quarter at a combined ratio of 101.9%, our full year results improved by 4.4 points to 94.6%,** as we continued to implement our remediation plan. The improvement in the underlying current year loss ratio suggests that our measures, including higher rates, improved risk selection and tighter underwriting rules, are generating results.



Section 6 – Investment performance

6.1 Investment policy

Our investment policy and long-term asset mix reflect our objectives to maximize after-tax returns and outperform the P&C industry investment returns over the long-term while ensuring policyholder protection and maintaining strong regulatory capital levels. We manage our investment portfolio and seek to achieve these objectives via appropriate asset allocation and active management of investment strategies. Our objective is to minimize the potential for large investment losses by maintaining diversification through limits on our investment exposures. Such limits are specified in our investment policy and are designed to be consistent with our overall risk tolerance. Management monitors and ensures compliance with our investment policy.

6.2 Net investment income

Table 9 – Net investment income

	Q4-2016	Q4-2015	Change	2016	2015	Change
Interest income	**66**	70	(4)	**265**	281	(16)
Dividend income	**47**	48	(1)	**184**	179	5
Investment income, before expenses	**113**	118	(5)	**449**	460	(11)
Expenses	**(9)**	(8)	(1)	**(35)**	(36)	1
Net investment income	**104**	110	(6)	**414**	424	(10)
Average net investments[1]	**13,819**	13,067	6%	**13,396**	12,974	3%
Market-based yield[2]	**3.27%**	3.62%		**3.36%**	3.55%	

[1] Defined as the mid-month average fair value of net equity and fixed-income securities held during the reporting period.

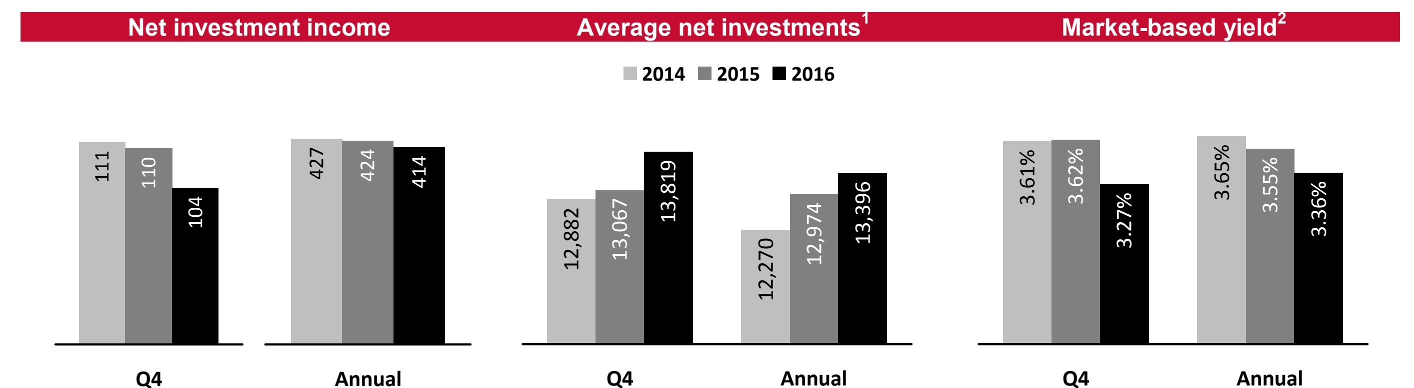
[2] Refer to Section 23 – *Non-IFRS financial measures*.

Q4-2016 vs Q4-2015

- **Net investment income of $104 million** was down $6 million, mainly driven by the impact of lower bond yields, partly compensated by higher invested assets.
- Average net investments of **$13.8 billion increased by 6%**, due to cash flows provided by operating activities and higher equity markets.

2016 vs 2015

- **Net investment income of $414 million was lower by $10 million.** The $16 million decline in interest income reflects the low yield environment, and was partly mitigated by a $5 million increase in dividend income resulting from more preferred shares.
- Average net investments of **$13.4 billion increased by 3%,** mainly due to cash flows provided by operating and financing activities.



6.3 Net investment losses

Net investment gains (losses) are reported in non-operating results and include the following items.

Table 10 – Net investment losses

	Q4-2016	Q4-2015	Change	2016	2015	Change
Fixed-income strategies						
Realized and unrealized gains (losses)	**(120)**	(17)	(103)	**(104)**	(7)	(97)
Equity strategies						
Realized and unrealized gains (losses) on:[1]						
Equity securities, net of derivatives	**37**	(8)	45	**66**	4	62
Embedded derivatives	**(8)**	(7)	(1)	**(13)**	38	(51)
Net foreign currency gains (losses)	**4**	4	-	**21**	19	2
Impairment losses on:						
Common shares	**(4)**	(44)	40	**(41)**	(124)	83
Preferred shares	**-**	-	-	**-**	(38)	38
	29	(55)	84	**33**	(101)	134
Other gains (losses) [2]	**(6)**	-	(6)	**(1)**	44	(45)
Net investment losses	**(97)**	(72)	(25)	**(72)**	(64)	(8)

[1] Excluding foreign currency impact.

[2] Including net gains on investments in associates and joint ventures related to a change of control.

Refer to Note 23 – *Net investment losses* to the accompanying Consolidated financial statements for more details on the components of investment gains and losses. Realized and unrealized gains (losses) on fixed-income strategies include mark-to-market gains (losses) on our FVTPL bonds which are generally offset by gains (losses) arising from the changes in the discount rate for our claims liabilities (referred to as MYA). See further details in Section 24 - *Non-operating results*.

We own perpetual preferred shares with embedded call option derivatives which give the issuer the right to redeem the shares at a particular price. These embedded derivatives are marked-to-market through net income, while changes in value of our AFS preferred shares flow through OCI. When preferred share prices increase, the value of these written options also increases, generating a mark-to-market loss. Conversely, when preferred prices decline, the value of these derivatives also falls, resulting in a mark-to-market gain.

Our U.S. fixed-income portfolio is hedged using foreign-currency forward contracts, resulting in minimal currency gains or losses on the U.S. fixed-income portfolio.

The mark-to-market of investments is fully reflected in BVPS. As a result, impairment losses have no impact on BVPS. Unrealized gains and losses on AFS investments are recognized in OCI during the year and reported in AOCI until the securities are sold or impaired (see Table 21 – *Net pre-tax unrealized gain (loss) on AFS securities*).

Q4-2016 vs Q4-2015

- **Net investment losses amounted to $97 million in Q4-2016.** Higher sovereign rates led to mark-to-market losses of $118 million on our FVTPL bond portfolio, which were mostly offset by a positive impact from MYA of $87 million (see Section 24- *Non-operating results*). Additionally, these losses were mitigated by gains realized from ordinary trading activities on our AFS equity portfolios, reflecting the rebound in equity markets in 2016.
- **As a comparison, net investment losses of $72 million in Q4-2015** were mainly due to high impairment losses resulting from the significant decline in equity markets, particularly the energy and materials sectors.

2016 vs 2015

- **Net investment losses totalled $72 million in 2016.** These losses were mainly driven by mark-to-market losses on our FVTPL bond portfolio resulting from higher sovereign interest rates, as well as impairment charges incurred in the first half of the year principally on energy stocks. These losses were partly offset by gains on our equity securities, reflecting higher equity markets and realized currency gains of $21 million arising on the sale of U.S. equities.
- **As a comparison, net investment losses of $64 million in 2015** were driven by impairment losses on our equities, reflecting the weakness in energy and materials sectors. These were offset by gains on broker transactions and mark-to-market gains on our embedded derivatives.

Section 7 – Distribution

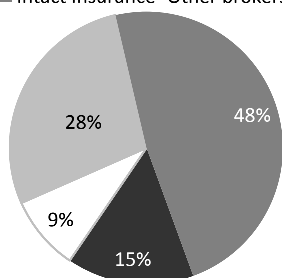
7.1 Overview of our distribution strategy

Our multi-channel distribution strategy includes broker and direct-to-consumer brands. This strategy maximizes growth in the market, and enables us to appeal to different customer preferences and to be more responsive to consumer trends. Our strategy at a glance:

We offer our customers a **multitude of options** to contact us: online, on the phone or in person.	With two strong brands, our customers have coverage options: via our broker network with **Intact Insurance,** or with us directly via **belairdirect.**	We have a **large network** of brokerages, including our wholly-owned subsidiary, **Brokerlink,** which operates in Ontario and Alberta.	We're joining our **expertise** with **other strong brands** (National Bank of Canada and Sun Life Financial) to connect with new customers.

DPW by distribution channel

- Belairdirect (Direct-to-consumer)
- Brokerlink
- Intact insurance- Affiliated brokers [1]
- Intact Insurance- Other brokers



[1]**Affiliated brokers** are either those in which we hold an equity investment or provide financing.

Our broker channel

- Our scale and financial strength makes us a strong ally for our broker partners in terms of brand, technology, products and expertise, business opportunities, as well as financial solutions.
- We continue to invest in our broker network (through equity investment or financing) to develop broker relationships. Through these relationships, we are able to contribute to their ongoing growth, participate in the consolidation within the broker network, and enhance our product distribution.

Our direct-to consumer channel

- Our direct-to-consumer strategy is to be the digital leader with a national cost-efficient platform which provides a simplified customer experience that is second to none.
- We continue to seek opportunities to expand our reach and find innovative solutions to make it easy for our customers to protect the things they care about, with the objective of doubling our direct-to-consumer business in the mid-term.

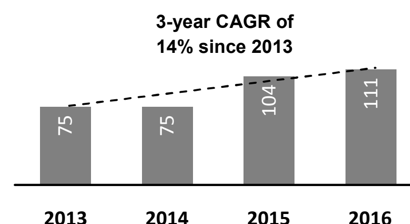
7.2 Net distribution income

In 2016, net distribution income increased by 7% to $111 million, despite challenges from industry-wide elevated CATs and challenges in personal auto, due to:

- Continued growth in our network, thanks to over half a billion dollars of net investments in brokerages made in the last 5 years.
- Improved overall profitability combined with synergies, as our brokers generated an operating margin close to 30%.

As we continue investing in our network and improving profitability, we expect distribution income to grow in the future.

Net distribution income



In *Table 11* below, we have presented distribution EBITA (earnings before interest, taxes, amortization and integration costs). This presentation enhances the comparability of our broker channel performance with the industry.

Table 11 – Distribution EBITA, reconciliation to Net distribution income

	Q4-2016	Q4-2015	Change	2016	2015	Change
Net distribution income, as currently reported	**24**	22	2	**111**	104	7
Adjustments to report broker associates on an operating basis						
Add: Income taxes	**3**	3	-	**13**	12	1
Add: Interest expense	**2**	2	-	**10**	7	3
Distribution EBITA	**29**	27	2	**134**	123	11

STRATEGY AND OUTLOOK

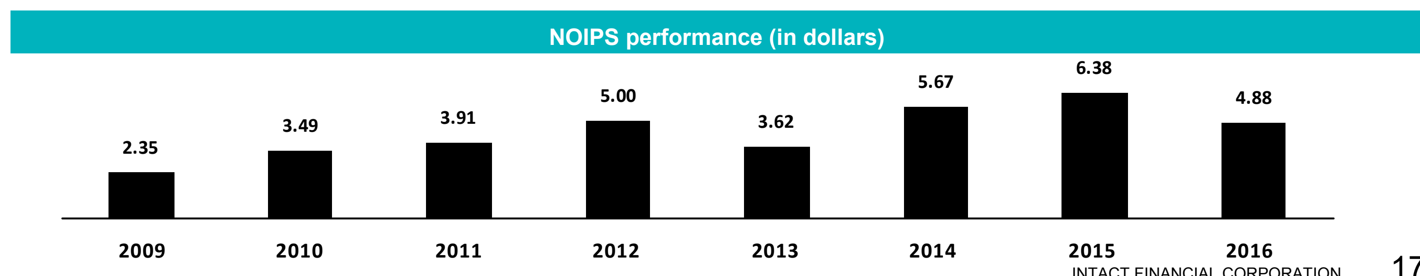
Section 8 – What we are aiming to achieve

We are committed to offering our customers an outstanding experience that goes beyond their expectations and providing best-in-class service to our brokers. We are customer driven, invest in our people and strive to be one of the most respected companies in Canada.

	Our customers are our **advocates**	Our employees are **engaged**	Our company is **the most respected** insurance provider in Canada
Our objectives	• **One million advocates**	• **Be one of Canada's best employers**	• **Outperform industry ROE by at least 500 basis points every year** • **Grow NOIPS at a yearly rate of 10% over time**
Our strategy	• Be easy to deal with and go beyond expectations to deliver a customer experience that is second to none • Be the recognized leader in small and mid-sized businesses and specialty lines through service, expertise and product • Build best in class digital distribution and service platforms • Enhance distribution capabilities by leveraging scale in sales and technology	• Build the best insurance team to succeed now and in the future • Create a workplace where we live our values • Invest in the professional development of our people and surround them with inspiring teams	• Deepen our fundamental strengths in pricing, risk selection, claims and investments • Use our scale to bring efficiencies in distribution and claims • Manage capital opportunistically • Consolidate Canadian industry in manufacturing and distribution
Our 2016 achievements	• 972,000 advocates, up 11% from last year • **Belairdirect** received the highest numerical score in the Quebec and Atlantic/Ontario regions in the **J.D Power 2016 Canadian Home Insurance Customer Satisfaction Study**[1]	For the second year in a row: • Recognized as an Aon Best Employer- Canada 2017, Platinum Level • Recognized as one of Canada's Top 100 Employers by Mediacorp Canada Inc.	• Outperformed industry's ROE by 670 basis points in the first nine months of 2016. • Our overall track record remains solid, and we continue to outperform the industry (See Section 12- *Canadian P&C insurance industry*). • Despite the fact that the P&C insurance industry absorbed record-breaking losses from elevated CATs in 2016, our NOIPS of $4.88 represents a three-year CAGR of 10% since 2013 and a five-year CAGR of 5% since 2011.

[1] Based on 7,738 total responses measuring experiences and perceptions of customers, surveyed March- April 2016. Your experiences may vary. Visit jdpower.com.

NOIPS performance (in dollars)



Section 9 – Recent developments

At a glance

Business developments	• We acquired all of the outstanding shares of **InnovAssur** assurances générales inc., ("InnovAssur") that we did not already own. InnovAssur was part of a joint venture previously held with National Bank of Canada. • In October 2016, the **Quebec** government put in place a pilot project for **ride sharing** services provided by Uber. Intact is providing commercial insurance for the pilot project. • On July 5 2016, our wholly-owned subsidiary, **BrokerLink, announced that it had acquired Cornerstone Insurance Brokers Ltd.,** a multi-line, full service brokerage. Through the acquisition, BrokerLink welcomed 90-plus employees and increased its footprint to more than 75 locations in Ontario. • In May 2016, we announced the creation of a new national team dedicated to growing our **specialty solutions business.** We believe this will help accelerate our plan to become the Canadian leader in specialty lines and surety. • In 2016, we invested in **Metromile Inc.** ("Metromile"), a pay-per-mile insurance provider in the U.S. This venture is in line with our long-term strategy to invest and partner with emerging and innovative businesses.
Liquidity and capital resources	• Our NCIB program, which commenced on February 12, 2016, will expire on February 11, 2017. Our Board of Directors has authorized the renewal of the NCIB for a subsequent year, subject to TSX approval. Please see further details regarding our NCIB in Section 27.4 – *NCIB.* • On September 30, 2016, the outstanding Non-cumulative Rate Reset **Class A Shares Series 3** Preferred Shares reset to an annual dividend rate of 3.332% for a five year period. Holders of 1,594,006 of these shares (out of the total of 10,000,000 shares) elected to convert their Series 3 shares into Non-Cumulative Floating Rate **Class A Shares Series 4** Preferred Shares on a one-for-one basis and will instead receive a floating dividend rate. This floating dividend rate will reset every quarter. • On February 25, 2016, we announced an offering of **$250 million of Series 6 unsecured medium term notes,** which was completed on March 1, 2016. Please see further details in Section 15.1 – *Financing and capital structure*.
Innovation	• We recently launched our **Intact Service Centre in Toronto**, the third of our four Intact Service Centres slated to open. Earlier this year, we opened our Ottawa and Calgary Service Centres, and our Montreal location is set to open in 2017. • We recently launched our **Quick Quote for homeowners tool** for belairdirect in Ontario and Quebec. Within minutes, customers can receive a home quote. The streamlined and simplified 15 question process represents a 66% reduction in the number of questions. • In September 2016, we reached an important milestone – **1,000,000 quick quotes**! Consumers are looking for speed and convenience, and quick quote delivers this with a five-fold reduction in questions needed to generate their auto insurance quote, from 60 questions down to just 12. • In 2016, we launched several new products, including our **Enhanced Water Damage Package** in our personal property line, as well as our new commercial solution for Unmanned Air Vehicles (UAVs), typically referred to as **drones**.

At a glance

Awards and recognitions

- We were recognized as an **Aon Best Employer – Canada 2017, Platinum level,** recognizing IFC for its strong level of employee engagement, leadership, performance culture and employment brand.
- We were recognized as **one of Canada's Top Employers for Young People by Mediacorp Canada Inc. for 2017**, recognizing employers that offer the nation's best workplaces and programs for young people starting their careers.
- In December 2016, we were awarded the **CPA Canada Award of Excellence in electronic disclosure**, as well as an **Honourable Mention in financial reporting**.
- In November 2016, we were recognized by **The Globe and Mail's Report on Business Board Games** corporate governance index in 2016, placing **second** among 231 companies and trusts in the S&P/TSX Composite Index. Board Games assesses the quality of governance practices based on factors related to board composition, compensation, shareholder rights and disclosure.

Section 10 – Intact Ventures

10.1 Mission

Launched in 2016, Intact Ventures Inc. ("Intact Ventures"), is focused on investing and/or partnering with companies that are redefining the P&C insurance landscape with innovative business models and new technology. Building relationships with ground-breaking companies will enable us to accelerate our learning, design smarter products and leverage unique technology.

In return, we will support the growth of these companies by providing them with access to our expertise and talent. We want to ensure that we continue to be a leader in a fast paced industry to serve the best interests of our customers, as well as our portfolio of companies and partners.

10.2 Our goal

Our goal is to connect with companies that are defining:

- The future of transportation;
- How we leverage big data;
- How people interact with their homes, cars and their surroundings;
- Collaborative consumption within the sharing economy; and
- Insurance technology, digital tools and alternative distribution models.

As an organization we're not standing still- we're evolving to meet our current and future customer needs

Our total planned investment envelope is between $200M-$300M

Section 11 – Operating environment

11.1 Weather conditions

At a glance

2016	• From a **Q4 perspective**, while overall precipitation amounts in the East were relatively low compared to normal, there was significant monthly variability. The remnants of hurricane Matthew hit the Eastern Maritimes in October 2016, causing wind gusts over 100 km/h and record levels of rain in certain regions. Western Ontario and Northern Quebec received more snow than usual in December. In addition, an early start to winter brought difficult road conditions to unprepared drivers, which caused an increase in claims counts in personal auto. In most regions, the number of days with significantly elevated claims counts was at the upper end of the normal range. • From an **annual perspective**, according to Catastrophe Indices and Quantification (CatIQ), severe weather and natural disasters including the Fort McMurray wildfires, severe hail and thunderstorms, as well as Hurricane Matthew, caused record-breaking industry losses. • Our 2016 financial results were impacted, with CAT losses exceeding our expectations and historical averages (see Section 11.3 - *Catastrophe losses*).
2015	• In part because of El Niño, winter had a late start throughout the country, resulting in better **Q4-2015** results than 2014, which also experienced benign weather. • Q4-2015 experienced a significantly lower incidence of weather-related claims. • The first half of 2015 was marked by a deep jet stream, which caused warmer than average temperatures in the West and colder than average temperatures in the East. Due to the cold weather in Atlantic Canada, snow accumulated until April, and then quickly melted when spring brought warmer weather and rain. In the West, the warm Pacific ocean temperatures combined with the already warm air initiated the fire season earlier than normal and burned almost twice as much land as the 10-year average. Fortunately, no cities were affected. • Our CAT losses were low for all of 2015, and overall were at their lowest level since 2010.

11.2 Fort McMurray wildfires

On May 3, 2016, wildfires in northern Alberta threatened the town of Fort McMurray, requiring the mandatory evacuation of more than 80,000 occupants. At its height, the fire spanned over 500,000 hectares, resulting in the costliest insured natural disaster in Canadian history according to the July 7, 2016 press release from the Insurance Bureau of Canada ("IBC"), who estimated that total industry insured property damage could reach more than $3.6 billion.

Within hours of the evacuation, we mobilized our claims and catastrophe response teams to many of the evacuation centres throughout Alberta. We provided customers with support and emergency financial assistance as needed, including temporary relocation. Approximately 90% of our customers are now back in their homes; the balance having experienced total losses or significant partial losses to their homes.

While the cost of this CAT before reinsurance was approximately $400 million, the impact on our financial results net of reinsurance was $175 million, before tax, or $128 million, after tax, in line with the estimate provided in Q2-2016. This translates to $0.97 per share, net of reinsurance and taxes.

11.3 Catastrophe losses

The table below presents the historical seasonality of net current year CAT claims. See Section 28.3 – *Seasonality of the P&C insurance business* for more details.

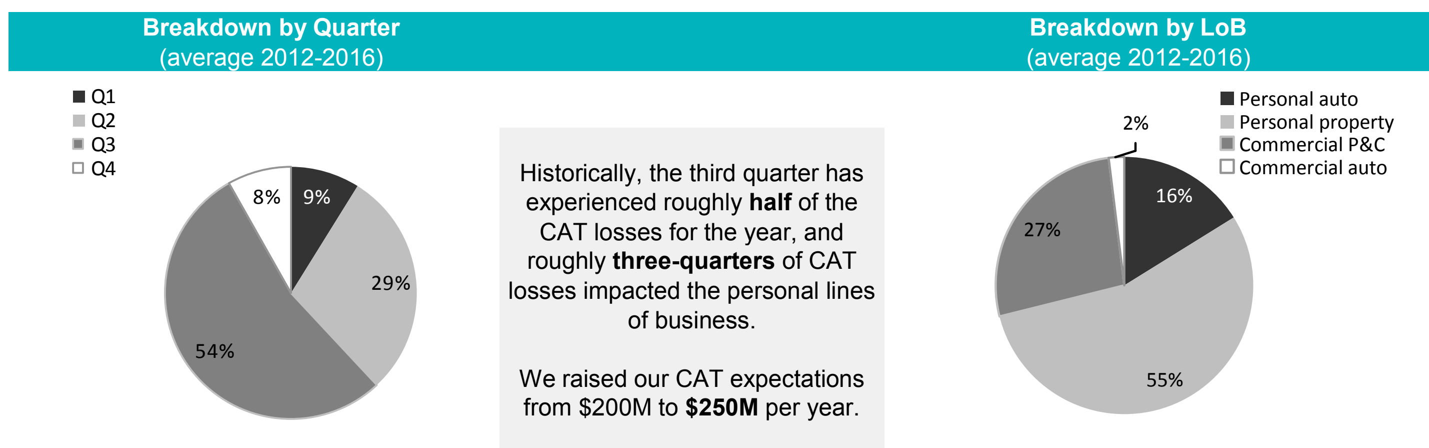
Table 12 – Seasonal historical average of net current year CAT losses by LoB

	2016	2015	2014	2013	2012	Five-year average (in $)	Five-year average (% NEP)
Personal auto	**73**	37	41	44	41	47	0.7%
Personal property	**210**	42	140	271	151	163	2.2%
Commercial P&C	**95**	33	58	167	50	81	1.1%
Commercial auto	**7**	4	4	4	3	4	0.1%
Total	**385**	116	243	486	245	295	
Total % of NEP[1]	**4.8%**	**1.5%**	**3.4%**	**6.9%**	**3.7%**		**4.1%**

Table 13 - Seasonal historical average of net current year CAT losses by quarter

	2016	2015	2014	2013	2012	Five-year average (in $)	Five-year average (% NEP)
Q1	**21**	11	75	18	17	28	0.4%
Q2	**164**	22	33	143	62	85	1.2%
Q3	**166**	81	125	270	150	159	2.2%
Q4	**34**	2	10	55	16	23	0.3%
Total	**385**	116	243	486	245	295	
Total % of NEP[1]	**4.8%**	**1.5%**	**3.4%**	**6.9%**	**3.7%**		**4.1%**

[1] Excluding the impact of reinstatement premiums.



11.4 Industry pools

Industry pools consist of the "residual market" (or Facility Association) as well as risk-sharing pools ("RSP") in Alberta, Ontario, Québec, New Brunswick and Nova Scotia. Insurers can choose to cede risks to the RSP. The risks ceded are aggregated and assumed by the entities in the Canadian P&C insurance industry, generally in proportion to market share. Results for industry pools tend to fluctuate between periods. The impact of assumed industry pools on personal auto underwriting income was a loss of $24 million in Q4-2016, compared to a loss of $6 million in Q4-2015. On a full year basis, the impact was a loss of $48 million in 2016, compared to a loss of $6 million in 2015. The deterioration was mainly explained by unfavourable trends in Ontario, claims cost inflation across the country and an overall increase in claims frequency.

11.5 Capital markets

While the correlation between the performance of capital markets and the performance of our investment portfolio is not perfect, the following market indicators may be useful in understanding the overall performance of our investments.

Table 14 – Selected market indicators

Market Indicators	Q4-2016	Q4-2015	2016	2015
S&P/TSX Composite	**4%**	(2)%	**18%**	(11)%
S&P/TSX Financials	**11%**	1%	**19%**	(6)%
S&P/TSX Energy	**6%**	(3)%	**31%**	(26)%
S&P/TSX Preferred Share Index	**4%**	5%	**1%**	(19)%
5Y Canada Sovereign Index (estimated variance in bps)	**44 bps**	(5) bps	**37 bps**	(55) bps
5Y AA Corporate spread (estimated variance in bps)	**(3) bps**	(2) bps	**(27) bps**	29 bps
Strengthening (weakening) of USD vs CAD	**2%**	4%	**(3)%**	19%

Comments on capital markets performance

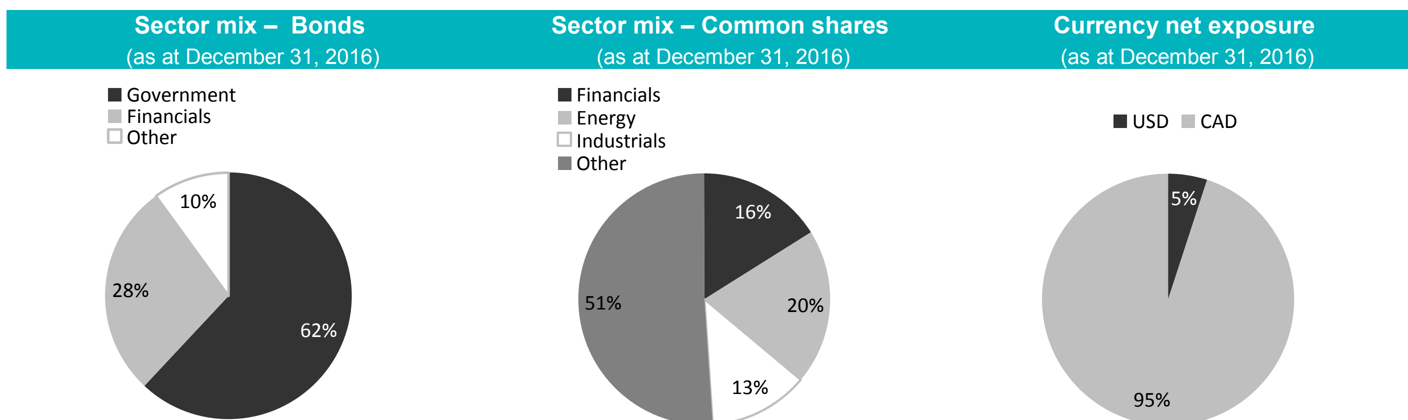
Q4-2016

- The **S&P/TSX Composite Index** rose by 4% in Q4-2016, led by the financial and energy sectors. This translated into an increase in the fair value of our equities, leading to higher gains and favourable OCI development.
- **Five-year Canadian sovereign yields** increased by approximately 40 bps, resulting in lower bond prices, which were reflected in the mark-to-market losses on our FVTPL bonds. This increase in yields also continued to support demand for rate-reset preferred shares, resulting in higher prices and favourable OCI development on our preferred shares portfolio.

FY 2016

- The **S&P/TSX Composite Index** rose by 18% in 2016. Energy and financials increased by 31% and 19% respectively. The impact of higher equity markets is reflected in net investment gains (losses) and in the increase of our net pre-tax unrealized gains on AFS equities. Higher equity markets also led to significantly lower impairment charges than in 2015.
- **Five-year Canadian sovereign yields** increased by approximately 40 bps, resulting in lower bond prices which were reflected in the mark-to-market losses on our FVTPL bonds.

Our net exposure, after reflecting the impact of hedging strategies and financial liabilities related to investments, is outlined below.



Section 12 – Canadian P&C insurance industry

The P&C insurance market in Canada is relatively mature and highly competitive. It is:

Large and highly fragmented

- A $47 billion market representing approximately 3% of GDP, according to MSA Research Inc. data for 2015.
- The top five insurers represent 49% of the market, and the top 20 have a combined market share of 84%. Intact is the largest player with approximately 17% market share.

Evolving and growing over time

- Over the last 30 years, the industry has grown at a 6% CAGR and delivered a ROE of approximately 10%.
- Brokers continue to control commercial lines and a large share of personal lines in Canada. However, the direct-to-consumer channel is growing. Distribution in the industry is currently about 64% through brokers and 36% through the direct/agency channel.
- There has been consolidation in recent years and we expect more to come.

Regulated

- Insurance companies are licensed under insurance legislation in each of the provinces and territories in which they conduct business.
- Home and commercial insurance rates are unregulated, while personal auto rates are regulated in many provinces.
- Capital for federal insurance companies is regulated by OSFI and by provincial authorities in the case of provincial insurance companies.

Table 15 – Most recent Canadian P&C insurance results (estimated)

YTD Q3 2016	IFC	P&C industry	Out performance	Industry Benchmark[1]	Out performance
DPW growth (including industry pools)	**4.4%**	2.0%	2.4 pts	1.4%	3.0 pts
Combined ratio (including MYA)	**97.5%**	103.4%	5.9 pts	103.2%	5.7 pts
ROE (annualized)[2]	**11.4%**	4.7%	6.7 pts	4.7%	6.7 pts

Industry data: IFC estimate based on MSA Research Inc. Please refer to Important notes on page 3 of this MD&A for further information.

[1] Consists of the 20 largest comparable companies in the P&C industry based on industry data, as defined above.

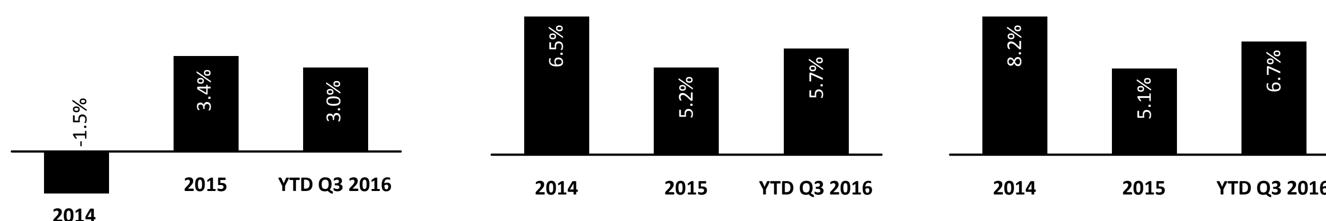
[2] IFC's ROE corresponds to the AROE.

YTD Q3-2016

- **Our growth outperformance against our industry benchmark reached 3.0 points**, largely driven by our growth initiatives and the acquisition of CDI.
- **Our combined ratio outperformance against our industry benchmark was 5.7 points,** an improvement of 0.5 points over FY 2015's gap, mainly due to the impact of our profitability actions and exposure to the Fort McMurray wildfires which was lower than our relative market share.
- **Our ROE outperformance of 6.7 points versus the P&C insurance industry is above our objective of 5 points** and increased from the FY 2015 gap of 5.1 points, mainly on better underwriting results.

DPW Growth | **Combined ratio (including MYA)** | **ROE** [2]

■ IFC's outperformance



Section 13 – Outlook and strategy

We are well-positioned to continue outperforming the P&C insurance industry in the current environment due to our pricing and underwriting discipline, claims management capabilities, as well as our prudent investment and capital management practices.

		Canadian P&C insurance industry 12-month outlook	Our Strategy
Market environment	Personal auto	• Industry profitability has been challenged with an average loss ratio of about 80% for the first nine months of 2016. • In Ontario, we continue to expect additional cost benefits from reforms given the lag between prior rate reductions and the implementation of government cost measures. • Overall, we believe that claims cost inflation is leading to rate increases in all markets. • We therefore expect growth at a low to mid single-digit rate for the industry.	• We have robust pricing and claims action plans to tackle observed emerging trends, which should lead to meaningful improvements in 2017. • We expect that our branding and digital actions in this line of business will continue to help selectively grow our market position.
	Personal property	• As companies are adjusting to changing weather patterns, we expect the current firm market conditions to continue. • We therefore expect growth rate should remain at the mid to upper single-digit level.	• We are enhancing our home improvement plan to ensure the results are sustainable even in severe weather conditions. • To support growth, we continue to focus on addressing customer needs (e.g. Quick Quote home, Lifestyle Advantage™ and an expanded Enhanced Water Damage Package).
	Commercial lines	• These lines of business remain competitive. • The economy in Western Canada continues to pressure industry growth. • We therefore expect growth at a low single-digit rate.	• We continue to develop innovative products to address customer needs (e.g. cyber risk coverage and sharing economy). At the same time, our focus on training and service excellence remains. • We are strengthening capabilities in specialty lines. • We are taking corrective measures in Commercial auto. • We are targeting a combined ratio sustainably in the low 90s through better segmentation, rate increases and product changes.
Capital markets	Investments	• In the current interest rate environment, we estimate that the industry's pre-tax investment yield will continue to decline slightly, given its asset mix and duration.	• We expect a mild reduction in our net investment income over the next 12 months as the low yield environment continues to be challenging.
	Financial strength	• Industry capital levels could be negatively impacted if volatility resulting from global events puts downward pressure on market values. • Global capital requirements are continuing to influence the asset allocation decisions of many companies.	• We maintain a strong financial position to capture growth opportunities as they arise and withstand headwinds from volatile capital markets or natural disasters.
Overall	Overall	• We expect growth at a low to mid single-digit rate. • Overall, we expect the industry's ROE to improve but remain slightly below its long-term average of 10% over the next 12 months.	• We continue to invest in brand, digital strategies, customer experience and distribution networks to generate premium growth. • We expect that our pricing and underwriting discipline, as well as our claims management capabilities will continue to help us outperform the industry.

FINANCIAL CONDITION

Section 14 – Financial position

2016 Highlights

BVPS for the last 12 months	Debt-to-capital ratio	Total excess capital	MCT
7%	18.6%	$970 million	218%

14.1 Balance sheets

Table 16 – Balance sheets

As at December 31,	2016	2015
Assets		
Investments		
Cash, cash equivalents and short-term notes	**273**	351
Fixed-income securities	**8,696**	8,499
Preferred shares	**1,377**	1,235
Common shares	**3,635**	2,971
Loans	**405**	448
Investments	**14,386**	13,504
Premium receivables	**3,057**	2,868
Reinsurance assets	**482**	274
Deferred acquisition costs	**747**	720
Other assets	**1,614**	1,392
Intangible assets and goodwill	**2,705**	2,557
Total assets	**22,991**	21,315
Liabilities		
Claims liabilities	**8,536**	8,094
Unearned premiums	**4,573**	4,390
Financial liabilities related to investments	**529**	378
Other liabilities	**1,872**	1,586
Debt outstanding	**1,393**	1,143
Total liabilities	**16,903**	15,591
Shareholders' equity		
Common shares	**2,082**	2,090
Preferred shares	**489**	489
Contributed surplus	**129**	119
Retained earnings	**3,197**	3,047
AOCI	**191**	(21)
Shareholders' equity	**6,088**	5,724
Book value per share (in dollars)	**42.72**	39.83

14.2 Investments

Our investments totalled $14.4 billion as at December 31, 2016, up $882 million from December 31, 2015. The increase is due to the receipt of investment income and to favourable mark-to-market development driven by higher equity markets. Our investment portfolio is mainly composed of Canadian securities and includes a mix of cash and short-term notes, fixed-income securities, preferred shares, common shares and loans. As a means to provide geographic and sector diversification to our portfolio, we invest in high quality U.S. corporate bonds and U.S. equities.

High-quality investment portfolio

Our investment portfolio includes high quality government and corporate bonds, as well as equity securities of large, publicly-traded, dividend-paying companies.

- Nearly 98% of our fixed-income portfolio is rated 'A-' or better as at December 31, 2016.
- We have no exposure to leveraged securities.
- Our asset-backed securities, all rated 'AAA', totalled $177 million as at December 31, 2016 ($250 million as at December 31, 2015) and included Canadian credit card receivables ($152 million as at December 31, 2016, $230 million as at December 31, 2015) and mortgage-backed securities.
- Our preferred shares portfolio is mainly comprised of Canadian issuers with 79% of our portfolio invested in securities that are highly rated, with at least a 'P2L' credit rating.
- Our common equity exposure is focused on dividend-paying Canadian equities, and is complemented by $616 million in dividend-paying U.S. equities ($584 million as at December 31, 2015). We actively manage our portfolio to enhance dividend income throughout the year.

Table 17 – Credit quality of fixed-income securities and preferred shares

As at December 31,	2016	2015
Fixed-income securities[1]		
AAA	**46%**	50%
AA	**36%**	31%
A	**16%**	18%
BBB	**2%**	1%
	100%	100%
Preferred shares[1]		
P1	**-**	1%
P2	**79%**	81%
P3	**21%**	18%
	100%	100%

[1] Source: S&P, DBRS and Moody's.

As at December 31, 2016, the weighted-average rating of our fixed-income portfolio was 'AA+', unchanged since December 31, 2015, and the average duration of our fixed-income portfolio was 4.02 years (4.04 years, net of interest rate derivatives), similar to the duration of 4.03 years as at December 31, 2015 (4.00 years, net of interest rate derivatives). The weighted-average rating of our preferred share portfolio was 'P2' as at December 31, 2016 and 2015.

Net exposure

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

The following tables show our economic exposure after reflecting the impact of hedging strategies and financial liabilities related to investments.

Table 18 – Investment mix by asset class (net exposure)

As at December 31,	2016	2015
Cash, cash equivalents, and short-term notes	**3%**	4%
Fixed-income strategies	**70%**	71%
Preferred shares	**10%**	9%
Common equity strategies	**14%**	13%
	97%	97%
Loans	**3%**	3%
	100%	100%

The investment mix as at December 31, 2016 is comparable to last year.

Approximately 11% of our fixed-income and 18% of our common share asset portfolios were comprised of USD securities as at December 31, 2016. Foreign currency exposure in USD denominated fixed-income securities is hedged using foreign-currency forward contracts.

Table 19 – Investment portfolio – currency (net exposure)

As at December 31,	2016	2015
CAD	**95%**	95%
USD	**5%**	5%
	100%	100%

Table 20 – Sector mix by asset class, excluding cash, short-term notes and loans (net exposure)

			Common shares		IFC Total	
As at December 31,	Fixed-income securities	Preferred shares	IFC	S&P/TSX Weighting	2016	2015
Government	**62%**	**-**	**-**	**-**	**41%**	40%
Financials	**28%**	**76%**	**16%**	**38%**	**37%**	37%
Energy	**1%**	**13%**	**20%**	**21%**	**5%**	5%
Industrials	**2%**	**-**	**13%**	**9%**	**3%**	3%
Consumer staples	**2%**	**-**	**9%**	**4%**	**3%**	3%
Telecommunication	**-**	**-**	**7%**	**5%**	**1%**	1%
Utilities	**-**	**11%**	**6%**	**3%**	**2%**	3%
Consumer discretionary	**1%**	**-**	**9%**	**5%**	**2%**	2%
Materials	**-**	**-**	**7%**	**12%**	**1%**	1%
Information technology	**2%**	**-**	**9%**	**2%**	**3%**	3%
Health care	**2%**	**-**	**4%**	**1%**	**2%**	2%
	100%	**100%**	**100%**	**100%**	**100%**	100%

Our fixed-income investment portfolio is mainly concentrated in the government and financial sectors in order to provide liquidity and stability to our balance sheet, and our equity portfolio has a focus on dividend-paying Canadian companies.

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

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

Table 21 – Net pre-tax unrealized gain (loss) on AFS securities

As at	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Fixed-income securities	**83**	165	166	140	121
Preferred shares	**(67)**	(117)	(158)	(184)	(111)
Common shares	**253**	210	142	79	(12)
Net pre-tax unrealized gain (loss) position	**269**	258	150	35	(2)

Dec. 31, 2016 vs Sept. 30, 2016	Dec. 31, 2016 vs 2015
• **Our pre-tax unrealized gain position stood at $269 million** as at December 31 2016, up $11 million for the quarter. This increase was driven by common shares and preferred shares, mostly offset by the impact of higher rates on bond prices. See Section 11.5 - *Capital markets* for more details.	• **The favourable development of $271 million** was driven by higher common share prices as equity markets rose significantly in 2016. See Section 11.5 - *Capital markets* for more details.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions, reflecting our investment strategy which is focused primarily on dividend-paying Canadian common equities.

Impairment recognition

The table below presents the aging of unrealized losses on our AFS common shares.

Table 22 – Aging of unrealized losses on AFS common shares

As at	Dec 31, 2016	Sept 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015
Less than 25% below book value	14	19	39	46	96
More than 25% below book value for less than 6 consecutive months	2	3	3	3	31
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	4	-	1	24	44
Unrealized losses on AFS common shares	20	22	43	73	171

The current valuation of preferred shares, particularly those with reset features, reflects, to a large extent, the impact of low interest rates. Our investment strategy is to purchase preferred shares for the purpose of earning dividend income, with the intent of holding them for the long-term. Accordingly, our impairment model for preferred shares is based on credit considerations, not interest rate levels. This is consistent with the treatment of debt securities. Almost all of our preferred shares are now assessed for impairment using a debt impairment model.

Under a debt impairment model, debt securities and preferred shares are impaired only if there is objective evidence of impairment, as a result of one or more loss events (such as bankruptcy or large financial reorganization, reduction or cessation of dividends), occurring after initial recognition, and that loss event has an impact on the estimated future cash flows of the financial asset.

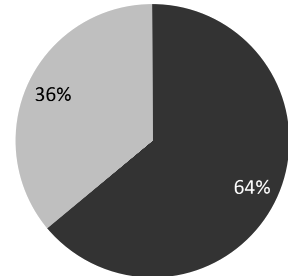
Based on our assessment, we recorded impairment losses on AFS common shares amounting to $4 million in Q4-2016 and $41 million for the year ended December 31, 2016 ($44 million in Q4-2015 and $124 million for the year ended December 31, 2015). Refer to Table 10 – *Net investment losses* for additional details on our impairment losses. Also refer to *Note 2 – Summary of significant accounting policies* of the accompanying Consolidated financial statements for additional details on our accounting policy regarding the impairment of financial assets.

14.3 Claims liabilities and PYD

Claims liabilities amounted to $8.5 billion as at December 31, 2016, having increased slightly from December 31, 2015 due to the impact of the Fort McMurray wildfires and severe storms across Canada.

Direct claims liabilities
(as at December 31, 2016)

■ Personal lines ■ Commercial lines



Assessing claims reserve adequacy

Effectively assessing claims reserve adequacy is a critical skill required to effectively manage any P&C insurance business and is a strong determinant of the long-term viability of the organization.

The principal assumption underlying the claims liability estimates is that our future claims development will follow a similar pattern to past claims development experience. Claims liability estimates are also based on various quantitative and qualitative factors, including:

- Average claim costs, including claim handling costs (severity);
- Average number of claims by accident year (frequency);
- Trends in claims severity and frequency;
- Payment patterns;
- Other factors such as inflation, expected or in-force government pricing and coverage reforms, and level of insurance fraud;
- Discount rate; and
- Provision for adverse deviations ("PfAD").

The total claims reserve is made up of two main elements:

1) reported claims case reserves, and
2) incurred but not reported ("IBNR") reserves.

IBNR reserves supplement the case reserves by taking into account:

- possible claims that have been incurred but not yet reported to us by policyholders;
- expected over/under estimation in case reserves based on historical patterns; and
- other claims adjustment expenses or subrogation amounts not included in the initial case reserve.

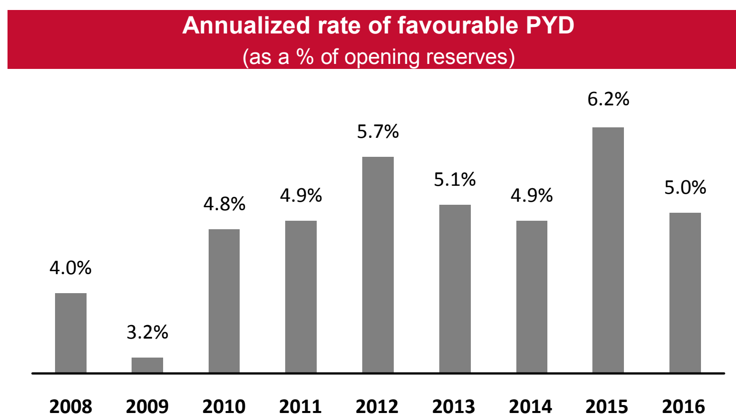
Case reserves and IBNR should be sufficient to cover all expected claims liabilities for events that have already occurred, whether reported or not, taking into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. IBNR and PfAD are reviewed and adjusted at least quarterly.

The discount is applied to the total claims reserve and adjusted on a regular basis for changes in market yields. If market yields rise, the discount would increase and reduce total claims liabilities and, therefore, positively impact underwriting income in that period, all else being equal. If market yields decline, it would have the opposite effect.

See Section 24 – *Non-operating results* for more details on the impact of MYA on underwriting.

Prior year claims development

- Reserve estimates are evaluated quarterly for redundancy or deficiency.
- The evaluation is based on actual payments in full or partial settlement of insurance contracts and current estimates of claims liabilities for claims still open or claims still unreported.
- PYD can fluctuate from quarter to quarter and year to year and, therefore, should be evaluated over longer periods of time.
- The historical rate of favourable PYD as a percentage of opening reserves has been approximately 3% to 5% per year over the long term.



The following table shows the PYD by line of business and the annualized rate of favourable PYD (as a % of opening reserves).

Table 23 – Favourable PYD by line of business

	Q4-2016	Q4-2015	Change	2016	2015	Change
By line of business						
Personal auto	**13**	29	(16)	115	212	(97)
Personal property	**13**	13	-	88	70	18
Commercial P&C	**43**	34	9	183	199	(16)
Commercial auto	**(7)**	(1)	(6)	3	(4)	7
Total favourable (unfavourable) development	**62**	75	(13)	389	477	(88)
Annualized rate of favourable PYD[1]	**3.2%**	3.9%	(0.7) pts	5.0%	6.2%	(1.2) pts

[1] As a % of opening reserves.

Q4-2016 vs Q4-2015

- **Favourable PYD of $62 million**, or 3.2% of opening reserves on an annualized basis, was slightly lower than last year on the unfavourable development of large losses, as well as a negative impact from industry pools.

2016 vs 2015

- **Favourable PYD of $389 million**, or 5.0% of opening reserves, was below the 6.2% recorded in 2015 but in line with the historical average.
- Last year experienced an elevated level of favourable PYD, reflecting a favourable impact from industry pools and prior year CAT losses, as well as an increasing comfort around the effectiveness of certain auto reforms.

14.4 Reinsurance

In the ordinary course of business, we reinsure certain risks with other reinsurers to limit our maximum loss in the event of catastrophe events or other significant losses. Our objectives related to ceded reinsurance are capital protection, reduction in the volatility of results, increase in underwriting capacity and access to the expertise of reinsurers. The placement of ceded reinsurance is done almost exclusively on an excess-of-loss basis (per event or per risk). Ceded reinsurance complies with regulatory guidelines. Furthermore, the reinsurance treaties call for timely reimbursement of ceded losses.

Because of the importance of the catastrophe program in place, a certain level of concentration exists with high-quality reinsurers, but diversification of reinsurers remains a key element and is analyzed and implemented to avoid excessive concentration in a specific reinsurance group. A single catastrophe event such as an earthquake could financially weaken a reinsurer, so distribution of risk is an important reinsurance strategy for us.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers ($388 million as at December 31, 2016, $198 million as at December 31, 2015) are generally unsecured as Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claims liabilities take priority over the reinsurer’s subordinated creditors. We have collateral in place to support amounts receivable and recoverable from unregistered reinsurers.

Reference to our Consolidated financial statements for details on the counterparty risk arising from reinsurance
Note 9.3 c)

Annually, we review and adjust our reinsurance coverage as well as our net retention of risks in order to reflect our current exposures and our capital base. For multi-risk events and catastrophes, the coverage limits are well in excess of the regulatory requirements with respect to the earthquake risk as per our conservative approach.

The following table shows our reinsurance net retention and coverage limits by nature of risk.

Table 24 – Reinsurance net retention and coverage limits by nature of risk

As at	January 1, 2017	December 31, 2016
Single risk events		
Retentions:		
On property policies	**7.5**	7.5
On liability policies	**3 - 10**	3 - 10
Multi-risk events and catastrophes		
Retention	**100**	100
Coverage limits	**3,500**	3,575

Single risk events

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

Multi-risk events and catastrophes

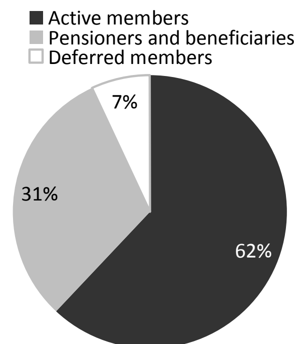
We retain participations averaging 5.1% as at January 1, 2017 (December 31, 2016 – 5.3%) on reinsurance layers between the retention and coverage limits. The 2017 coverage limit will gradually increase from $3.5 billion to $3.6 billion during the year.

The net after-tax impact of a catastrophe that would exhaust our coverage limits as at January 1, 2017 is estimated at 3.5% of our NEP for 2016 (January 1, 2016 – 3.6% of our NEP for 2015).

14.5 Employee future benefit programs

We sponsor a number of funded (registered) and unfunded defined benefit pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life based on final average earnings and contingent upon certain age and service requirements. All employees have a choice between a defined benefit and a defined contribution pension plan.

Defined benefit obligation
(as at the date of the latest actuarial valuation)



Benefit obligations arising from our defined benefit plans are dependent on assumptions, such as the discount rate, life expectancy of pensioners, inflation and rate of compensation increase.

Because of the long-term nature of our pension obligations, movements in discount rates and investment returns could bring volatility in our balance sheet. In recent years, we have taken a multi-faceted approach to ensure the sustainability of our pension plans and gradually reduced the risk and volatility that stems from our pension liabilities and assets, including:

- increasing the target allocation of fixed-income securities to reduce our exposure to market volatility;
- improving our pension asset-liability matching to reduce our interest-rate exposure;
- adding inflation sensitive assets;
- making voluntary contributions to improve the funding status of our pension plans; and
- amending pension plan benefits and conditions.

We realized a positive return on plan assets in 2016. As at December 31, 2016, we have a net surplus of $62 million, or 103%, for funded pension plans, compared to a net surplus of $93 million, or 105%, as at December 31, 2015.

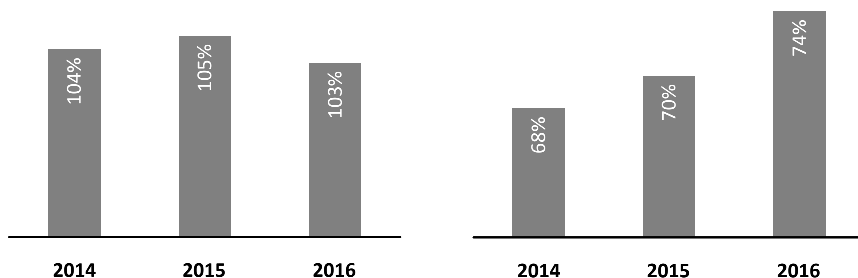
We regularly monitor the risks inherent in our defined benefit pension plans on an asset-liability basis. We continue to evaluate various alternatives to better manage the risk related to these plans.

Reference to our Consolidated financial statements

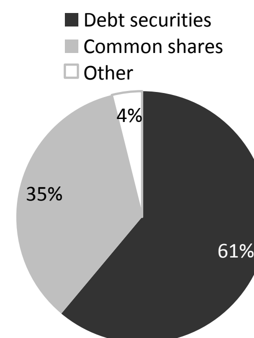
Actuarial gains and losses recognized in OCI	Assumptions used and sensitivity analysis	Risk management and investment strategy
Note 27.5	Note 27.6	Note 27.7

Funding ratio
(as at December 31)

Interest rate hedge ratio
(as at December 31)



Pension plan asset mix
(as at December 31, 2016)



Funding ratio: Plan assets as a percentage of funded plans’ obligations.
Interest rate hedge ratio: The dollar-duration of the pension asset portfolio divided by the dollar-duration of the funded pension plans’ obligation. Our objective is to remain in a modest range around our pension fund investment policy target of 70%, assuming the funding ratio is 100%.

Section 15 – Liquidity and capital resources

15.1 Financing and capital structure

We generate liquidity by collecting and investing premiums in advance of paying claims. We use financing instruments, with a preference for long tenures, to optimize our balance sheet or to support growth initiatives.

2016 Capital structure

Debt-to-capital ratio	Weighted-average debt maturity	Weighted-average debt coupon	Weighted-average preferred share coupon
18.6%	15 years	3.79% (after tax)	3.75% (after tax)

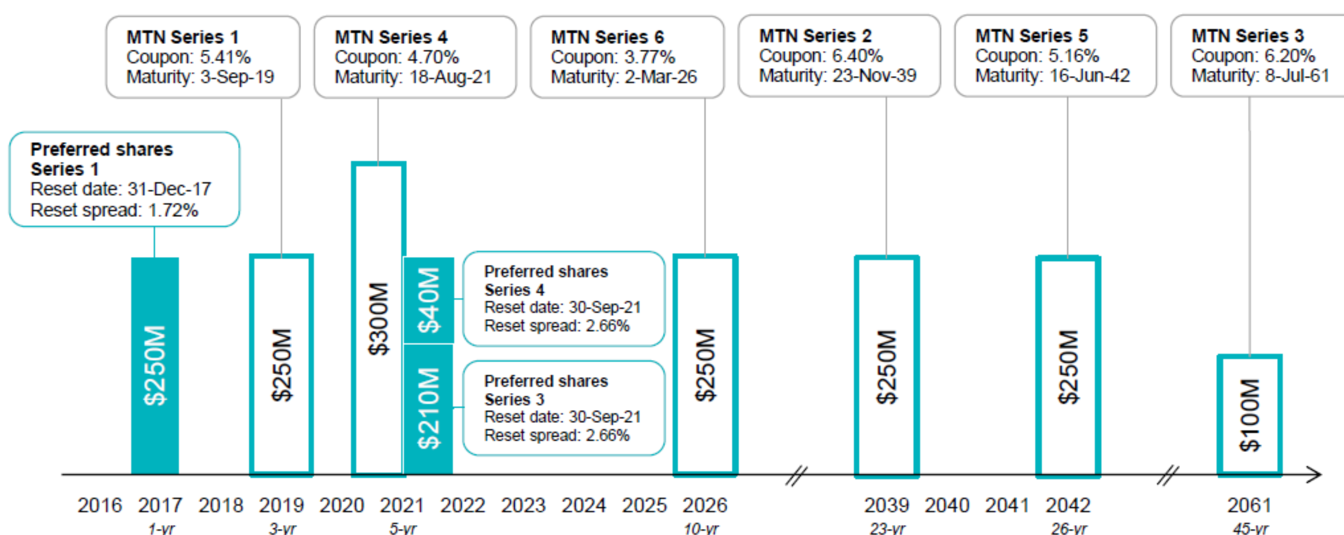
We believe our optimal capital structure is one where the debt-to-capital ratio is up to 20% and we intend to operate at this level on an ongoing basis. We may exceed this level from time to time to capture market opportunities, but with a goal to return to our target within a reasonable time frame. We had a debt-to-capital ratio of 18.6% as at December 31, 2016 (16.6% as at December 31, 2015). The increase reflects the issuance in March 2016 of $250 million of Series 6 medium term unsecured notes, which mature in March 2026. We issued the Series 6 debt for general investment purposes at an attractive all-in cost.

We have a diversified maturity profile with reasonable levels of debt and preferred shares, which improves our overall cost of capital:

- We currently have six series of notes outstanding with maturities ranging between 3 and 45 years.
- The notes carry a weighted average coupon of 5.15% (3.79% after tax).
- All debt tranches are prudent in size with no large peaks, reducing financing risk.
- Preferred shares provide flexibility in our capital structure at a reasonable cost.
- Debt and preferred shares represent less than 30% of our total capital structure.

Our debt and preferred shares are presented in the table below.

Capital structure – debt and preferred shares



Series 6 unsecured medium term notes

- On March 1, 2016, we completed an offering of **$250 million of Series 6 unsecured medium term notes**. These notes bear interest at a fixed annual rate of 3.77% until maturity on March 2, 2026, payable in semi-annual instalments commencing on September 2, 2016. Further to the issuance of the notes, DBRS, Moody's and Fitch have maintained their respective credit ratings.

- As at December 31, 2016, the **amounts available under the base shelf prospectus and medium-term note supplement** filed in September 2015 were $4.75 billion and $950 million, respectively.

Preferred Shares rate reset

- On August 31, 2016, we announced that we did not intend to exercise our right to redeem our Non-cumulative Rate Reset Class A **Series 3 Preferred Shares** on September 30, 2016. See more information regarding our Preferred Shares in Section 27.2 – *Outstanding share data.*

- On December 31, 2017, subject to certain conditions, the holders of the Non-cumulative Rate Reset Class A **Series 1 Preferred Shares** ("Series 1") will have the right to convert their shares into Non-cumulative Floating Rate Class A Shares Series 2 (the "Series 2 Preferred Shares"). In addition, the Company has the option to redeem the Series 1 and Series 2 Preferred Shares on the same dates.

Credit facility

- We have a $300-million unsecured revolving term credit facility, which matures on December 5, 2020. This credit facility may be drawn as prime loans or base rate (Canada) advances at the prime or base rate plus a margin, as well as bankers' acceptances or Libor advances at the bankers' acceptance or Libor rate plus a margin. This facility was undrawn as at December 31, 2016 and 2015.

- As part of the covenants of the loans under the credit facility, we are required to maintain certain financial ratios, which were fully met as at December 31, 2016 and 2015.

Sale and repurchase agreements

- We may, from time to time, enter into sale and repurchase agreements consisting of the sale of securities together with an agreement to repurchase them in the short term, at a set price and date, up to a maximum of 1.5% of invested assets. We did not have any securities sold under sale and repurchase agreements as at December 31, 2016 and 2015.

15.2 Ratings

Independent third party rating agencies assess our insurance subsidiaries' ability to meet their ongoing policyholder obligation ("financial strength rating") and our ability to honour our financial obligations ("issuer credit rating"). Ratings are an important factor in establishing our competitive position in the insurance market, mainly in commercial insurance, and accessing capital markets at competitive pricing levels.

Table 25 – Ratings

	A. M. Best	DBRS	Moody's	Fitch
Financial strength ratings of IFC's principal P&C insurance subsidiaries	A+	AA(low)	A1	AA-
Long-term issuer credit ratings of IFC	a-	A	Baa1	A-

- On October 5, 2016, Moody's reaffirmed the long-term issuer credit rating of IFC and the insurance financial strength ratings of its principal P&C insurance subsidiaries. The outlook remained positive.

- On November 10, 2016, A.M. Best reaffirmed the financial strength ratings and issuer credit ratings of Intact Financial Corporation and its principal P&C subsidiaries. The outlook remained stable.

- DBRS and Fitch have maintained their ratings for long-term issuer and insurance financial strength.

15.3 Understanding our cash flows

Cash inflows from operating activities mainly consist of insurance premiums and investment income. Cash inflows in excess of required outflows are deployed in our investment portfolio to generate additional investment income in the future.

Table 26 – Cash flows

	Q4-2016	Q4-2015	Change	2016	2015	Change
Cash flows from operating activities	**153**	240	(87)	**925**	889	36
Cash flows deployed on:						
Business combinations, net of cash acquired	**(19)**	-	(19)	**(19)**	(187)	168
Equity investments in brokerages and other, net	**(38)**	(7)	(31)	**(275)**	(77)	(198)
Purchases of intangibles and P&E, net	**(30)**	(32)	2	**(120)**	(89)	(31)
Dividends	**(80)**	(75)	(5)	**(324)**	(300)	(24)
Share-based payments in shares	**-**	-	-	**(19)**	(17)	(2)
NCIB *(see Section 27.4)*	**(7)**	-	(7)	**(44)**	-	(44)
Cash flows generated from:						
Issuance of Series 6 medium term notes	**-**	-	-	**248**	-	248
Cash flow available for investment activities[1]	**(21)**	126	(147)	**372**	219	153
Net investment sales (purchases)	**52**	(170)	222	**(345)**	(167)	(178)
Net increase (decrease) in cash and cash equivalents	**31**	(44)	75	27	52	(25)

[1] A non-IFRS financial measure which includes net cash flows from cash and cash equivalents and the investment portfolio.

We continued to invest in our broker network to develop broker relationships. Investing in brokers generates distribution income and supports our long-term growth objective.

15.4 Contractual obligations

The table below presents the expected timing of contractual liquidity requirements as at December 31, 2016.

Table 27 – Contractual obligations

		Payments due by period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	Thereafter
Principal repayment on debt outstanding	**1,393**	-	250	299	844
Interest payments on debt	**1,143**	72	144	113	814
Claims liabilities[1]	**8,237**	3,295	2,043	1,285	1,614
Operating leases on premises and equipment	**786**	157	236	156	237
Pension obligations[2]	**52**	8	16	11	17
Total contractual obligations	**11,611**	3,532	2,689	1,864	3,526

[1] Represents the undiscounted value and includes incurred but not reported reserves.

[2] These amounts represent the annual mandatory funding required by regulators, based on the latest actuarial valuations and expected benefit payments for unfunded plans.

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

Section 16 – Capital management

16.1 Capital management objectives

Our objectives when managing capital consist of:
- maintaining strong regulatory capital levels (see Regulatory capital section below) and ensuring policyholders are well protected; and
- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company.

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

Regulatory capital

We manage regulatory capital on an aggregate basis, as well as individually for each regulated entity. Our federally chartered P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the *Insurance Companies Act,* while our Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the *Act respecting insurance*.

Federal and Québec regulated P&C insurers are required, at a minimum, to maintain an MCT ratio of 100%. OSFI and the AMF have also established an industry-wide supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement. To ensure that there is minimal risk of breaching the supervisory target, we have established a higher internal threshold in our principal insurance subsidiaries in excess of which, under normal circumstances, we will maintain our capital.

Total capital available and total capital required represent amounts applicable to our P&C insurance subsidiaries and are determined in accordance with prescribed OSFI and AMF rules. Total capital available mostly represents total shareholders' equity less specific deductions for disallowed assets including goodwill and intangible assets, net of related deferred tax liabilities. Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. It is further increased by an operational risk margin, based on the overall riskiness of a P&C insurer (its capital required) and its premium volume. Capital required is then reduced by a credit for diversification between investment risk and insurance risk.

MCT Guidelines

MCT guidelines change from time to time and may impact our capital levels. We carefully monitor all changes, actual or proposed. On November 30, 2015, OSFI issued a final 2016 MCT Guideline, which amends regulatory capital requirements. The most significant changes are the addition of capital requirements for equity derivatives and equity instruments sold short, as well as the recognition of equity hedging strategies. The new guidelines came into effect on January 1, 2016 and the impact on our MCT ratios is positive, with the benefit phasing in over a two-year period.

16.2 Capital position

The following table presents the estimated aggregate capital position of our P&C insurance subsidiaries.

Table 28 – Estimated aggregated capital position of our P&C insurance subsidiaries

As at December 31,	December 31, 2016	September 30, 2016	December 31, 2015[1]
Total capital available	**4,300**	4,175	3,840
Total capital required	**1,972**	1,939	1,889
MCT %	**218%**	215%	203%
Excess capital at 100%	**2,328**	2,236	1,951
Excess capital at 150%	**1,342**	1,267	1,007
Excess capital at 170%	**947**	879	629

[1] Comparative figures are presented under the MCT guidelines in effect as at December 31, 2015.

Our estimated aggregate MCT level as at December 31, 2016 was strong at 218%, up by 3 points from September 30, 2016, reflecting our operating profit. The 15-point improvement from December 31, 2015 was mainly due to our operating profit despite the impact of the Fort McMurray wildfires during Q2-2016, to the phase-in benefit of the 2015-2016 MCT guidelines and to our debt issuance in Q1-2016.

Total excess capital includes excess capital, over a 170% MCT, in our P&C insurance subsidiaries and excess capital outside of the P&C insurance subsidiaries. As at December 31, 2016, total excess capital stood at $970 million, up by $89 million from September 30, 2016, which is consistent with the MCT movement mentioned above. The increase of $345 million from December 31, 2015 is also consistent with the improvement in MCT outlined above.

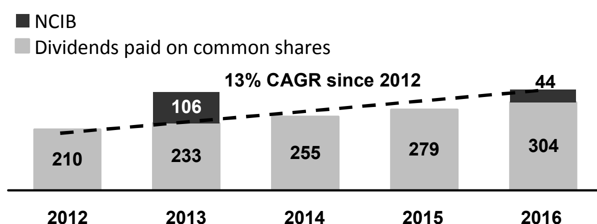
As at December 31, 2016, our P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements, as well as above internal thresholds.

For details on MCT sensitivity, please refer to Section 21- *Sensitivity Analyses.*
For details on our Own Risk and Solvency Assessment, please refer to Section 20.8- *Own Risk and Solvency Assessment.*

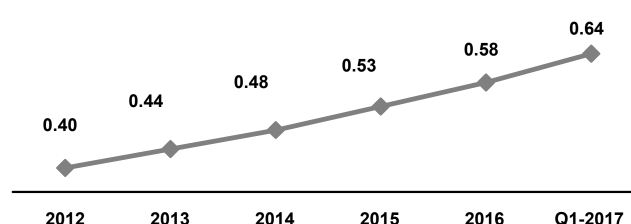
16.3 Capital returned to common shareholders

- Our operating performance and financial strength have translated into $1.4 billion in capital returned to common shareholders through dividends and share repurchases since 2012.
- We strive to maintain our dividend track record through sustainable annual dividend increases. We have increased our common share dividends each year since going public, with a 9% increase in 2016.
- Over the last five years, our dividend payout ratio has been about 40%, both in terms of NOIPS and EPS, and our annualized dividend yield of 2.4% has remained relatively stable reflecting our growth objectives and use of buybacks as a flexible means to return additional capital to shareholders.
- Our decision to increase common share dividends by 10% for 2017 reflects the strength of our financial position and confidence in our ongoing operating earnings and capital generation.

Capital returned to common shareholders
(in millions of dollars)



Quarterly dividend per share for common shares
(in dollars)



RISK MANAGEMENT

Section 17 – Overview

We have a comprehensive risk management framework and internal control procedures designed to manage and monitor various risks in order to protect our business, clients, employees, shareholders, and other stakeholders. Our risk management programs aim at mitigating risks that could materially impair our financial position, accepting risks that contribute to sustainable earnings and growth and disclosing these risks in a full and complete manner.

Effective risk management rests on identifying, understanding and communicating all material risks we are exposed to in the course of our operations. In order to make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of Directors ensures that our management has put appropriate risk management programs in place. The Board of Directors, directly and in particular through its Risk Management Committee oversees our risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the Risk Management Department through the Chief Risk Officer, internal auditors and the independent auditors. A summary of our key risks and the processes for managing and mitigating them is outlined below.

The risks described below and all other information contained in our public documents, including our Consolidated financial statements, should be considered carefully. The risks and uncertainties described below are those we currently believe to be material but they are not the only risks and uncertainties we face. If any of these risks, or any other risks and uncertainties that we have not yet identified, or that we currently consider to be not material, actually occur or become material risks, our business prospects, financial condition, results of operations and cash flows could be materially adversely affected.

While we employ a broad and diversified set of risk mitigation and risk transfer techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes.

Section 18 – Risk management structure

The Board of Directors is responsible for the oversight of risk management to ensure that risks are properly measured, monitored and reported. In this regard, the Board is supported by its Risk Management Committee that covers enterprise wide risks. In addition, we have an internal Enterprise Risk Committee composed of senior executives.

The Board and Committee structures are reviewed periodically to be aligned with best practices, applicable laws and regulatory guidelines on corporate governance. The following structure is in place and remains largely unchanged from 2015.

Board of Directors	Main responsibility is to oversee our management of business and affairs, including our pension funds. In this regard, the Board establishes policies, reporting mechanisms and procedures in view of safeguarding our assets and ensuring our long-term viability, profitability and development.
Risk Management Committee	Primary function is to assist the Board of Directors with its oversight role with respect to our management in order to build a sustainable competitive advantage, by fully integrating the Enterprise Risk Management strategy into all of our business activities, strategic planning and our subsidiaries and operations, including our pension funds.
Compliance Review and Corporate Governance (CRCG) Committee	Responsible for ensuring a high standard of governance, compliance and ethics in our company, including our pension funds. In this regard, the CRCG Committee is responsible for overseeing our governance framework; it is also responsible for overseeing our compliance framework as well as our compliance programs including monitoring of related party transactions ("RPT"), our market conduct programs and policies, as well as the governance framework of our pension plans and the implementation of corporate compliance initiatives.
Human Resources and Compensation Committee	Primary function is to assist the Board of Directors in fulfilling its supervisory responsibilities for strategic oversight of our human capital, including organization effectiveness, succession planning and compensation and the alignment of compensation with our philosophy and programs.
Audit Committee	Responsible for reviewing our financial statements and financial information including our pension funds. The Audit Committee is responsible for overseeing our accounting and financial reporting process and, in this regard, reviews, evaluates and oversees such processes; it is also responsible for evaluating the integrity of our financial statements and for overseeing the quality and integrity of internal controls.
Enterprise Risk Committee	This committee is composed of senior officers and is chaired by the Chief Risk Officer designated by the Board of Directors. It meets regularly and oversees our risk management priorities, assesses the effectiveness of risk management programs, policies and actions of each key function of our business and reports on a quarterly basis to the Risk Management Committee. The Enterprise Risk Committee evaluates our overall risk profile, aiming for a balance between risk, return, and capital, and approves risk policies. The Enterprise Risk Committee is mandated to: (i) identify risks that could materially affect our business; (ii) measure risks both in terms of the impact on financial resources and reputation; (iii) monitor risks; and (iv) manage risk in accordance with the risk appetite statement determined by the Board of Directors. Periodically, this committee may establish sub-committees to review specific subjects in greater detail and report back on its findings and recommendations. This allows the Enterprise Risk Committee to access the expertise throughout our company and to operate more efficiently in addressing key risks.
Other committees	We have other committees responsible for managing, monitoring and reviewing specific aspects of risk related to our operations, investments, profitability, insurance operations, security and business continuity. Further details follow on how these committees operate, ensure compliance with laws and regulations and report to the Enterprise Risk Committee.

Section 19 – Corporate governance and compliance program

We believe that sound corporate governance and compliance monitoring related to legal and regulatory requirements are paramount for maintaining the confidence of different stakeholders including our investors. Legal and regulatory compliance risk arises from non-compliance with the laws, regulations or guidelines applicable to us as well as the risk of loss resulting from non-fulfilment of a contract. We are subject to strict regulatory requirements and detailed monitoring of our operations in all provinces and territories where we conduct business, either directly or through our subsidiaries. Our corporate governance and compliance program is built on the following foundations:

19.1 Corporate governance and compliance program

Corporate governance ensuring compliance with laws and regulatory requirements			
Sound corporate governance standards	**Effective disclosure controls and processes**	**Sound corporate compliance structures and processes**	**Specialized resources independent from operations**
The Board of Directors and its committees are structured in accordance with sound corporate governance standards. Directors are presented with relevant information in all areas of our operations to enable them to effectively oversee our management, business objectives and risks. The Board of Directors and the Audit Committee periodically receive reports on all important litigation, whether in the ordinary course of business where such litigation may have a material adverse effect, or outside the ordinary course of business.	Disclosure controls and processes have been put in place so that relevant information is obtained and communicated to senior management and the Board of Directors to ensure that we meet our disclosure obligations, while protecting the confidentiality of information. A decision-making process through the Disclosure Committee is also in place to facilitate timely and accurate public disclosure.	Effective corporate governance depends on sound corporate compliance structures and processes. We have established an enterprise-wide Compliance Policy and framework including procedures and policies necessary to ensure adherence to laws, regulations and related obligations. Compliance activities include identification, mitigation and monitoring of compliance/reputation risks, as well as communication, education, and activities to promote a culture of compliance and ethical business conduct.	To manage the risks associated with compliance, regulatory, legal and litigation issues, we have specialized resources reporting to the SVP, Corporate and Legal services that remain independent of operations. The SVP, Corporate and Legal services reports to the Board of Directors and its committees on such matters, including with respect to privacy and Ombudsman complaints. We also use third party legal experts and take provisions when deemed necessary or appropriate.

While senior management has ultimate responsibility for compliance, it is a responsibility that each individual employee shares. This is clearly set out in our core Business Values and Code of Conduct and employees sign a confirmation that they have reviewed and complied with them annually.

19.2 Living our values

We strive to create an environment where our employees live our values every day. It is a framework for who we are, how we behave and how we maintain our excellent reputation.

Our values are organized according to five core themes, defined as follows:

Integrity

We demonstrate the highest ethical standards of personal conduct. We behave with honesty, integrity, openness and fairness when working with each other, customers, partners and governments.

Respect

We value the diversity of our people and their dreams. We foster an environment conducive to personal growth and development and to new opportunities. We recognize and value the contribution that each of us and our teams are making to our success.

Customer Driven

We listen to customers, understand their needs, offer the best solutions and deliver on our promises. We make it easy for customers to deal with us. We go beyond expectations and always deliver an outstanding experience.

Excellence

We are disciplined in our approaches and our actions, which is why we excel in all of our businesses. We embrace change and the opportunities it creates, encourage innovative thinking and always seek to improve. We value and reward high performance and success. We provide value to our stakeholders.

Social Responsibility

We respect the environment and its finite resources. We believe in making the communities where we live and work safer, healthier and happier. We encourage the involvement and citizenship of all our employees. Our commitment to social responsibility also serves as the mandate of the Intact Foundation, which donates to organizations that are committed to climate-change adaptation and the improvement of the lives of at-risk youth. A few of 2016 our achievements are highlighted below.

Our 2016 achievements

- The Intact Foundation **contributed $3.5 million** to over 130 organizations across Canada, working to support challenged youth get the critical support they need and to help Canadians protect themselves from the impacts of climate change. **One of our key investments was a $525,000 commitment to the Egale Centre**, a LGBTIQ2S (lesbian, gay, bisexual, trans, intersex, queer, two spirit) emergency and transitional housing facility.
- Our employee generosity achieved new heights in 2016, with **over $1.3 million raised for United Way/Centraide** organizations nationally, an 11% increase from 2015. The Intact Foundation has begun a pilot project to integrate skill based volunteering projects for Intact employees to leverage our wide range of competencies to build the capacity of our charitable partners.
- The Intact Centre on Climate Adaptation completed its inaugural year in 2016, with significant accomplishments: **delivering over 40 presentations to key government stakeholders and influencers** on the economic impacts of climate change adaptation, signing the City of Burlington to deploy the Home Adaptation Assessment Program to 4,000 homes to assess flooding exposure.

Environmental, Social and Governance activities

The following publications on our website provide further details on our ESG activities:

- Online Annual Report
- Annual Information Form
- Management Proxy Circular
- Public Accountability Statement

Section 20 – Enterprise Risk Management

20.1 Mandate

The Enterprise Risk Management strategy is designed to provide an overview of our risks and ensure that appropriate actions are taken to protect our clients, employees, shareholders and other stakeholders.

We have an integrated risk-based approach to significantly increase the effectiveness of the program, ensuring that delegated authorities actions are consistent with the overall strategy and risk appetite. Overall the risk profile and communication must be transparent with the objective of minimizing surprises to internal and external stakeholders on risk management.

Our major risks are separated into four main categories: Strategic Risk, Insurance Risk, Financial Risk and Operational Risk.

20.2 Objectives

- overseeing and objectively challenging the execution of risk management activities;
- identifying, as completely as possible, the most important risks and issues that may affect us;
- monitoring identified risks, major incidents and control weaknesses and reviewing adopted strategies;
- allocating risk ownership and responsibilities;
- gathering early warning information;
- escalating risk management issues and vetoing high risk business activities;
- enforcing compliance with the risk policies;
- disclosing key risks completely and transparently; and
- supporting management in raising risk awareness and insight.

20.3 A shared responsibility

Managing risk is a shared responsibility at Intact. The three lines of defence model is employed to clearly identify the roles and responsibilities of those involved in the risk management process.

20.4 Risk Appetite

How do we manage corporate risk?

From a risk management perspective, our objective is to protect the sustainability of our activities, while delivering on our promises to our stakeholders. To do so, we strive to maintain our financial strength, even in unpredictable environments or under extreme stress. We take a prudent approach to managing risk, and the following principles help us establish the nature and scope of risks we are willing to assume:

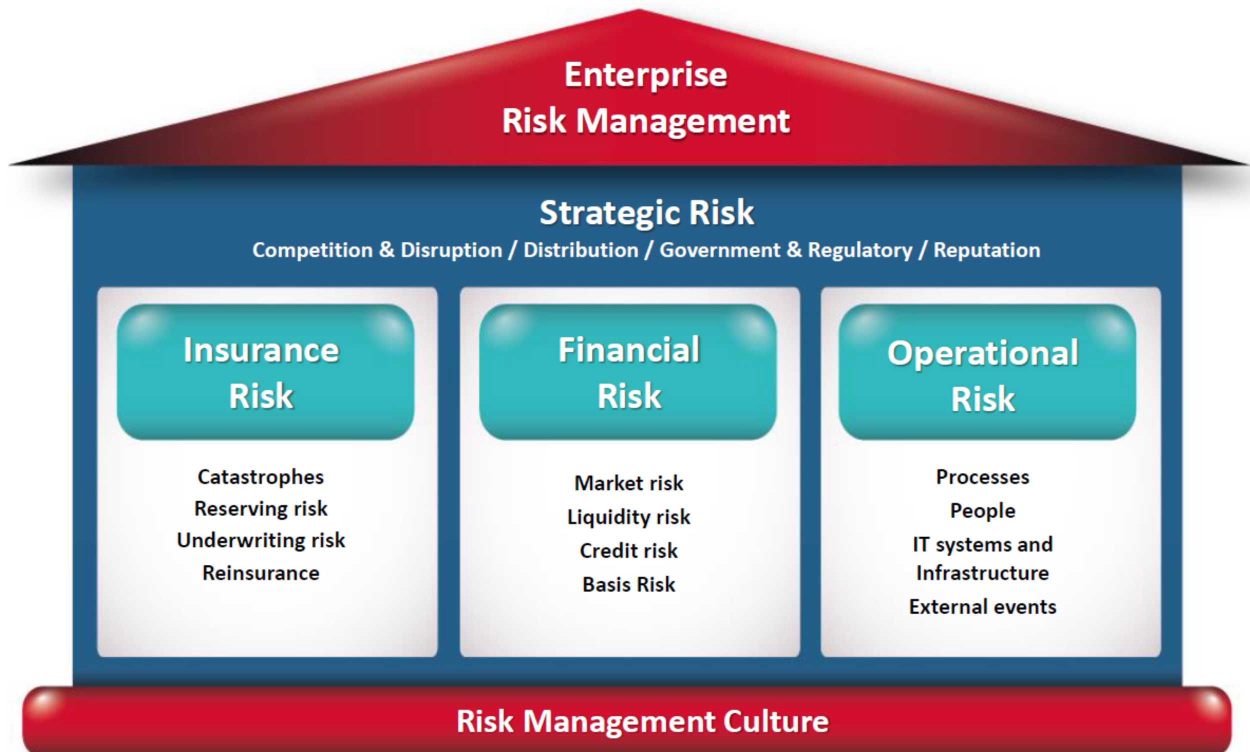
- we focus on our core competencies;
- we keep our overall risk profile in check;
- we protect ourselves against extreme events;
- we promote a strong risk management culture; and
- we maintain our ability to access capital markets at reasonable costs.

Please consult our website for a more detailed discussion of our Risk Appetite under the Corporate Governance section.

20.5 Main risk factors and mitigating actions

Our practice is to regularly identify our top risks, assess the likelihood of occurrence and evaluate the potential impacts should they materialize both in terms of financial resources and reputation. We also consider potential emerging risks that are newly developing or changing risks which are inherently more difficult to quantify.

We then determine mitigation plans and assign accountability for each risk if deemed appropriate given our overall assessment, our risk appetite, and our business objectives.



20.6 Top and emerging risks that may affect future results

Each year the Enterprise Risk Management Committee identifies the top risks that the Company faces. The following section presents the top and emerging risks identified with the most severe potential impact. In assessing the potential impact for each of the top risks, the presence and effectiveness of risk mitigation activities are taken into consideration. Our main risk factors together with our practices used to mitigate these risks are explained below.

TOP AND EMERGING RISKS

Major earthquake in Canada 44
Catastrophe events risk 45
Increased competition and disruption 46
Turbulence in financial markets 47
Reserve and pricing inadequacy 48
Governmental and/or regulatory intervention 49
Failure of a major technology initiative 51
Information technology security failure 51
Inability to contain fraud and/or abuse 52
Customer satisfaction risk 52
Failure of an acquisition 53
The emergence of autonomous vehicles and crash avoidance technology 53

Major earthquake in Canada — Insurance risk

Risk we are facing

The occurrence of a major earthquake in Canada may produce significant damage in large, heavily populated areas.

Potential impact

The occurrence of a major earthquake in Canada could have a significant impact on our profitability and financial condition and that of the entire P&C insurance industry in Canada. Depending on the magnitude of the earthquake, its epicentre, and on the extent of the damages, the losses could be substantial even after significant reinsurance recoveries. There could also be significant additional costs to find the required reinsurance capacity upon further renewals. In addition, we could be subject to increased assessments from the P&C Insurance Compensation Corporation (PACICC) leading to further costs if other insurers are unable to meet their contractual obligations with their clients. Based on our assessment, our exposure to a major earthquake in Western Canada was stable in 2016 versus the prior year.

How we manage this risk

Our risk management strategy consists of regular monitoring of insured value accumulation and concentration of risks. We use earthquake models to help assess our possible losses at various return periods and use reinsurance to transfer a material amount of risk. Consequently, the diversification of risk among an appropriate number of reinsurers is vital for us. See Section 14.4 – *Reinsurance* for more details on our reinsurance program.

In 2016, we completed a comprehensive review of the models we use to evaluate our earthquake exposure. We concluded that the models we use to help us assess our risk are sound. Given the nature of earthquake risk, different models provide different assessments of the same exposure. We continue to maintain a prudent amount of reinsurance that exceeds our risk assessment of an earthquake in Western Canada at a 1-in-500 year return period.

Catastrophe events risk — Insurance risk

Risk we are facing

Climate change is a challenge faced by the entire P&C insurance industry. In particular, our property insurance business has been affected due to changing climate patterns and an increase in the number and cost of claims associated with severe storms and other natural disasters. Water damages now make up more than half of our home insurance claims.

Catastrophe events include natural disasters and unnatural events.

- There are a wide variety of natural disasters including but not limited to hurricanes, wind storms, hailstorms, rainstorms, ice storms, floods, severe winter weather and forest fires.
- Unnatural catastrophe events including but not limited to hostilities, terrorist acts, riots, explosions, crashes and derailments, and wide scale cyber-attacks.

Despite the use of sophisticated models, the incidence and severity of catastrophe events are inherently unpredictable. The extent of losses from a catastrophe event is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophe events are restricted to small geographic areas; however, hurricanes and other storms may produce significant damage in large, heavily populated areas. Catastrophe events can cause losses in a variety of P&C insurance lines.

Potential impact

Claims resulting from natural or unnatural catastrophe events could cause substantial volatility in our financial results and could materially reduce our profitability or harm our financial condition.

Over the last few years, we have witnessed a continued increase in the number and severity of weather events. As mentioned in Section 11.2, the events in Fort McMurray were the costliest natural catastrophe in Canadian history and highlight the risk of wildfire in Canada. Changing weather patterns may have an impact on the likelihood and severity of natural catastophes, such as wildfires. The trend in climate change continues to pose a meaningful risk to our ability to meet our business objectives.

In addition, we began offering cyber risk insurance to our commercial customers in 2015. Although it is unlikely, we may be adversely affected by a large scale cyber-attack that simultaneously compromises the systems of many of our insureds.

How we manage this risk

To address this issue, we have ongoing initiatives including pricing and product changes to reflect new climate realities, regular reviews of claims processes and a greater focus on consumer loss prevention. Many initiatives have been implemented over the last several years including the expanded use of deductibles and sub-limits, and the introduction of depreciation schedules in personal property insurance across Canada. These initiatives should help mitigate, to some extent, P&C insurance losses resulting from water damage and harsh weather.

The Intact Centre on Climate Adaptation at the University of Waterloo is focused on key areas that will reduce climate change and extreme weather risk for home owners, governments and businesses. This is one of several initiatives to promote awareness on the potential impact of climate change to provide practical solutions for society as a whole to implement.

In addition, our reinsurance program offers protection against multi-risk events and catastrophes. See Section 14.4 – *Reinsurance* for more details on our reinsurance program.

To help mitigate the risks associated with our cyber risk insurance product, we focus on small to medium size companies with relatively modest policy limits. In addition, we purchase reinsurance specifically to transfer some of the risk in the event a large scale cyber-attack triggers a high volume of claims.

Increased competition and disruption — Strategic risk

Risk we are facing

The P&C insurance industry is highly competitive and we believe that it will remain so for the foreseeable future.

We believe that competition in our business lines is based on price, service, commission structure, product features, financial strength and scale, ability to pay claims, ratings, reputation and name or brand recognition. We compete with a large number of domestic and foreign insurers as well as with several Canadian banks that are selling insurance products. These firms may use business models different than ours and sell products through various distribution channels, including aggregators, brokers and agents who sell products exclusively for one insurer and directly to the consumer. We compete not only for business and individual customers, employers and other group customers but also for brokers and other distributors of investment and insurance products.

We distribute our products primarily through a network of brokers and a great part of our success depends on the capacity of this network to be competitive against other distributors, including direct insurers and web aggregators, as well as our ability to maintain our business relationships with them. These brokers sell our competitors' insurance products and may stop selling our insurance products altogether. Strong competition exists among insurers for brokers with demonstrated ability to sell insurance products.

Potential impact

Intense competition for our insurance products could harm our ability to maintain or increase our profitability, premium levels and written insured risk volume.

The entrance of a new player in the market or a shift in methods to purchase insurance could challenge our distribution model. The use of information technology in the distribution and pricing of insurance products (e.g. telematics, the use of Big Data, etc.) has increased over the last several years and this trend is expected to continue in the near future. Artificial intelligence is another area that is gaining much attention and could have a material impact on the insurance industry. Competitors may use these technologies more effectively than us or there may be negative reputational consequences arising from our initiatives.

Demutualization and further consolidation in the Canadian P&C industry remains likely which may result in an erosion of our competitive advantage.

The rise of the sharing economy may have a material impact on overall premium volumes in the P&C insurance industry, particularly if there are fewer automobiles in circulation.

The evolution of customer preferences for different distribution channels or alternate business models (e.g. peer-to-peer insurance) could lead to a material decline in our market share. Premium volume and profitability could be materially adversely affected if there is a material decrease in the number of brokers that choose to sell our insurance products. In addition, our strategy of distributing through the direct channel may adversely impact our relationship with brokers who distribute our products.

How we manage this risk

Our multi-channel distribution strategy including the broker channel, direct-to-consumer brands and web platforms, enhances our ability to adapt to evolving conditions in the insurance market. We have established close relationships with our independent distributors by providing them with advanced technology, as well as training to help strengthen their market position. We closely monitor pricing gaps between our various channels and manage the different channels under different brand names including BrokerLink, our wholly-owned broker network.

We also have a number of initiatives that we are pursuing to help mitigate the risk of competition and disruption including:

- Investing significantly in promoting our brands with an increasing focus on using web and mobile technology to reach consumers;
- Launching our own usage-based insurance (UBI) product to better meet customer needs;
- Opening innovative service centres in major Canadian cities to provide an unmatched customer experience; and
- Creating Intact Ventures (see Section 10) to be at the forefront of technological change as it applies to the P&C insurance industry.

We also constantly seek to develop innovative and competitive products. We launched the Intact Lab, our centre for digital excellence, in 2015 to accelerate innovation and explore advanced technology solutions.

Turbulence in financial markets — Financial risk

Risk we are facing

Movements in interest rates, credit spreads, foreign exchange rates and equity prices cause changes in realized and unrealized gains and losses. Generally, our interest and dividend income will be reduced during sustained periods of lower interest rates. During periods of rising interest rates, the fair value of our existing fixed-income securities will generally decrease and our realized gains on fixed-income securities will likely be reduced or result in realized losses. Changes in credit spreads would have similar impacts as those described above for changes in interest rates. Interest rates continued to be persistently low. In this context, purchases of fixed-income securities will likely be at lower yields than several years ago putting downward pressure on investment income. The significant and prolonged decline in oil prices may have an impact on the value of some of our securities or on the level of investment income we are able to generate given that our investment portfolio contains a significant amount of securities issued by companies in the energy sector. In both 2015 and 2016, our preferred share portfolio experienced significant fluctuations in market value as a result of changes in interest rates and credit spreads.

Potential impact

Changes in the market variables mentioned above could adversely affect our investment income and/or the market value of our securities.

In addition to the risk related to investments discussed previously, an economic downturn could have a significant impact on the funded status of our defined benefit pension plans. Consequently, this could impact our financial condition.

General economic conditions, political conditions and many other factors can also adversely affect the equity markets and, consequently, the fair value of the equity securities we own and ultimately affect the timing and level of realized gains or losses.

Our preferred share portfolio may continue to depreciate in value as a result of further negative developments in interest rate and/or credit markets.

How we manage this risk

While our strategy is long-term in nature, it is regularly reviewed to adapt to the investment environment when necessary, especially in times of turbulence and increased volatility.

Periodically, we employ several risk mitigation measures such as changes to our strategic asset mix, hedging of interest rate, foreign exchange, or equity risk and increased holdings in cash. These actions serve to reduce exposures in the investment portfolio and decrease the sensitivity of the MCT ratio to financial market volatility.

Regular stress testing of our investment risk exposures assists management in assessing the overall level of financial risk and helps to ensure that exposures remain within established risk tolerances.

The Company's exposure to financial risk arising from its financial instruments together with the Company's risk management policies and practices used to mitigate it are explained in our Consolidated financial statements. Consult the following sections for more information.

Reference to our Consolidated financial statements

Market risk	Credit risk
Note 9.1	Note 9.3
Basis risk	**Liquidity risk**
Note 9.2	Note 9.4

Reserve and pricing inadequacy — Insurance risk

Risk we are facing

Our success depends upon our ability to accurately assess the risks associated with the insurance policies that we write. We establish reserves to cover our estimated liability for the payment of all losses and loss adjustment expenses ("LAE") incurred with respect to premiums collected or due on the insurance policies that we write. Reserves do not represent an exact calculation of a liability. Rather, reserves are our estimates of what we expect to be the ultimate cost of resolution and administration of claims. These estimates are based upon various factors, including:

- actuarial projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;
- estimates of trends in claims severity and frequency;
- judicial theories of liability;
- variables in claims handling procedures;
- economic factors (such as inflation);
- judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverage or policy exclusions; and
- the level of insurance fraud.

Product design and pricing risk is the risk that the established price is or becomes insufficient to ensure an adequate return for shareholders as compared to our profitability objectives. This risk may be due to an inadequate assessment of market needs, new business context, a poor estimate of the future experience of several factors, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

Potential impact

Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact our ability to accurately assess the risks of the policies that we write. In addition, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer and additional lags between the time of reporting and final settlement of claims.

The following factors may have a substantial impact on our future actual losses and LAE experience:

- amounts of claims payments;
- expenses that we incur in resolving claims;
- legislative and judicial developments; and
- changes in economic variables such as interest rates and/or inflation.

To the extent that actual losses and LAE exceed our expectations and the reserves reflected in our Consolidated financial statements, we will be required to reflect those changes by increasing our reserves. In addition, government regulators could require that we increase our reserves if they determine that our reserves were understated in the past. When we increase reserves, our income before income taxes for the period will decrease by a corresponding amount. In addition, increasing or strengthening reserves causes a reduction in our P&C insurance subsidiaries' capital and could cause a downgrading of the financial strength ratings of our P&C insurance subsidiaries. Any such downgrade could, in turn, adversely affect our ability to sell insurance policies. See Section 14.3 – *Claims liabilities and PYD* for more details on the claims reserve and prior year claims development.

Inadequate pricing may lead to material declines in underwriting income and/or deficient reserves.

How we manage this risk

Establishing an appropriate level of reserves is an inherently uncertain process. We continually refine our reserve estimates in an ongoing process as claims are reported and settled.

Our reserve review committee scrutinizes reserves by business segment, and analyzes trends and variations in losses to ensure that we maintain a sufficient level of claims reserve.

Our profitability committees review the results of each business line and determine if appropriate action is required in terms of product design or pricing to remediate poor underwriting performance.

We have adopted policies which specify our retention limits and risk tolerance and our application depends on training and the discipline of our underwriting teams. Once the retention limits have been reached, we use reinsurance to cover the excess risk. Moreover, our profitability and ability to grow may also be adversely affected by our mandatory participation in the Facility Association and assumed risk-sharing pools in several automobile insurance markets including Ontario, Québec, Alberta, and the Maritimes.

In addition, on an annual basis, our external auditor provides an independent review of our reserves in the context of the audit of the Consolidated financial statements. This review includes establishing their own view of a reasonable range for the estimate.

Governmental and/or regulatory intervention — Strategic Risk

Risk we are facing

Our insurance subsidiaries are subject to regulation and supervision by insurance regulatory authorities of the jurisdictions in which they are incorporated and licensed to conduct business.

These laws and regulations:

- delegate regulatory, supervisory and administrative powers to federal, provincial and territorial insurance commissioners and agencies;
- are generally designed to protect policyholders and creditors, and are related to matters including:
    - requirements on privacy and the protection of personal information;
    - personal auto insurance rate setting;
    - risk-based capital and solvency standards;
    - restrictions on types of investments;
    - maintenance of adequate reserves for unearned premiums and unpaid claims;
    - examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
    - licensing of insurers, agents and brokers;
    - limitations on upstream dividends from operating companies; and
    - transactions with affiliates.
- typically require us to periodically file financial statements and annual reports, prepared on a statutory accounting basis, and other information with insurance regulatory authorities, including information concerning our capital structure, ownership and financial condition including, on an annual basis, the aggregate amount of contingent commissions paid and general business operations.

Regulatory authorities closely monitor the solvency of insurance companies by requiring them to comply with strict solvency standards based on the risk assumed by each company with respect to asset composition, liability composition, and the matching between these two components. We are required to submit regular reports to the regulatory authorities regarding our solvency, and publish our solvency ratio every quarter. Solvency requirements are amended from time to time.

Governmental and/or regulatory intervention (cont'd) — Strategic risk

Potential impact

We believe that our insurance subsidiaries are in material compliance with all applicable regulatory requirements. However, it is not possible to predict the future impact of changing federal, provincial and territorial regulations on our operations. Laws and regulations enacted in the future may be more restrictive than current laws. Overall, our business is heavily regulated and changes in regulation may reduce our profitability and limit our growth prospects.

We could be subject to regulatory actions, sanctions and fines if a regulatory authority believed we had failed to comply with any applicable law or regulation. Any such failure to comply with applicable laws could result in the imposition of significant restrictions on our ability to do business or significant penalties, which could adversely affect our reputation, results of operations and financial condition. In addition, any changes in laws and regulations could materially adversely affect our business, results of operations and financial condition.

We may be subject to governmental or administrative investigations and proceedings in the context of our highly regulated sectors of activity. We cannot predict the outcome of these investigations, proceedings and reviews, and cannot be sure that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect our results of operations and financial condition. In addition, if we were to experience difficulties with our relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on our ability to do business in that jurisdiction and the price of our common shares.

In addition, our written premiums and profitability can be significantly affected by many factors, including:

- developing trends in tort and class action litigation;
- changes in other laws or regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims handling procedures;
- forced reductions in premiums or additional costs imposed by governments that limit our ability to properly price our insurance products;
- modification of tax laws or a change in interpretation to existing tax laws, either retroactively or prospectively; and
- nationalization of one or more of our business lines.

Furthermore, a significant increase in solvency requirements would increase the possibility of regulatory intervention and may reduce our ability to generate attractive returns for shareholders. This may also negatively impact our ability to execute our growth strategy and attain our financial objectives.

How we manage this risk

We are supported by an in-house team of lawyers and staff, and by outside counsel when deemed necessary or appropriate, in handling general regulation and litigation issues and are an active member of the major industry associations.

Our government relations team ensures contact with the governments of the various jurisdictions in which we operate, and can be proactive in situations that could affect our business.

We regularly monitor trends and make adjustments to our strategy and products, when deemed appropriate, to ensure the sustainability of insurance products and to avoid the potential for additional regulation that may negatively impact our reputation, profitability, and financial condition.

To reduce the risk of breaching the regulatory capital requirements, we have established an internal target capital ratio in excess of the supervisory target of 150% in our principal insurance subsidiaries. We operate above our internal target under normal circumstances to reduce the likelihood of regulatory intervention. Our Enterprise Risk Committee regularly review risks related to solvency and conducts stress testing to identify vulnerabilities and possibly areas for remediation. Our capital management policy contains guidelines to help ensure that we maintain adequate capital to withstand adverse event scenarios and has documented procedures to take corrective actions should any unanticipated conditions arise.

In addition, we conducted a full internal solvency assessment as described below in Section 20.8 – *Own Risk and Solvency Assessment (ORSA).*

Failure of a major technology initiative — Operational risk

Risk we are facing

To maintain our performance levels we are required to regularly modernize our systems. Often significant time and investment is required for accomplishing these projects. Any unplanned delays, unforeseen costs, or unsuccessful execution of such projects could lead to a significant decline in service levels, impact employee morale negatively and reduce our competitiveness. There is no assurance that we will succeed in meeting our objectives for these projects.

Potential impact

Our technology strategy may take too long to execute or may not be adequate to maintain a competitive advantage. The complexity and interdependence of our infrastructure and applications may lead to higher costs and more errors. Implementation of new technology may introduce more complexity in the interim prior to simplification after decommissioning older systems.

We could decide to abandon one or more of our technology initiatives resulting in a material write down.

How we manage this risk

Senior management provides careful oversight and ensures that proper funding and resources are allocated to our key projects. Risk assessments are conducted to identify potential areas for remediation or the necessity for additional controls. A dedicated committee was created to ensure proper focus is devoted to major technology projects.

Information technology security failure — Operational risk

Risk we are facing

The use of information technology enables us to increase our productivity, to offer attractive products and interfaces to existing and potential customers, and to distinguish ourselves from the competition by benefiting from a competitive advantage. However, our dependency on technology, network, telephony and critical applications makes our ability to operate and our profitability vulnerable to service interruption, third party agreement failure and information security breaches.

Information security risks for all types of organizations continue to increase. Criminal organizations, hackers, and other external actors have become more active and better equipped to attack even robust systems and networks. In recent years, we witnessed an increase in the number of high profile information security breaches in well-established and sophisticated organizations including financial institutions, government agencies, and other established companies. Our systems and the third parties that provide services to us may be subject to information security breaches. In 2016, there was a significant increase in the number and sophistication of ransomware attacks globally.

Potential impact

Despite our ongoing efforts to secure our systems, cyber risk remains a material risk and we may be the subject of a cyber-attack resulting in system unavailability, data corruption or deletion, or the disclosure of confidential or personal information. Massive denial of service attacks and system intrusion attempts could compromise our ability to operate or we may be unable to safeguard personal and confidential information from public disclosure. Other types of potential attacks we may face include ransomware, data theft or manipulation, and cyber-espionage.

These events may lead to wide ranging consequences including:

- financial loss, which also includes lost productivity, remediation costs, and costs associated with potential legal action;
- regulatory action, which may include regulatory fines and/or increased scrutiny by government; and
- reputational damage such as lost consumer confidence and lower customer retention

How we manage this risk

To ensure the security and resilience of our systems, the safeguard of our confidential information and the integrity of our information and databases, dedicated teams plan, test and execute our continuity and security plans. This includes threat and vulnerability assessments and the implementation of appropriate mitigation actions. Our security teams constantly monitor our systems and are ready to intervene if an incident occurs. To ensure the expected levels of service are delivered by our critical third-party service providers, service level agreements are signed and added to relevant contracts.

We continuously upgrade our applications to better protect our systems and information. We regularly monitor trends in cyber risk to ensure we are able to rapidly mitigate known vulnerabilities.

Our Information Technology Security Committee oversees our security initiatives and ensures effective collaboration across teams. In 2016, we have increased our focus on employee information security awareness and training to enhance our ability to resist cyber-attacks.
In addition, our Enterprise Risk Committee oversees the establishment of our cyber security strategy and monitors the progress of our mitigation action plans.

Inability to contain fraud and/or abuse — Operational risk

Risk we are facing

As a property and casualty insurer, we may be subject to internal or external fraud. Our insureds may exaggerate claims for personal gain. Despite our efforts to control fraud and abuse, our staff, systems, and processes may be unable to accurately detect and prevent internal or external fraud.

Potential impact

Fraud may result in unanticipated losses and a negative impact on our reputation. Our written premiums and profitability can be significantly affected by regulatory regimes which limit our ability to detect and defend against fraudulent claims and fraud rings.

How we manage this risk

We have strong internal controls in place to prevent and detect potential internal fraud. Internal and external audits are performed to verify that the controls are followed.

Fraud detection software is used by our claims teams to detect potential external fraud and flag cases for further investigation.

Government authorities also have an incentive to help reduce fraud in the system and maintain affordable insurance for consumers. Ontario Bill 15 - *Fighting Fraud and Reducing Automobile Insurance Rates Act* is one example of government action that aims to reduce auto insurance fraud.

Customer satisfaction risk — Strategic risk

Risk we are facing

Our insurance products and services are ultimately distributed to individual consumers and businesses. From time to time, unsatisfied customers, consumer advocacy groups or the media may generate negative publicity related to our claims handling or underwriting practices. Untimely or poor handling of such negative publicity may increase the impact of a situation and materially affect our reputation and growth prospects.

In addition, a lack of appropriate focus on customers' needs and wants may threaten our ability to meet customer expectations, resulting in poor customer retention.

Potential impact

Negative publicity resulting from unsatisfied customers may result in increased regulation and legislative scrutiny of practices in the P&C insurance industry as well as increased litigation. Such events may further increase our costs of doing business and adversely affect our profitability by impeding our ability to market our products and services, requiring us to change our products or services or increasing the regulatory burdens under which we operate. The periodic negative publicity of insurance and related businesses may negatively impact our financial results and financial condition.

Social media could amplify the impact of a reputational issue. It could result in further damage to our reputation and impair our future growth prospects.

How we manage this risk

To mitigate these risks, we have established escalation procedures to help ensure that our customers have multiple channels to express any dissatisfaction. This includes a Customer Experience Team and an Ombudsman's Office which both offer the opportunity for customer dissatisfaction to be resolved. In addition, management proactively identifies potential issues and performs an additional review to help ensure that our customers are treated fairly.

The wording of our insurance policies are reviewed periodically by management to detect and remediate potential issues before they arise.

New products and significant changes in existing products undergo a rigorous product development life-cycle including an independent review by the risk management function prior to launch. Potential reputational issues can be identified in the early stages of product development and, if required, changes are implemented prior to launch.

The Enterprise Risk Committee regularly monitors our operations to identify situations that can negatively affect customer satisfaction.

Failure of an acquisition — **Strategic risk**

Risk we are facing

An important part of our growth strategy involves consolidating the Canadian market and expanding beyond our existing markets. Acquiring other companies has historically been a key element in executing our growth strategy. In this context, there is a risk that we engage in an acquisition that improperly values and prices a target, lacks sufficient due diligence and/or poorly integrates the target company following the close. This is applicable for both domestic transactions and international expansion.

Potential impact

If we acquire a company at a price that far exceeds its true value, we may be unable to derive the expected returns from the transaction. This would lead to a lower future return on equity for shareholders. Depending on the nature of the transaction and the subsequent events, it may be necessary to take a writedown of goodwill. In addition to the potential financial impact, our reputation may be adversely affected if such an event were to occur. Consequently, it may impact the cost or availability of capital for future acquisitions.

How we manage this risk

We have a dedicated corporate development team that follows a rigorous selection process. Our approach to conducting due diligence is well developed and is consistently executed. There is also strong oversight by the Board of Directors regarding acquisitions.

In 2016, we conducted a stress testing exercise on this topic that was presented to the Enterprise Risk Committee and the Risk Management Committee. As part of the exercise, we estimated the potential impact on the Company of a significantly underperforming acquisition and identified remedial actions that could be taken.

The emergence of autonomous vehicles and crash avoidance technology — **Emerging risk**

Risk we are facing

Commercialisation of fully- or semi-autonomous vehicles could profoundly change the transportation and auto insurance industries. The speed at which autonomous vehicles are adopted will depend on a number of factors including, but not limited to, the success of the new technology, the legal and regulatory environment, and customer preferences. These vehicles may have a dramatically different risk profile than current modes of transportation.

Potential impact

If the potential of autonomous vehicles and crash avoidance technology is realized, a number of changes may occur including a significant reduction in accident frequency and the emergence of new ways to provide automobile insurance coverage. This could cause a material decline in our written premiums.

How we manage this risk

We recognize the potential impact of this emerging technology and have been closely monitoring developments on this topic for some time. We devote part of our research agenda to include items such as the future of mobility insurance and autonomous vehicles. We believe it is crucial to understand this emerging technology and the possible implications to be able to adjust our corporate strategy accordingly.

20.7 Other risk factors that may affect future results

Legal risk

In addition to the occasional employment-related litigation, we are a defendant in a number of claims relating to our insurance and other related business operations. We may from time to time be subject to a variety of legal actions relating to our current and past business operations. Plaintiffs may also continue to bring new types of legal claims against us. Current and future court decisions and legislative activity may increase our exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could have a material adverse effect on our results of operations and financial condition. Unfavourable claim rulings may render fair settlements more difficult to reach. We cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our businesses.

Reinsurance risk

We use reinsurance to help manage our exposure to insurance risk, including major catastrophe events. The availability and cost of reinsurance is subject to prevailing market conditions, both in terms of price and available capacity, which can affect our premium volume, profitability and regulatory capital position. Both worldwide and Canadian catastrophe losses have an impact on the reinsurance market in Canada. In recent years, the availability of alternative capital in the reinsurance market has helped maintain the supply of capital and added downward pressure on rates. However, reinsurance companies may exclude some coverage from the policies that we purchase from them or may alter the terms of such policies from time to time. These gaps in reinsurance protection expose us to greater risks and greater potential losses and could adversely affect our ability to write future business. We may not be able to successfully mitigate risks through reinsurance arrangements, which could cause us to reduce our premiums written in certain lines or could result in losses. In addition, the cost of reinsurance could increase significantly year over year impacting our profitability if we are unable to pass on these costs to consumers. Furthermore, a significant decline in the availability of reinsurance could impact our premium volume, our profitability and our regulatory capital position.

People risk

Our success has been, and will continue to be, dependent on our ability to retain the services of key employees and to attract additional qualified personnel in the future. In addition, a significant decline in employee morale could materially affect our operations including an increase in the risk of human error or deliberate acts that harm the company. The loss of the services of any of our key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations.

We have developed a focused recruiting strategy to aggressively market careers and opportunities at Intact. The strategy includes an updated web site, focused external recruiting, campaigns, rebranding, and targeted advertising. It also includes partnering with four universities on graduate recruiting as well as commercial and personal lines trainee program recruiting. Talent identification and development programs have been implemented to retain and grow existing talent. We also have a comprehensive succession planning program at various levels within the organization to ensure we are prepared for unplanned departures and retirements. Furthermore, our employee engagement surveys continue to reveal a high level of engagement among employees. IFC was recognized by multiple organizations as one of Canada’s best employers. We believe that a high level of employee engagement helps mitigate some of the operational risks associated with people. However, there is no assurance that the Company will be successful in retaining and motivating our key talent across the organization.

Business interruption risk

We may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophe events, an example of which being a global pandemic (e.g. the Ebola virus) or a large scale cyber-attack. Our service levels may decline materially resulting in negative financial and reputational consequences. Losses can relate to property, financial assets, trading positions and also to key personnel. If our business continuity plans cannot be put into action or do not take such events into account, losses may increase further.

We continuously monitor world events, such as the Ebola virus outbreak in 2014, to enable us to pro-actively adapt our response plan. In order to maintain the integrity and continuity of our operations in the event of a crisis, we have developed personalized alert and mobilization procedures as well as communication protocols. For example, emergency action plans, business continuity plans, business recovery plans, major health crisis plans, building evacuation plans and crisis communication plans have all been defined and are tested on an ongoing basis. This process is supported by a crisis management structure adapted to our organization and to the type of events we may have to manage.

Credit downgrade risk

Independent third party rating agencies assess our ability to honour our financial obligations (the “issuer credit rating”) and our insurance subsidiaries’ ability to meet their ongoing policyholder obligations (the “financial strength rating”). See Section 15.2 – *Ratings* for more details.

The rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. We may not be in a position to maintain either the issuer credit ratings or the financial strength ratings we have received from the rating agencies. An issuer credit rating downgrade could result in materially higher borrowing costs. A financial strength rating downgrade could result in a reduction in the number of insurance contracts we write and in a significant loss of business; as such business could move to other competitors with higher ratings, thus causing premiums and earnings to decrease.

This is more applicable to our commercial insurance where clients place a higher emphasis on such ratings. Credit downgrades may affect our ability to raise capital or may result in an increase in the cost of raising capital with negative implications for shareholders and other stakeholders.

Limit on dividend and capital distribution risk

As a holding company, IFC is a legal entity and is separate and distinct from its operating subsidiaries, most of which are regulated insurance companies. While no regulatory approval is required for dividend payments from the regulated insurance companies, OSFI notice is required together with pro forma capital calculations showing internal target capital levels are maintained both before and after such dividends are paid out. In addition, for competitive reasons, our insurance subsidiaries maintain financial strength ratings which require us to maintain minimum capital levels in our insurance subsidiaries. These regulations and ratings targets limit the ability of our insurance subsidiaries to pay unlimited dividends or invest all of their capital in other ways. In certain stress scenarios limitations on our subsidiaries’ ability to pay dividends to IFC could have a material adverse effect on our ability to pay shareholder dividends and may result in a material decline in the price of securities we have issued.

Distribution risk

Distribution risk is the risk related to the distribution of our P&C insurance products. It includes the inherent risk of dealing with independent distributors, the risk related to new market entrants and the risk associated with our multiple distribution channel strategy. We may also face the risk that one of our channels or business models would not be sustainable in a specific market or context. From time to time we issue loans or take equity participation in certain brokers and consequently, we expose ourselves to other risks including financial risk and regulatory risk. For various reasons, the broker channel has been in a consolidation mode for the last few years and we believe that this situation will continue. The acquisition of brokers by others or even by other insurers may impact our relationship with some of them and harm our ability to grow our business. In order to maintain strong relationships with brokers, each relationship is managed by officers in each of the main regions in which we operate. To mitigate the financial risk arising from loans to brokers we generally receive guarantees and use standard agreements which contain general security and oversight clauses. The Board of Directors participates in this oversight process by reviewing these activities periodically.

20.8 Own Risk and Solvency Assessment

Since 2014, we have conducted our Own Risk and Solvency Assessments (“ORSA”) at least annually. ORSA encompasses processes to identify, assess, monitor, and manage the risks we take in conducting our business. ORSA also covers the determination of our capital needs and solvency position. ORSA is an integral part of the implementation of our Enterprise Risk Management strategy. This exercise was conducted over and above the Dynamic Capital Adequacy Testing (DCAT) performed annually by the Appointed Actuary (refer to Note 20 – *Capital management* to the accompanying Consolidated financial statements for details).

Our ORSA revealed that the financial resources of our insurance subsidiaries are sufficient to meet policyholder obligations after adverse situations at a confidence level of 99% conditional tail expectation (CTE) over a one-year time horizon. We considered all our material risk exposures in making this determination. We concluded that our overall risk is well balanced primarily between insurance risk and financial risk, while operational risk contributes a modest additional amount. Diversification and other adjustments modestly reduce our overall risk assessment.

We also compared our assessment of our own capital requirements with that of regulatory bodies on the same basis. Our overall assessment continues to be materially lower than current regulatory requirements given the same confidence level and time horizon. Our 2016 assessment of capital required decreased slightly compared to that of 2015. Our capital sufficiency remains very strong when comparing both available financial resources and tangible equity to our assessment of capital required.

The revisions to the MCT Guidelines in 2015 and again in 2016 have resulted in lower capital requirements for IFC and continue to converge directionally with our assessment for the main categories of risk. We believe the convergence of the regulatory view of risk with our own risk assessment is a positive development for IFC and the Canadian P&C industry.

Section 21 – Sensitivity analyses

Sensitivity analyses are one risk management technique that assist management in ensuring that risks assumed remain within our risk tolerance level. Sensitivity analyses involve varying a single factor to assess the impact that this would have on the Company's results and financial condition. No management action is considered.

Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 29 - Sensitivity analysis

For the quarters ended	December 31, 2016			December 31, 2015		
	Net income	OCI	MCT[1]	Net income	OCI	MCT[1]
Equity price risk						
Common share prices (10% decrease)[2]	**9**	**(193)**	**(1) pts**	(5)	(156)	**(1) pts**
Preferred share prices (5% decrease)[3]	**8**	**(57)**	**(2) pts**	5	(50)	**(2) pts**
Interest rate risk[4] (100 basis point increase)						
Investments (net asset position, when referring to MCT)	**4**	**(75)**	**(3) pts**	7	(89)	**(3) pts**
Currency risk (strengthening of Can. dollar by 10%)[5]						
Investments (net asset position, when referring to MCT)	**2**	**(47)**	**- pts**	2	(45)	**(1) pts**
Underwriting profitability						
Combined ratio (3 points increase)[6]			**(10) pts**			**(10) pts**

[1] MCT sensitivity is based on movements in the net asset position caused by the relevant risk.
[2] Net of any equity hedges, including the impact of any impairment.
[3] Including the impact on related embedded derivatives.
[4] The yield curve experiences an instantaneous parallel shift.
[5] After giving effect to forward-exchange contracts.
[6] Combined ratio deteriorates across all lines of business. All resulting claims are outstanding (no payments) and no reinsurance is triggered.

A decline in the price of AFS perpetual preferred shares is recorded in OCI and would normally lead to a lower valuation for associated embedded derivative liabilities which are recorded as gains in net income. Conversely, an increase in the price of these preferred shares is also recorded in OCI and would normally lead to a higher valuation for associated embedded derivative liabilities which are recorded as losses in net income.

Gains and losses resulting from changes in interest rates vary depending on our position on the interest rate risk.

The above analyses were prepared using the following assumptions:
- Shifts in the yield curve are parallel.
- Interest rates, equity prices and foreign currency move independently.
- Credit, liquidity and basis risks have not been considered.
- Impact on the Company's pension plans has been considered.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- For FVTPL debt securities, the estimated impact on net income is assumed to be offset by the market yield adjustment.
- AFS debt or equity securities in an unrealized loss position, as reflected in AOCI may, at some point in the future, be realized through sale.

See *Section 14.3 – Claims liabilities and PYD* for a sensitivity analysis of the discount rate on our claims liabilities.

ADDITIONAL INFORMATION

Section 22 – Financial KPIs and definitions

22.1 Our financial KPIs

Our most relevant key performance indicators are outlined in the table below. DPW, Underlying current year loss ratio, NOI, NOIPS, OROE, ROE, AROE and AEPS are considered non-IFRS financial measures. See Section 23 – *Non-IFRS financial measures* for the reconciliation to the most comparable IFRS measures.

		2016	2015	2014	2013	2012
Growth	DPW growth	4.7%	6.2%	1.6%	7.2%	34.3%
	Written insured risks growth	3.8%	5.1%	(0.7)%	5.7%	32.3%
Underwriting performance	Underlying current year loss ratio	64.8%	66.1%	64.3%	64.9%	63.5%
	Claims ratio	64.9%	61.3%	62.6%	66.9%	61.6%
	Expense ratio	30.4%	30.4%	30.2%	31.1%	31.5%
	Combined ratio	95.3%	91.7%	92.8%	98.0%	93.1%
Consolidated performance	Net investment income	414	424	427	406	389
	Net distribution income	111	104	75	75	83
	NOI	660	860	767	500	675
	NOIPS (in dollars)	4.88	6.38	5.67	3.62	5.00
	OROE	12.0%	16.6%	16.3%	11.2%	16.8%
	ROE	9.6%	13.4%	16.1%	9.3%	13.5%
	AROE	11.0%	14.3%	16.8%	10.3%	16.1%
	EPS (in dollars)	3.97	5.20	5.79	3.10	4.20
	AEPS (in dollars)	4.53	5.54	6.01	3.44	5.02
Financial strength	BVPS (in dollars)	42.72	39.83	37.75	33.94	33.03
	MCT	218%	203%	209%	203%	205%
	Total excess capital	970	625	681	550	599
	Debt-to-capital ratio	18.6%	16.6%	17.3%	18.7%	18.9%

22.2 Definitions of our financial KPIs

Our most relevant key performance indicators are defined below. Underlying current year loss ratio, NOI, NOIPS, ROE, OROE, AROE and AEPS are considered non-IFRS financial measures. See Section 23 - *Non-IFRS financial measures* for the reconciliation to the most comparable IFRS measures.

- **AEPS** and **AROE** are **adjusted measures**, meaning that they exclude the after-tax impact of acquisition and restructuring-related items, such as amortization of intangible assets recognized in business combinations, as well as integration and restructuring costs.
- **NOI, NOIPS** and **OROE** are **operating measures**, meaning that they exclude non-operating items detailed in Section 24 – *Non-operating results*.
- **EPS** and **ROE** are **IFRS measures**, meaning that their definition is determined in accordance with IFRS.

Incentive compensation is based on the comparison of results for DPW growth, combined ratio, NOIPS and AROE as defined above, against those of our Canadian P&C insurance industry benchmark. See Section 12 – *Canadian P&C insurance industry* for more details on our performance versus the industry.

Growth	**DPW growth** for a specific period	(DPW for a specified period – DPW for the same period the previous year) / DPW for the same period the previous year	**Written insured risks growth** for a specific period	(# of vehicles in automobile insurance + # of premises in personal property insurance + # of policies in commercial P&C insurance - Total # for same period the previous year) / Total # for same period the previous year
Underwriting results	**Underlying current year loss ratio** for a specific period	Current year claims ratio excluding CAT losses and PYD / NEP before the impact of reinstatement premiums	**Expense ratio** for a specific period	Underwriting expenses (including commissions, premium taxes and general expenses related to underwriting activities) / NEP
	Claims ratio for a specific period	Claims incurred (net of reinsurance) / NEP	**Combined ratio** for a specific period	Claims ratio + Expense ratio

A combined ratio under 100% indicates a profitable underwriting result.
A combined ratio over 100% indicates an unprofitable underwriting result.

Consolidated performance	**Net distribution income** for a specific period	Operating income excluding interest and taxes from our wholly-owned broker (BrokerLink) + Operating income including interest and taxes from our broker associates	**Distribution EBITA** for a specific period	Operating income excluding interest and taxes from our wholly-owned broker (BrokerLink) and our broker associates
	Net investment income for a specific period	As detailed in Table 9 – Net investment income	**ROE** for a 12-month period	Net income attributable to common shareholders[1] / Average common shareholders' equity[2]
	NOI for a specific period	As detailed in Table 1 – Consolidated performance	**AROE** for a 12-month period	Adjusted net income attributable to common shareholders / Average common shareholders' equity[2]
	NOIPS for a specific period	NOI attributable to common shareholders / WANSO[3]	**EPS** for a specific period	As reported in the accompanying Consolidated statements of comprehensive income
	OROE for a 12-month period	NOI attributable to common shareholders / Average common shareholders' equity[2] (excluding AOCI)	**AEPS** for a specific period	Adjusted net income attributable to common shareholders / WANSO[3]

Financial strength	**BVPS** as at the end of a specific period	Common shareholders' equity[4] / Number of common shares outstanding at the same date	**Total excess capital** as at the end of a specific period	Excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries.
	MCT as at the end of a specific period	Minimum capital test, as defined by OSFI and AMF	**Debt-to-capital ratio** as at the end of a specific period	Total debt outstanding / Sum of the total shareholders' equity[4] and total debt outstanding as at the same date

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[1] Net income is determined in accordance with IFRS.
[2] The average shareholders' equity is the mean of shareholders' equity at the beginning and the end of the period, adjusted for significant capital transactions, if appropriate. Shareholder's equity is determined in accordance with IFRS.
[3] Weighted-average number of common shares outstanding during the same period.
[4] Shareholder's equity is determined in accordance with IFRS.

Section 23 – Non-IFRS financial measures

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

- **DPW** represents the total amount of premiums for new and renewal policies billed (written) during the reporting period, excluding industry pools and normalized for the effect of multi-year policies. This measure matches DPW to the year in which coverage is provided, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.

- **Underlying current year loss ratio** represents our current year claims ratio excluding catastrophe losses, reinstatement premiums, and PYD. Catastrophe events are not predictable, and as such, excluding them provides clearer insight into our analysis of current year performance.

- **NOI, NOIPS and OROE** exclude the impact of net investment gains (losses), the positive (negative) effect of MYA on underwriting, the difference between expected return and discount rate on pension assets, the amortization of intangible assets recognized in business combinations, integration and restructuring costs, as well as other costs that we do not believe to be reflective of our operating performance. Investment gains and losses as well as the effect of MYA on underwriting arise mostly from changes in market conditions, which can be volatile to earnings. We also exclude the difference between expected return and discount rate on pension assets, as we believe the gap in these measures is not reflective of our internal investment management expertise and management of our pension investment asset portfolio.

- **ROE** excludes the dividends declared on preferred shares.

- **AEPS and AROE** exclude the impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs, all on an after tax basis. We believe that these excluded items are not appropriate in assessing our underlying performance.

- **Cash flow available for investment activities** includes net cash flows from cash and cash equivalents and the investment portfolio. See Section 15.3 – *Understanding our cash flows* for a reconciliation of this non-IFRS financial measure.

- **Market-based yield** represents the annualized total pre-tax investment income (before expenses), divided by the mid-month average fair value of net equity and fixed-income securities held during the reporting period (average net investments). This calculation provides users with a consistent measure of our relative investment performance.

Table 30 – Reconciliation of DPW and DPW growth to DPW, as reported under IFRS

	Q4-2016	Q4-2015	2016	2015
DPW, as reported under IFRS	**1,937**	1,890	**8,197**	7,893
Exclude impact of industry pools	**10**	(3)	**32**	(34)
Add share of the results of jointly held insurance operations	**7**	10	**47**	48
DPW (full term)	**1,954**	1,897	**8,276**	7,907
Add impact of the normalization for multi-year policies	**7**	11	**17**	15
DPW	**1,961**	1,908	**8,293**	7,922
DPW growth	**3%**	7.5%	**5%**	6.2%

Table 31 – Reconciliation of NEP before reinstatement premiums to NEP and of current year claims to net claims incurred, as reported under IFRS

	Q4-2016	Q4-2015	2016	2015
NEP, as reported under IFRS	**2,035**	1,937	7,902	7,490
Add share of the results of jointly held insurance operations	**8**	11	44	45
NEP	**2,043**	1,948	7,946	7,535
Add (deduct) reinstatement premiums ceded (recovered)	**2**	-	29	(2)
NEP, before reinstatement premiums	**2,045**	1,948	7,975	7,533
Net claims incurred, as reported under IFRS	**1,196**	1,126	5,108	4,659
Less positive (negative) impact of MYA on underwriting results	**87**	(6)	34	(58)
Less difference between expected return and discount rate on pension assets allocated to net claims incurred	**(3)**	(3)	(10)	(11)
Add share of the results of jointly held insurance operations	**5**	6	29	25
Total net claims	**1,285**	1,123	5,161	4,615
Less current year CAT claims	**(34)**	(2)	(385)	(116)
Add favourable (unfavourable) PYD	**62**	75	389	477
Current year claims	**1,313**	1,196	5,165	4,976
NEP, before reinstatement premiums	**2,045**	1,948	7,975	7,533
Underlying current year loss ratio	**64.2%**	61.4%	64.8%	66.1%

Table 32 – Reconciliation of NOIPS and OROE to net income

	Q4-2016	Q4-2015	2016	2015
Net income	**171**	198	541	706
Add income tax expense	**53**	43	145	169
Add net investment losses (gains)	**97**	72	72	64
Add negative impact of MYA on underwriting	**(87)**	6	(34)	58
Add difference between expected return and discount rate on pension assets	**6**	7	26	30
Add amortization of intangible assets recognized in business combinations	**12**	11	53	46
Add integration and restructuring costs	**19**	3	23	10
Add loss (gain) from other non-operating items	**5**	-	12	8
Pre-tax operating income	**276**	340	838	1,091
Tax impact	**(64)**	(75)	(178)	(231)
NOI	**212**	265	660	860
Less preferred share dividends	**(4)**	(5)	(20)	(21)
NOI to common shareholders	**208**	260	640	839
Divided by weighted-average number of common shares (in millions)	**131.1**	131.5	131.2	131.5
NOIPS, basic and diluted (in dollars)	**1.58**	1.97	4.88	6.38
NOI to common shareholders – last 12 months			640	839
Average common shareholders' equity, excluding AOCI			5,332	5,041
OROE for the last 12 months			12.0%	16.6%

Table 33 – Reconciliation of ROE to net income

	Q4-2016	Q4-2015	2016	2015
Net income	**171**	198	**541**	706
Less preferred share dividends	**(4)**	(5)	**(20)**	(21)
Net income attributable to common shareholders	**167**	193	**521**	685
Net income attributable to common shareholders – last 12 months			**521**	685
Average common shareholders' equity			**5,417**	5,103
ROE for the last 12 months			**9.6%**	13.4%

Table 34 – Reconciliation of AEPS and AROE to net income

	Q4-2016	Q4-2015	2016	2015
Net income	**171**	198	**541**	706
Add amortization and write-off of intangibles recognized in business combinations, net of tax[1]	**23**	8	**56**	37
Add integration and restructuring costs, net of tax	**14**	2	**17**	7
Adjusted net income	**208**	208	**614**	750
Less preferred share dividends	**(4)**	(5)	**(20)**	(21)
Adjusted net income attributable to common shareholders	**204**	203	**594**	729
Divided by weighted-average number of common shares (in millions)	**131.1**	131.5	**131.2**	131.5
AEPS, basic and diluted (in dollars)	**1.56**	1.54	**4.53**	5.54
Adjusted net income attributable to common shareholders - LTM			**594**	729
Average common shareholders' equity			**5,417**	5,103
AROE for the last 12 months			**11.0%**	14.3%

[1] Write-off of intangibles recognized in business combinations are recorded in net investment gains (losses).

Table 35 – Reconciliation of underwriting income to underwriting income, as reported under IFRS

	Q4-2016	Q4-2015	2016	2015
Underwriting income, as reported under IFRS	**233**	206	383	536
Add profit (loss) from jointly held insurance operations	**1**	2	-	4
Add difference between expected return and discount rate on pension assets	**6**	7	26	30
Add impact of MYA on underwriting results	**(87)**	6	(34)	58
Underwriting income	**153**	221	375	628

Section 24 – Non-operating results

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

Table 36 – Non-operating results

	Q4-2016	Q4-2015	Change	2016	2015	Change
Net investment gains (losses)	**(97)**	(72)	(25)	(72)	(64)	(8)
Positive (negative) impact of MYA on underwriting	**87**	(6)	93	34	(58)	92
Difference between expected return and discount rate on pension assets	**(6)**	(7)	1	(26)	(30)	4
Integration and restructuring costs	**(19)**	(3)	(16)	(23)	(10)	(13)
Amortization of intangible assets recognized in business combinations	**(12)**	(11)	(1)	(53)	(46)	(7)
Other	**(5)**	-	(5)	(12)	(8)	(4)
Non-operating gains (losses)	**(52)**	(99)	47	(152)	(216)	64

Impact of MYA on underwriting

Claims liabilities are discounted at the estimated market yield of the assets backing these liabilities. The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets is referred to as MYA. The MYA to claims liabilities is generally offset by gains and losses on FVTPL fixed-income securities, which are included in net investment gains (losses) in the table above, with the objective that these items offset each other with a minimal overall impact to net income.

Difference between expected return and discount rate on pension assets

We continue to manage our pension asset investment portfolio with a target asset return based on a target asset allocation. We measure NOI using a pension expense based on the expected return on plan assets to better reflect our operating performance. Any difference between the expected return on pension assets and the return based on the discount rate determined at the beginning of the year is treated as a non-operating item.

Section 25 – Accounting and disclosure matters

Reference to our Consolidated financial statements			
Significant accounting judgments, estimates and assumptions	**Change in accounting policy**	**Related-party transactions**	**Standards issued but not yet effective**
Note 3	Note 4	Note 28	Note 33

25.1 New accounting standards effective January 1, 2016

There were no new accounting standards, which have a significant impact on our Consolidated financial statements, effective January 1, 2016. Please refer to Note 2 – *Summary of significant accounting policies* in the Consolidated financial statements.

25.2 Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to use judgments, estimates and assumptions that can have a significant impact on reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from these estimates.

The key estimates and assumptions that have a risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next financial year are as follows:

- Valuation of claims liabilities
- Valuation of defined benefit obligation
- Business combinations
- Impairment
- Goodwill and intangible assets
- Financial assets
- Measurement of income taxes

25.3 Related-party transactions

We enter into transactions with associates and joint ventures in the normal course of business. Most of these related-party transactions are with entities associated with our distribution channel. These transactions mostly comprise of commissions for insurance policies, as well as interest and principal payments on loans. These transactions are measured at the amount of the consideration paid or received, as established and agreed by the related parties. Management believes that such exchange amounts approximate fair value.

We also enter into transactions with key management personnel and post-employment plans. Our key management personnel include all members of the Board of Directors and certain members of the Executive Committee. Key management personnel can purchase our insurance products offered in the normal course of business. The terms and conditions of such transactions are essentially the same as those available to our clients and employees. Transactions with post-employment plans comprise the contributions paid to these plans.

25.4 Financial instruments

An important portion of our Consolidated balance sheets is composed of financial instruments. For additional information, please refer our Consolidated financial statements.

Reference to our Consolidated financial statements		
Significant accounting policies	**Derivative financial instruments**	**Fair value measurement**
Note 2	Note 7	Note 8

25.5 Disclosure controls and procedures

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

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109") of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2016. Management can therefore provide reasonable assurance that material information relating to the Company and its subsidiaries is reported to it on a timely basis so that it may provide investors with complete and reliable information.

25.6 Internal controls over financial reporting

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2016.

In spite of its evaluation, Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

No significant changes were made to our ongoing ICFR during 2016 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

Section 26 – Off-balance sheet arrangements

26.1 Securities lending

We participate in a securities lending program to generate fee income. This program is managed by our custodian, a major Canadian financial institution, whereby we lend securities we own to other financial institutions to allow them to meet their delivery commitments. We loaned securities, which are reported as investments in the accompanying Consolidated financial statements, with a fair value of $0.7 billion as at December 31, 2016 ($1.9 billion as at December 31, 2015).

Collateral is provided by the counterparty and is held in trust by the custodian for our benefit until the underlying security has been returned to us. The collateral cannot be sold or re-pledged externally by us, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the underlying loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the loaned securities and amounts to $0.8 billion as at December 31, 2016 ($2.0 billion as at December 31, 2015).

Section 27 – Shareholder information

27.1 Authorized share capital

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

27.2 Outstanding share data

The following table presents the outstanding share data.

Table 37 – Outstanding share data (number of shares)

As at February 3, 2017	
Common shares	**131,034,834**
Class A	
Series 1 Preferred Shares	**10,000,000**
Series 3 Preferred Shares	**8,405,004**
Series 4 Preferred Shares	**1,594,996**

Refer to our Annual Information Form for more detailed information on the rights of shareholders and to Note 19 – *Common shares and preferred shares* to the accompanying Consolidated financial statements for additional information. Please also see Section 16.3 - *Capital returned to common shareholders.*

27.3 Dividends paid on common shares

On February 7, 2017, we declared a quarterly dividend of 64 cents per common share on our outstanding common shares. We also declared a quarterly dividend of 26.25 cents per share on our Class A Series 1, a quarterly dividend of 20.825 cents per share on our Class A Series 3 preferred shares and a quarterly dividend of 19.535 cents per share on our Class A Series 4 preferred shares.

Table 38 – Dividends declared per share

	Q1-2017	Q4-2016	FY 2016
Common shares	**0.64**	**0.58**	2.32
Class A			
Series 1 Preferred Shares	**0.2625**	**0.2625**	1.05
Series 3 Preferred Shares	**0.20825**	**0.20825**	0.99575
Series 4 Preferred Shares[1]	**0.19535**	**0.1993325**	0.1993325

[1]Series 4 Preferred Shares were issued on September 30, 2016.

27.4 NCIB

On February 12, 2016, we commenced a NCIB to purchase for cancellation during the next 12 months up to 6,577,156 common shares, representing approximately 5% of our issued and outstanding common shares as at February 1, 2016. As at December 31, 2016, 493,000 common shares had been repurchased and cancelled under the NCIB at an average price of $88.54 per share for a total consideration of $44 million. This NCIB program will expire on February 11, 2017.

Our Board of Directors has approved the renewal of the NCIB for a subsequent year, to purchase for cancellation during the next 12 months up to 6,551,741 common shares, representing approximately 5% of our issued and outstanding common shares as at January 31, 2017. This renewal is subject to TSX approval.

27.5 Book value per share

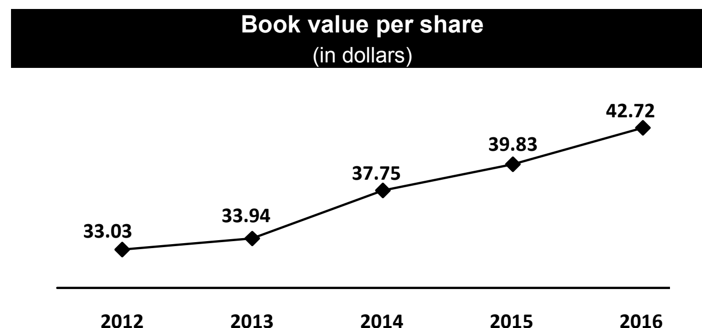
Table 39 – Components of BVPS

As at	Q4-2016	2016	2015	2014
BVPS, beginning of period	41.47	39.83	37.75	33.94
EPS	1.27	3.97	5.20	5.79
Dividends on common shares	(0.58)	(2.32)	(2.12)	(1.92)
Impact of market movements on AFS securities[1]	0.08	1.62	(1.26)	0.25
Net actuarial gains (losses) on employee future benefits[1]	0.49	(0.20)	0.27	(0.23)
NCIB and other	(0.01)	(0.18)	(0.01)	(0.08)
BVPS, end of period	42.72	42.72	39.83	37.75
Period-over-period increase	3%	7%	6%	11%

[1] Reported in AOCI.

- Our accretive acquisitions, combined with our profitable organic growth have driven BVPS up, while consistently returning capital to shareholders through dividends and/or share buy backs.
- With over $14 billion of investments, we are exposed to market volatility. In 2015, our BVPS was impacted by unrealized losses from weaker capital markets, amounting to $1.62 per share.
- We remained committed to our financial objectives in terms of ROE and NOIPS to enhance value to shareholders.

Book value per share
(in dollars)



27.6 Long-term incentive plan

The following table shows the outstanding units and fair value for each of the performance cycles as at December 31, 2016.

Table 40 – Outstanding units and weighted-average fair value at grant date by performance cycle

Performance cycles	Number of units	Weighted-average fair value at grant date (in $)	Amount (in millions of $)
2014-2016	**255,253**	**66.25**	**17**
2015-2017	**229,928**	**77.89**	**18**
2016-2018	**217,065**	**90.36**	**19**
Total	**702,246**	**77.51**	**54**

Refer to Note 26 – *Share-based payments* to the accompanying Consolidated financial statements for additional details.

Section 28 – Selected annual and quarterly information

28.1 Selected annual information

The following table presents selected annual information for the years ended December 31.

Table 41 – Selected annual information

	2016	2015	2014
Total revenues	**8,440**	8,032	7,915
Underwriting income[1]	**375**	628	519
Net income attributable to shareholders	**541**	706	782
EPS, basic and diluted (in dollars)	**3.97**	5.20	5.79
Cash dividends declared per share (in dollars)			
Common shares	**2.32**	2.12	1.92
Class A			
Series 1 Preferred Shares	**1.05**	1.05	1.05
Series 3 Preferred Shares	**1.00**	1.05	1.05
Series 4 Preferred Shares	**0.20**	n/a	n/a

[1] Refer to Section 23 – *Non-IFRS financial measures*.

The following table presents selected annual information at the dates shown.

Table 42 – Selected annual information

As at December 31,	2016	2015[1]	2014[1]
Investments	**14,386**	13,504	13,440
Total assets	**22,991**	21,315	20,501
Debt outstanding	**1,393**	1,143	1,143
Shareholders' equity	**6,088**	5,724	5,451

[1] Comparative information was restated for a change in accouting policy. Refer to Note 4 – *Change in accounting policy* to the accompanying Consolidated financial statements

28.2 Selected quarterly information

Table 43 - Selected quarterly information

				2016				2015
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
DPW	**1,961**	**2,193**	**2,458**	**1,681**	1,908	2,095	2,344	1,575
Written insured risks (in thousands)	**1,718**	**2,064**	**2,357**	**1,558**	1,680	2,021	2,259	1,459
Total revenues[1]	**2,085**	**2,197**	**2,117**	**2,041**	2,027	2,003	1,975	2,027
NEP[2]	**2,043**	**2,036**	**1,937**	**1,930**	1,948	1,930	1,865	1,792
Current year CAT losses	**34**	**166**	**164**	**21**	2	81	22	11
Unfavourable (favourable) PYD	**(62)**	**(71)**	**(93)**	**(163)**	(75)	(107)	(106)	(189)
Underwriting income[2]	**153**	**61**	**16**	**145**	221	131	158	118
Combined ratio	**92.5%**	**97.0%**	**99.2%**	**92.5%**	88.6%	93.2%	91.6%	93.4%
Net investment income	**104**	**102**	**104**	**104**	110	105	104	105
NOI[2]	**212**	**137**	**114**	**197**	265	199	210	186
Net income	**171**	**125**	**93**	**152**	198	131	199	178
Per share measures, basic and diluted (in dollars)								
NOIPS[2]	**1.58**	**1.01**	**0.83**	**1.46**	1.97	1.47	1.56	1.37
EPS	**1.27**	**0.91**	**0.67**	**1.11**	1.46	0.95	1.47	1.32

[1] Total revenues exclude other underwriting revenues.
[2] Refer to Section 23 – *Non-IFRS financial measures*.

See also the discussion on seasonality of the business hereafter.

28.3 Seasonality of the P&C insurance business

The P&C insurance business is seasonal in nature. While NEP are generally stable from quarter to quarter, underwriting results are mainly driven by weather conditions which may vary significantly between quarters. The underlying seasonality in our combined ratio is best illustrated by excluding the impact of CAT losses (see Table 45).

For instance, in 2016 our second and third quarters saw a higher combined ratio including CAT losses than the first and fourth quarters, meaning that underwriting results were relatively less profitable in Q2-2016 and Q3-2016. When CAT losses are excluded, the first and fourth quarters of 2016 saw a slightly higher combined ratio than the other quarters in 2016, meaning that the underwriting results were relatively less profitable in Q1-2016 and Q4-2016 than the rest of the year.

Table 44 – Seasonal indicator, including CAT losses

	2016	2015	2014	2013	2012	2011	2010	2009	Eight-year average
Q1	**0.97**	**1.02**	1.05	0.97	0.99	1.00	0.98	1.00	1.00
Q2	**1.04**	**1.00**	1.00	1.00	0.99	1.03	0.98	0.97	1.00
Q3	**1.02**	**1.02**	1.00	1.05	1.03	0.99	1.01	1.07	1.02
Q4	**0.97**	**0.96**	0.95	0.98	0.99	0.98	1.03	0.96	0.98

Table 45 – Seasonal indicator, excluding CAT losses

	2016	2015	2014	2013	2012	2011	2010	2009	Eight-year average
Q1	**1.01**	**1.03**	1.04	1.04	1.02	1.04	1.00	1.02	1.02
Q2	**0.99**	**1.01**	1.02	0.97	0.98	0.96	0.99	0.99	0.99
Q3	**0.99**	**0.98**	0.96	0.97	0.97	0.99	0.98	1.00	0.98
Q4	**1.01**	**0.98**	0.98	1.02	1.03	1.01	1.03	0.99	1.01

Intact Financial Corporation

Consolidated financial statements

For the year ended December 31, 2016

Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the Consolidated financial statements of Intact Financial Corporation and its subsidiaries, collectively known as "the Company". This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with International Financial Reporting Standards.

In meeting its responsibility for the reliability of consolidated financial statements, the Company maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal control includes the communication of policies and of the Company's Code of Conduct, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records. The Company's internal auditors review and evaluate the system of internal control.

The Company's Board of Directors, acting through the Audit Committee, which is composed entirely of Directors, who are neither officers nor employees of the Company, oversees management's responsibility for the design and operation of effective financial reporting and internal control systems, as well as the preparation and presentation of financial information.

The Audit Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the Company employs an appropriate system of internal control, adheres to legislative and regulatory requirements and applies the Company's Code of Conduct. The internal and external auditors, as well as the Actuary, have full and unrestricted access to the Audit Committee, with and without the presence of management.

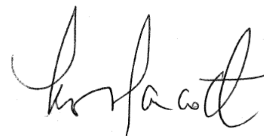
Pursuant to the Insurance Companies Act of Canada or to the Insurance Act (Québec) ("the Acts"), the Actuary, who is a member of management, is appointed by the Board of Directors. The Actuary is responsible for discharging the various actuarial responsibilities required by the Acts and conducts a valuation of policy liabilities, in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit Committee.

The Office of the Superintendent of Financial Institutions Canada for the federally regulated property and casualty ("P&C") subsidiaries and l'Autorité des marchés financiers for the Québec regulated P&C subsidiaries make such examinations and inquiries into the affairs of the P&C subsidiaries as deemed necessary.

The Company's external auditors, Ernst & Young LLP, are appointed by the shareholders to conduct an independent audit of the Consolidated financial statements of the Company and meet separately with both management and the Audit Committee to discuss the results of their audit, financial reporting and related matters. The Independent Auditors' Report to shareholders appears on the following page.

February 7, 2017

Charles Brindamour
Chief Executive Officer



Louis Marcotte
Senior Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Intact Financial Corporation

We have audited the accompanying consolidated financial statements of Intact Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Intact Financial Corporation as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
February 7, 2017

[1] CPA auditor, CA, public accountancy permit no A114960

A member firm of Ernst & Young Global Limited

INTACT FINANCIAL CORPORATION

Consolidated financial statements
For the year ended December 31, 2016

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INTACT FINANCIAL CORPORATION

Consolidated balance sheets

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

As at December 31,	Note	2016	Restated (see Note 4) 2015
Assets			
Investments	**5**		
Cash and cash equivalents		**$ 168**	$ 141
Debt securities		**8,801**	8,709
Preferred shares		**1,377**	1,235
Common shares		**3,635**	2,971
Loans		**405**	448
Investments		**14,386**	13,504
Accrued investment income		**63**	67
Premium receivables		**3,057**	2,868
Reinsurance assets	**12**	**482**	274
Income taxes receivable		**116**	24
Deferred tax assets	**24**	**142**	146
Deferred acquisition costs		**747**	720
Other assets	**17**	**611**	655
Investments in associates and joint ventures	**14**	**543**	396
Property and equipment	**15**	**139**	104
Intangible assets	**16**	**1,302**	1,285
Goodwill	**16**	**1,403**	1,272
Total assets		**$ 22,991**	$ 21,315
Liabilities			
Claims liabilities	**10**	**$ 8,536**	$ 8,094
Unearned premiums	**11**	**4,573**	4,390
Financial liabilities related to investments	**6**	**529**	378
Income taxes payable		**10**	101
Deferred tax liabilities	**24**	**404**	190
Other liabilities	**17**	**1,458**	1,295
Debt outstanding	**18**	**1,393**	1,143
		16,903	15,591
Shareholders' equity			
Common shares	**19**	**2,082**	2,090
Preferred shares	**19**	**489**	489
Contributed surplus		**129**	119
Retained earnings		**3,197**	3,047
Accumulated other comprehensive income (loss)		**191**	(21)
		6,088	5,724
Total liabilities and shareholders' equity		**$ 22,991**	$ 21,315

See accompanying notes to the Consolidated financial statements.

On behalf of the Board:

Charles Brindamour
Director

Eileen Mercier
Director

INTACT FINANCIAL CORPORATION

Consolidated statements of comprehensive income (loss)

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

For the years ended December 31,	Note		2016		2015
Direct premiums written		**$**	**8,197**	$	7,893
Net premiums earned	**21**		**7,902**		7,490
Other underwriting revenues			**122**		122
Total underwriting revenues			**8,024**		7,612
Net claims incurred	**10**		**(5,108)**		(4,659)
Underwriting expenses			**(2,533)**		(2,417)
Underwriting results			**383**		536
Net investment income	**22**		**414**		423
Net investment losses	**23**		**(70)**		(64)
Share of profit from investments in associates and joint ventures			**16**		26
Other revenues			**143**		121
Other expenses			**(128)**		(103)
Finance costs			**(72)**		(64)
Income before income taxes			**686**		875
Income tax expense	**24**		**(145)**		(169)
Net income attributable to shareholders		**$**	**541**	$	706
Weighted-average number of common shares outstanding (in millions)	**25**		**131.2**		131.5
Earnings per common share, basic and diluted (in dollars)	**25**	**$**	**3.97**	$	5.20
Dividends paid per common share (in dollars)	**19**	**$**	**2.32**	$	2.12
Net income attributable to shareholders		**$**	**541**	$	706
Other comprehensive income (loss)					
Available-for-sale securities:					
Net changes in unrealized gains (losses)			**378**		(339)
Reclassification to income of net losses (gains)			**(105)**		123
Derivatives designated as cash flow hedges:					
Net changes in unrealized gains (losses)			**1**		(1)
Income tax benefit (expense)	**24**		**(65)**		54
Share of other comprehensive income (loss) from investments in associates and joint ventures			**3**		(3)
Items that may be reclassified subsequently to net income attributable to shareholders			**212**		(166)
Net actuarial gains (losses) on employee future benefits	**27**		**(35)**		48
Income tax benefit (expense)	**24**		**9**		(13)
Items that will not be reclassified subsequently to net income attributable to shareholders			**(26)**		35
Other comprehensive income (loss)			**186**		(131)
Total comprehensive income attributable to shareholders		**$**	**727**	$	575

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Consolidated statements of changes in shareholders' equity

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

	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as at January 1, 2016		**$ 2,090**	**$ 489**	**$ 119**	**$ 3,047**	**$ (21)**	**$ 5,724**
Net income attributable to shareholders		**-**	**-**	**-**	**541**	**-**	**541**
Other comprehensive income (loss)		**-**	**-**	**-**	**(26)**	**212**	**186**
Total comprehensive income (loss)		**-**	**-**	**-**	**515**	**212**	**727**
Common shares repurchased for cancellation	**19**	**(8)**	**-**	**-**	**(36)**	**-**	**(44)**
Dividends declared on:							
Common shares	**19**	**-**	**-**	**-**	**(304)**	**-**	**(304)**
Preferred shares	**19**	**-**	**-**	**-**	**(20)**	**-**	**(20)**
Share-based payments	**26**	**-**	**-**	**10**	**(5)**	**-**	**5**
Balance as at December 31, 2016		**$ 2,082**	**$ 489**	**$ 129**	**$ 3,197**	**$ 191**	**$ 6,088**
Balance as at January 1, 2015		$ 2,090	$ 489	$ 115	$ 2,616	$ 145	$ 5,455
Impact of change in accounting policy	**4**	-	-	-	(4)	-	(4)
Balance as at January 1, 2015 - restated		$ 2,090	$ 489	$ 115	$ 2,612	$ 145	$ 5,451
Net income attributable to shareholders		-	-	-	706	-	706
Other comprehensive income (loss)		-	-	-	35	(166)	(131)
Total comprehensive income (loss)		-	-	-	741	(166)	575
Dividends declared on:							
Common shares	**19**	-	-	-	(279)	-	(279)
Preferred shares	**19**	-	-	-	(21)	-	(21)
Share-based payments	**26**	-	-	4	(6)	-	(2)
Balance as at December 31, 2015		$ 2,090	$ 489	$ 119	$ 3,047	$ (21)	$ 5,724

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Consolidated statements of cash flows

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

For the years ended December 31,	Note	2016	2015
Operating activities			
Income before income taxes		**$ 686**	$ 875
Income taxes received (paid), net		**(158)**	(265)
Contributions to the pension plans	**27**	**(61)**	(50)
Share-based payment		**(3)**	(7)
Net investment losses	**23**	**70**	64
Adjustments for non-cash items	**30**	**208**	187
Changes in other operating assets and liabilities	**30**	**(31)**	38
Changes in net claims liabilities	**10**	**214**	47
Net cash flows provided by operating activities		**925**	889
Investing activities			
Proceeds from sale of investments		**8,152**	6,499
Purchases of investments		**(8,497)**	(6,666)
Business combinations, net of cash acquired	**29**	**(19)**	(187)
Purchases of brokerages and other equity investments, net		**(275)**	(77)
Purchases of intangibles and property and equipment, net		**(120)**	(89)
Net cash flows used in investing activities		**(759)**	(520)
Financing activities			
Proceeds from issuance of debt	**18**	**248**	-
Common shares repurchased for cancellation	**19**	**(44)**	-
Common shares repurchased for share-based payments	**26**	**(19)**	(17)
Dividends paid on common shares	**19**	**(304)**	(279)
Dividends paid on preferred shares	**19**	**(20)**	(21)
Net cash flows used in financing activities		**(139)**	(317)
Net increase in cash and cash equivalents		**27**	52
Cash and cash equivalents, beginning of year		**141**	89
Cash and cash equivalents, end of year		**$ 168**	$ 141
Composition of cash and cash equivalents			
Cash		**167**	98
Cash equivalents		**1**	43
Cash and cash equivalents, end of year		**168**	141

See accompanying notes to the Consolidated financial statements.

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 property and casualty ("P&C") insurance market. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses.

These Consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's significant operating subsidiaries are: Intact Insurance Company, Belair Insurance Company Inc., The Nordic Insurance Company of Canada, Novex Insurance Company, Jevco Insurance Company, Canadian Direct Insurance Inc. ("CDI"), Trafalgar Insurance Company of Canada, Equisure Financial Network Inc., Canada Brokerlink Inc., Intact Farm Insurance Inc. and IB Reinsurance Inc.

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

Note 2 – Summary of significant accounting policies

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Notes to the Consolidated financial statements
(in millions of Canadian dollars, except as otherwise noted)

Glossary of abbreviations

AFS	Available for sale	**IASB**	International Accounting Standards Board
AMF	Autorité des marchés financiers	**IBNR**	Insurance claims incurred but not reported by policyholders
AOCI	Accumulated other comprehensive income	**IFRS**	International Financial Reporting Standards
CGU	Cash generating unit	**LTIP**	Long-term incentive plan
CIA	Canadian Institute of Actuaries	**MCT**	Minimum capital test
DPW	Direct premiums written	**OCI**	Other comprehensive income
DSU	Deferred share unit	**OSFI**	Office of the Superintendent of Financial Institutions
EPS	Earnings per share to common shareholders	**P&C**	Property and casualty
ESPP	Employee share purchase plan	**PfAD**	Provision for adverse deviations
FA	Facility Association	**PSU**	Performance stock units
FVTOCI	Fair value through OCI	**RSP**	Risk sharing pools
FVTPL	Fair value through profit and loss	**RSU**	Restricted stock units

2.1 Basis of presentation

These Consolidated financial statements are prepared in accordance with IFRS, as issued by the IASB. These Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 7, 2017.

The key accounting policies applied in the preparation of these Consolidated financial statements are described below. These policies have been applied consistently to all periods presented. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2.2 Basis of consolidation

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

Table 2.1 – *Basis of consolidation*

Investment category	Generally a shareholding of:	Accounting policies
Subsidiaries Entities over which the Company: 1. has the power over the relevant activities of the investee; 2. is exposed, or has rights to variable returns from its involvement with the investee; and 3. has the ability to affect those returns through its power over the investee.	more than 50% of voting rights	All subsidiaries are fully consolidated from the date control is transferred to the Company. They are deconsolidated from the date control ceases and any gain or loss is recognized in Net investment gains (losses).
Associates Entities over which the Company: 1. has the power to participate in the decisions over the relevant activities of the investee, but 2. does not have control.	20% to 50% of voting rights	Equity method ***Refer to Note 2.7 for details***
Joint ventures Joint arrangements whereby the parties have: 1. joint control of the arrangements, requiring unanimous consent of the parties sharing control for strategic and operating decision making; and 2. rights to the net assets of the arrangements.	equal percentage of voting rights from each party to the joint arrangement	Equity method ***Refer to Note 2.7 for details***

In some cases, voting rights in themselves are not sufficient to assess power or significant influence over the relevant activities of the investee or the sharing of control in a joint arrangement. In such cases, judgment is applied through the analysis of management agreements, the effectiveness of voting rights, the significance of the benefits to which the Company is exposed and the degree to which the Company can use its power to affect its returns from investees.

Acquisitions or disposals of equity interests in a subsidiary that do not result in the Company obtaining or losing control are treated as equity transactions.

All balances, transactions, income and expenses and profits and losses resulting from intercompany transactions and dividends are eliminated on consolidation.

2.3 Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risks, by comparing the benefits that could become payable under various possible scenarios relative to the premium received from the policyholder for insuring the risk.

a) Revenue recognition and premium receivables

Premiums written are reported net of cancellations, promotional returns and sale taxes. Premiums written are recognized on the date coverage begins. They are deferred as Unearned premiums and recognized in Underwriting results as premiums earned, net of reinsurance, on a pro rata basis over the terms of the underlying policies, usually 12 months. Premium receivables consist of the premiums due for the remaining months of the contracts.

Fees collected from policyholders in connection with the costs incurred for the Company’s yearly billing plans are recognized over the terms of the underlying policies and are reported in Other underwriting revenues.

Commission revenues received from external insurance providers by consolidated brokers are recognized on an accrual basis and included in Other revenues.

b) Claims liabilities

Claims liabilities represent the amounts required to provide for the estimated ultimate expected cost of settling claims related to insured events, both reported and unreported, that have occurred on or before the balance sheet date. They also include a provision for adjustment expenses representing the estimated ultimate expected costs of investigating, resolving and processing these claims.

Claims liabilities are first determined on a case-by-case basis as insurance claims are reported. They are reassessed as additional information becomes known. Also included in claims liabilities is a provision to account for the future development of these insurance claims, including IBNR, as required by the CIA.

Claims liabilities are estimated by the appointed actuary using generally accepted Canadian actuarial standard techniques and are based on assumptions that represent best estimates of possible outcomes, such as historical loss development factors and payment patterns, claims frequency and severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance policies.

Claims liabilities are discounted to take into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date. Anticipated payment patterns are revised from time to time to reflect the most recent trends and claims environment. This ensures getting the most accurate and representative market yield-based discount rate.

The ultimate amount of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to facts and circumstances of the insurance claims incurred. To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the CIA relating to claims development, reinsurance recoveries and investment income variables. The aggregate of these margins is referred to as the PfAD.

On the Consolidated balance sheets, claims liabilities are reported gross of the reinsurers' share, which is included in Reinsurance assets. Changes in claims liabilities, net of reinsurance, are reported in Net claims incurred. Claims liabilities are considered to be settled when the contract expires, is discharged or cancelled.

c) Reinsurance assets

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums. The Company reports third party reinsurance balances on the Consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance. The estimates for the reinsurers' share of claims liabilities are presented as an asset and are determined on a basis consistent with the related claims liabilities. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period.

d) Deferred acquisition costs

Policy acquisition costs incurred in acquiring insurance premiums include commissions and premium taxes directly related to the writing or renewal of insurance policies. These acquisition costs are deferred and amortized on the same basis as the unearned premiums and are reported in Underwriting expenses. Deferred acquisition costs are written off when the corresponding contracts are settled or cancelled.

e) Liability adequacy test

At the end of each reporting period, a liability adequacy test is performed to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums were deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income are not considered adequate to cover for all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition costs, a liability is accrued for the excess deficiency.

f) Industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the FA. In addition, entities can choose to cede certain risks to the FA administered RSP. The related risks associated with FA insurance policies and policies ceded to the RSP are aggregated and shared by the entities in the Canadian P&C insurance industry, generally in proportion to market share and volume of business ceded to the RSP. The Company applies the same accounting policies to FA and RSP insurance it assumes as it does to insurance policies issued by the Company directly to policyholders. In accordance with the OSFI guidelines, assumed and ceded RSP premiums are reported in DPW.

The Company acts as a "facility carrier" responsible for the administration of a portion of the FA policies. In exchange for providing these services, the Company receives fees, which are reported in Other underwriting revenues. Policy issuance fees are earned immediately while claims handling fees are deferred and earned over the servicing life of the claims.

g) Structured settlements

The Company enters into annuity agreements with various Canadian life insurance companies to provide for fixed and recurring payments to claimants. When the annuity agreements are non-commutable, non-assignable and non-transferable, the Company is released by the claimant for the settlement of the claim amount. As a result, the liability to its claimants is substantially discharged and the Company removes that liability from its Consolidated balance sheet. However, the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations. When the annuity agreements are commutable, assignable or transferable, the Company keeps the liability and the corresponding asset on its financial statements.

2.4 Financial instruments

a) Classification and measurement of financial assets and financial liabilities

For the purpose of initial and subsequent measurement, the Company has classified or designated its financial assets and financial liabilities in the following categories.

Table 2.2 – *Classification of the Company's most significant financial assets and financial liabilities*

Category	Financial instruments	Description
AFS	Debt securities	Intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market conditions.
	Common shares and preferred shares	Neither classified nor designated as FVTPL.
Financial assets and financial liabilities		
• ***Classified as FVTPL***	Common shares	Purchased with the intention of generating profits in the near term.
	Derivative financial instruments	Used for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio as long as the resulting exposures are within the investment policy guidelines.
	Embedded derivatives	Related to the Company's perpetual preferred shares. Treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument.
	Long and short positions	A market neutral investment strategy, where the objective is to maximize the value added from active equity portfolio management while at the same time using short positions to mitigate overall equity market volatility.
	Investments in mutual funds	Third party investment funds (mainly in equities). When the Company is deemed to control such vehicles, they are consolidated and the third party units are recorded as a liability at fair value and disclosed as Net asset value attributable to third party unit holders.
• ***Designated as FVTPL***	Debt securities backing the Company's claims liabilities and some common shares	A portion of the Company's investments backing its claims liabilities has been voluntarily designated as FVTPL to reduce the volatility caused by fluctuations in fair values of underlying claims liabilities due to changes in discount rates. To comply with regulatory guidelines, the Company ensures that the weighted-dollar duration of debt securities designated as FVTPL is approximately equal to the weighted-dollar duration of claims liabilities.
Cash and cash equivalents, loans and receivables	Cash and cash equivalents	Consist of highly liquid investments that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less.
	Loans and receivables	Financial assets with fixed or determinable payments not quoted in an active market.
Other financial liabilities	Debt outstanding	The Company's medium-term notes net of associated issuance costs.

The table below summarizes the Company's initial and subsequent measurement basis of financial assets and financial liabilities based on their respective classification. It also indicates when and where their related changes in fair value are recognized in the Consolidated statements of comprehensive income.

Table 2.3 – *Measurement of financial assets and financial liabilities and recognition of related changes in fair value*

Category	Initial measurement	Subsequent measurement	Changes in fair value
Financial assets			
AFS	**Fair value** using bid prices at the trade date	**Fair value** using bid prices at end of period	Reported in OCI when unrealized or in Net investment gains (losses) when realized or impaired
FVTPL	**Fair value** using bid prices at the trade date	**Fair value** using bid prices at end of period	Reported in Net investment gains (losses)
Cash and cash equivalents, loans and receivables	**Fair value** at the issuance date	**Amortized cost** using the effective interest method	Reported in Net investment gains (losses) when realized or impaired
Financial liabilities			
FVTPL	**Fair value** using ask prices at the trade date	**Fair value** using ask prices at end of period	Reported in Net investment gains (losses)
Other financial liabilities	**Fair value** at the issuance date	**Amortized cost** using the effective interest method	Reported in Net investment gains (losses) when the liability is extinguished

b) Fair value measurement

The fair value of financial instruments on initial recognition is normally the transaction price, being the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is determined based on available information and categorized according to a three-level fair value hierarchy.

Table 2.4 – *Three-level fair value hierarchy*

Levels	Description	Type of financial instruments normally classified as such
Level 1	Quoted prices in active markets for identical assets or liabilities	• Most Government bonds[1] • Some Corporate bonds[1] • Common shares and Preferred shares • Investments in mutual funds • Short-term notes • Exchange-traded derivatives
Level 2	Valuation techniques for which all inputs that have a significant effect on the fair value are observable (either directly or indirectly)	• Some Government bonds[1] • Some Corporate bonds[1] • Unsecured medium-term notes[2] • Asset-backed securities • Over-the-counter derivatives
Level 3	Valuation techniques for which inputs that have a significant effect on the fair value are not based on observable market data	• Loans[2] • Gross-up component of the Company's perpetual preferred shares and related embedded derivatives

[1] Categorized as Level 1 or Level 2 instruments depending on the market trading statistics of the last month for each reporting period.
[2] Measured at amortized cost with fair value disclosed.

Level 1
A financial instrument is regarded as quoted in an active market if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2
Where the fair values of financial assets and financial liabilities reported on the Consolidated balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models.

For discounted cash flow models, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics.

- Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments, currencies, market liquidity and financial condition of counterparties.
- Discount rates are influenced by risk free interest rates and credit risk.

The inputs to these models are derived from observable market data where possible. Inputs used in valuations include:

- prevailing market rates for bonds with similar characteristics and risk profiles;
- closing prices of the most recent trade date subject to liquidity adjustments; or
- average brokers' quotes when trades are too sparse to constitute an active market.

Level 3
In limited circumstances, the Company uses input parameters that are not based on observable market data. Non-market observable inputs use fair values determined in whole or in part using a valuation technique or model based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

c) Classification as investment grade

The Company uses data from various rating agencies to rate debt securities and preferred shares. When there are two ratings for the same instrument, the Company uses the lower of the two. When there are three ratings for the same instrument, the Company uses the median. Debt securities with a rating equal to or above 'BBB-' are classified as investment grade. Preferred shares with a rating equal to or above 'P3L' are classified as investment grade.

d) Revenue and expense recognition

Net investment income

- Interest income from debt securities and loans are recognized on an accrual basis.
- Premiums and discounts on debt securities classified as AFS, as well as premiums earned or discounts incurred for loans and AFS securities are amortized using the effective interest method.
- Dividends are recognized when the shareholders' right to receive payment is established, which is the ex-dividend date.

Net investment gains (losses)

- Gains and losses on the sale of AFS debt and equity securities are generally calculated on a first in, first out basis and on a specific lot basis, respectively.
- Transaction costs associated with the acquisition of financial instruments classified or designated as FVTPL are expensed as incurred; otherwise, transaction costs are capitalized on initial recognition and amortized using the effective interest method.
- Transaction costs incurred at the time of disposition of a financial instrument are expensed as incurred.
- Foreign exchange gains and losses are recognized in income with the exception of AFS equity securities where unrealized foreign exchange gains and losses are recognized in OCI until the security is sold or becomes impaired.
- If a business combination is achieved in stages, any previously held equity interest is remeasured as at its acquisition date fair value and any resulting gain or loss is recognized in income.

e) Impairment of financial assets

The Company determines, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets, other than those classified or designated as FVTPL, are impaired. Those financial assets are impaired according to either a debt, equity, or loans and receivables impairment model. The appropriate impairment model is determined based on:

- the characteristics of each instrument;
- the capacity of the issuer to pay dividends or interest; and
- the Company's intention to either hold the shares for the long term or sell them.

Debt impairment model

A financial asset is impaired if there is objective evidence of impairment, as a result of one or more loss events (a payment default for example) that occurred after initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset. Under the debt impairment model, a security is impaired when it is probable that the future cash flows will not be recovered based on credit considerations rather than based on the fair value of that security.

The debt model is used to assess impairments for debt securities, preferred shares that are redeemable at the option of the holder, and perpetual preferred shares which have been purchased with the intent of holding for the long-term. Since the business model of the Company is to purchase preferred shares for the purpose of earning dividend income, with the intent of holding them for the long-term, virtually all perpetual preferred shares are assessed for impairment using a debt impairment model.

Equity impairment model

Objective evidence of impairment includes a significant, a prolonged, or a significant and prolonged decline in the fair value of an investment below cost. It also includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which an issuer operates, indicating that the cost of an equity instrument may not be recovered.

The equity model is used to assess impairment for the Company's common shares, as well as any perpetual preferred shares not impaired using the debt impairment model.

Table 2.5 – *Objective evidence of impairment for equity impairment model*

Unrealized loss position	Common shares	Perpetual preferred shares which are not evaluated for impairment under the debt model
Significant	Unrealized loss of 50% or more	Unrealized loss of 50% or more
Prolonged	Unrealized loss for 15 consecutive months or more	Unrealized loss for 18 consecutive months or more
Significant and prolonged	Unrealized loss for 9 consecutive months or more and unrealized loss of 25%	Unrealized loss for 12 consecutive months or more and unrealized loss of 25%

Loans and receivables impairment model

Loans and receivables that are individually significant are tested for impairment when there is a payment default or when there are objective indications that the counterparty will not honour its obligations. Loans and receivables which have not been individually impaired are grouped by similar characteristics to be tested for impairment.

Measurement and recognition of impairment losses

The following table summarizes the measurement and recognition of impairment losses for each type of financial asset, other than those classified or designated as FVTPL.

Table 2.6 – *Measurement and recognition of financial asset impairment*

Category	Loss measurement	Reported loss	Subsequent fair value increases
Debt impairment model	Difference between amortized cost and current fair value less any unrealized loss on that security previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses)	Recognized in Net investment gains (losses) when there is observable positive development on the original impairment loss event. Otherwise, recognized in OCI.
Equity impairment model	Difference between acquisition cost and current fair value less any impairment loss on that security previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses)	Recognized directly in OCI. Impairment losses are not reversed.
Loans and receivables impairment model	Difference between amortized cost and the present value of the estimated future cash flows	Impairment loss recognized in Net investment gains (losses)	Provision can be reversed when the event that gave rise to its recognition subsequently disappears. Recognized in Net investment gains (losses) when there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

f) Recognition and offsetting of financial assets and financial liabilities

Financial assets are no longer recorded when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are no longer recorded when they have expired or have been cancelled. Financial assets lent by the Company in the course of securities lending operations remain on the balance sheet because the Company has not substantially transferred the risks and rewards related to the lent assets.

Financial assets and financial liabilities are offset and the net amount is reported on the Consolidated balance sheets only when there is:

- a legally enforceable right to offset the recognized amounts; and
- an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.5 Business combinations

Business combinations are accounted for using the acquisition method. The purchase consideration is measured at fair value at acquisition date. At that date, the identifiable assets acquired and liabilities assumed are estimated at their fair value. Acquisition-related costs are expensed as incurred. When the Company acquires a business, it assesses financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and relevant conditions at the acquisition date.

If a business combination is achieved in stages, any previously held equity interest is re-measured as at its acquisition date fair value and any resulting gain or loss is recognized in Net investment gains (losses).

2.6 Goodwill and intangible assets

a) Goodwill

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the Company's share in the net identifiable assets acquired and liabilities assumed in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested at least annually for impairment.

Gains and losses calculated on the disposal of a business include the carrying value of goodwill relating to the business sold.

b) Intangible assets

The Company's intangible assets consist of distribution networks, customer relationships and internally developed software.

- Distribution networks represent the contractual agreements between the Company and unconsolidated brokers for the distribution of its insurance products.
- Customer relationships represent the relationships that exist with the policyholders, either directly (as a direct insurer) or indirectly (through consolidated brokers).

Intangible assets are initially measured at cost, except for intangible assets acquired in a business combination which are recorded at fair value as at the date of acquisition.

The useful lives of intangible assets are assessed to be either finite or indefinite. For each distribution network acquired, that assessment depends on the nature of the distribution network. When the related cash flows are expected to continue indefinitely, the distribution network acquired is assessed as having an indefinite useful life.

Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite lives, as well as those intangible assets that are under development, are not subject to amortization, but are tested for impairment on an annual basis.

The amortization method and terms of intangible assets assessed as having finite useful lives are shown below.

Table 2.7 – *Amortization methods and terms of intangible assets – finite useful life*

Intangible assets	Method	Term
Distribution networks	Straight-line	25 years
Customer relationships	Straight-line	10 years
Internally developed software	Straight-line	3 to 10 years

2.7 Investments in associates and joint ventures

The Company's investments in associates and joint ventures are initially recorded at the amount of consideration paid, which includes the fair value of tangible assets, intangible assets and goodwill identified on acquisition, plus post-acquisition changes in the Company's share of their net assets. They are subsequently measured using the equity method.

The Company's profit or loss from such investments is shown in Share of profit from investments in associates and joint ventures and reflects the after-tax share of the results of operations of the associates and joint ventures. The Company determines at each reporting date whether there is any objective evidence that investments in associates and joint ventures are impaired.

2.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation terms are established to depreciate the cost of the assets over their estimated useful lives. Depreciation methods and terms are shown below.

Table 2.8 – *Depreciation methods and terms of property and equipment*

Property and equipment	Method	Term
Buildings	Straight-line	15 to 40 years
Furniture and equipment	Straight-line	2 to 7 years
Leasehold improvements	Straight-line	Over the terms of related leases

2.9 Leases

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

2.10 Income taxes

a) Income tax expense (benefit)

Income tax is recognized in Net income, except to the extent that it relates to items recognized in OCI, or directly in equity where it is recognized in OCI or equity. Income tax expense (benefit) comprises current and deferred tax.

- Current income tax is based on current year's results of operations, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

- Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantively enacted as at the balance sheet date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

b) Recognition and offsetting of current tax assets and liabilities

For each legal entity consolidated, current tax assets and liabilities are offset when they relate to the same taxation authority, which allows the legal entity to receive or make one single net payment, and when it intends to settle the outstanding balances on a net basis. Upon consolidation, a current tax asset of one entity is offset against a current tax liability of another entity if, and only if, entities concerned have a legally enforceable right to make or receive a single net payment and entities intend to make or receive such net payment or to recover the asset or settle the liability simultaneously.

2.11 Share-based payments

The Company has three types of shared-based payment plans:

a) Long-term incentive plan (LTIP)

Certain key employees are eligible to participate in the LTIP. Participants are awarded notional share units referred to as PSUs and RSUs. The payout for the PSUs is based on a specific target composed of the difference between the three-year average adjusted return on equity of the Company and that of the Canadian P&C industry. Most RSUs automatically vest three years from the year of the grant. Vesting for RSUs is not linked to the Company's performance.

Certain participants meeting a defined share ownership threshold ("eligible participants") can elect annually to receive cash in lieu of shares of the Company, subject to the Company's Board of Directors' approval. At the time of the payout, the plan administrator purchases in the market the amount of common shares based upon the vested PSUs and RSUs, and elections of eligible participants.

The awards are estimated and valued at fair value at grant date, which corresponds to the average share price of the Company over the last quarter of the preceding year.

The LTIP is accounted for as an equity-settled plan, except for the participants that are eligible to receive cash in lieu of shares of the Company (accounted for as a cash-settled plan).

Equity-settled plan
The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to Contributed surplus. The value of each award is not revalued subsequently, but the Company re-estimates the number of awards that are expected to vest at each reporting period. The difference between the market price of the shares purchased and the cumulative cost for the Company of these vested units, net of income taxes, is recorded in Retained earnings.

Cash-settled plan
The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to Other liabilities. The liability is re-measured at each reporting period based on the number of awards that are expected to vest and the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

b) Employee share purchase plan (ESPP)

Employees who are not eligible for the LTIP are entitled to make contributions to a voluntary ESPP. Effective January 1, 2016, the Company amended its ESPP to help encourage employee ownership. Under the new plan, eligible employees can contribute up to 10% of their annual base salary through a payroll deduction to purchase IFC common shares in the market. As an incentive to participate in the plan the Company matches, at the end of each year, a number of shares equal to 50% of the common shares purchased by the employees during the year (subject to certain conditions). During the following year, the common shares contributed by the Company are purchased by an independent broker at each pay period and deposited in the employee account evenly each pay. The common shares contributed by the Company are awarded and vested at the time they are deposited in the employee account.

Equity-settled plan
The ESPP is accounted for as an equity-settled plan. The fair value of awards is estimated at the grant date and is not revalued subsequently, but the Company re-estimates the number of awards that are expected to vest at each reporting period. The cost of awards is recognized as an expense over the vesting period, with a corresponding entry to Contributed surplus. The difference between the market price of the common shares purchased and the cumulative cost for the Company of these vested awards, net of income taxes, is recorded in Retained earnings.

c) Deferred share unit plan (DSU)

Non-employee directors of the Company are eligible to participate in the Company's DSU. A portion of the remuneration of non-employee directors of the Company must be received in DSUs or common shares of the Company. For the remainder of their compensation, the directors are given the choice of cash, common shares of the Company, DSUs or a combination of the three. Both DSUs and common shares vest at the time of the grant. The DSUs are redeemed upon director retirement or termination and are settled for cash after that time. When directors elect to receive shares, the Company makes instalments to the plan administrator for the purchase of shares of the Company on behalf of the directors.

Cash-settled plan
The DSUs are cash-settled awards which are expensed at the time of granting with a corresponding financial liability reported in Other liabilities. This liability is re-measured at each reporting date based on the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

2.12 Employee future benefits – pension

The defined benefit obligation, net of the fair value of plan assets, is recognized on the 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. The actuarial determination of the defined benefit obligation uses the projected unit credit method and management's best estimate assumptions.

Cost recognized in Net income in the current period includes:
- service cost, which represent the benefits cost provided in exchange for employees' services rendered during the year or prior years;
- net interest expense, which represents the change in the defined benefit obligation and the plan assets as a result of the passage of time, determined by multiplying the net defined benefit liability (asset) by the discount rate in reference to market yields on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments, determined at the beginning of the year;
- interest on the asset ceiling, when applicable; and
- administrative expenses paid from the pension assets.

Re-measurements recognized directly in OCI in the period in which they occur include:
- return on plan assets, which represents the difference between the actual return on plan assets and the return based on the discount rate determined using high quality corporate bonds;
- actuarial gains and losses arising from plan experience;
- changes in actuarial methods and assumptions, such as discount rate; and
- changes in the asset ceiling.

Such re-measurements are also immediately reclassified to Retained earnings as they will not be reclassified to Net income in subsequent periods.

2.13 Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date. Revenues and expenses denominated in foreign currencies are translated at the average exchange rate prevailing during the year. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange gains and losses are recognized in income with the exception of AFS equity securities where unrealized foreign exchange gains and losses are recognized in OCI until the asset is sold or becomes impaired.

2.14 Current vs non-current

In line with industry practice for insurance companies, the Company's balance sheets are not presented using current and non-current classifications, but are rather presented broadly in order of liquidity. Most of the Company's assets and liabilities are considered current given they are expected to be realized or settled within the Company's normal operating cycle. All other assets and liabilities are considered as non-current and generally include: Investments in associates and joint ventures, Deferred tax assets, Property and equipment, Intangible assets, Goodwill, Deferred tax liabilities and Debt outstanding.

2.15 Operating segments

The Company's business activities are directed towards P&C insurance operations. These activities are captured within a sole reporting and operating segment, P&C insurance operations. Internal reports on the performance of the segment are regularly reviewed by senior management, the Company's Chief Executive Officer and the Board of Directors.

Note 3 – Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to use judgments, estimates and assumptions that can have a significant impact on the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from these estimates.

The key estimates and assumptions that have a risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next financial year are as follows:

3.1 Valuation of claims liabilities

The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice.

The main assumption underlying these techniques is that a 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 number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analyzed by accident years, by geographical area, as well as by significant business line and claim type. Large catastrophic events are separately addressed, either by being reserved at the face value of loss adjuster estimates in the case of very large losses or separately projected in order to reflect their future development which might differ from historical data in the case of catastrophic events. In most cases, no explicit assumptions are made regarding future rates of claims inflation. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all the uncertainties involved. ***See Note 13.4 for key assumptions and sensitivity analysis.***

3.2 Valuation of defined benefit obligation

The cost of the defined benefit plans and the defined benefit obligation are calculated by the Company's independent actuaries using assumptions determined by management. The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends. If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years.

Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. ***See Note 27.6 for key assumptions and sensitivity analysis.***

3.3 Business combinations

Upon initial recognition, the acquiree's assets and liabilities have been included in the Consolidated balance sheets at fair value. Management estimated the fair values using estimates on future cash flows and discount rates. However, actual results can be different from those estimates. The changes in the estimates that relate to new information obtained about facts and circumstances that existed as of the acquisition date, made at initial recognition with regard to items for which the valuation was incomplete, would have an impact on the amount of goodwill recognized. Any other changes in the estimates made at initial recognition would be recognized in income.

3.4 Impairment of financial assets

The Company determines, at each balance sheet date, whether there is objective evidence that financial assets, other than those classified or designated as FVTPL, are impaired. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value, a loss event that has occurred which has impaired the expected cash flows, as well as other considerations such as liquidity and credit risk. ***See Note 2.4 for objective evidence of impairment.***

3.5 Impairment of goodwill and intangible assets

The Company determines whether goodwill, intangible assets with indefinite useful lives and those under development (not subject to amortization) are impaired at least on an annual basis. Impairment testing of these intangibles requires an estimation of the recoverable amount at the CGU level. A CGU is the lowest level at which there are separately identifiable cash flows. The carrying value of these intangibles is essentially all allocated to the P&C insurance operations CGU, which is the Company's sole operating segment. No impairment loss for goodwill or intangible assets has been recognized for this CGU for the year ended December 31, 2016 or prior.

a) Company's P&C insurance operations

The most recent test was performed as at June 30, 2016. As at this date, the P&C insurance operations CGU was tested for impairment, calculating both the fair value less costs to sell and the value-in-use. The value-in-use calculation was based on the following key estimates and assumptions:

- Cash flow projections for the next three years are based on financial budgets approved by management and determined using budgeted margins based on past performance and management expectations for the Company and the industry.
- Cash flows beyond the three-year period are extrapolated using estimated growth rates of 3% as at June 30, 2016 and 2015, which do not exceed the industry long-term average past growth rate in which the Company operates.
- A Company specific risk adjusted pre-tax discount rate of 9.6% as at June 30, 2016 (June 30, 2015 – 10.2%).

The test results indicate that the recoverable amount of the P&C insurance operations CGU exceeds its carrying value. The Company is not aware of any reasonably possible change in any of the above key assumptions that would cause the carrying value of the CGU to exceed its recoverable amount.

3.6 Measurement of income taxes

Management exercises judgment in estimating the provision for income taxes. The Company is subject to federal income tax law and provincial income tax laws in the various jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations of tax laws differ from those of tax authorities or that the timing of realization of deferred tax assets is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Note 4 – Change in accounting policy

In November 2016, the IFRS Interpretations Committee ("IFRIC") published a summary of its discussions following a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purpose of measuring deferred taxes in accordance with IAS 12 – *Income Taxes*. The IFRIC noted that the fact that an entity does not amortize an intangible asset with an indefinite useful life does not mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use.

The benefits of the distribution network with an indefinite useful life will flow to the Company on an annual basis; therefore, the carrying amount will be recovered through use with a higher tax rate. In response to this clarification, the Company retrospectively changed its accounting policy for the deferred tax liabilities recorded in relation to its distribution network.

The following table summarizes the impact of this change in accounting policy on the Consolidated balance sheets. This change did not have an impact on the 2015 comparative figures reported in the Consolidated statements of comprehensive income (loss) and Consolidated statements of cash flows.

Table 4.1 – *Impact of change in accounting policy*

As at December 31,	**2015**
Increase (decrease) of previously reported balances	
Goodwill	104
Deferred tax assets	(25)
Deferred tax liabilities	83
Retained earnings	(4)

Note 5 – Investments

5.1 Classification of investments

Table 5.1 – *Classification of investments*

	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, loans and receivables	Total
As at December 31, 2016					
Cash and cash equivalents	**-**	**-**	**-**	**168**	**168**
Short-term notes	**105**	**-**	**-**	**-**	**105**
Fixed income					
Investment grade					
Government	**2,029**	**-**	**3,329**	**-**	**5,358**
Corporate	**1,485**	**-**	**1,642**	**-**	**3,127**
Asset-backed[1]	**144**	**-**	**33**	**-**	**177**
Non-rated	**34**	**-**	**-**	**-**	**34**
Debt securities	**3,797**	**-**	**5,004**	**-**	**8,801**
Investment grade					
Retractable	**46**	**-**	**-**	**-**	**46**
Fixed-rate perpetual	**308**	**-**	**-**	**-**	**308**
Other perpetual	**1,023**	**-**	**-**	**-**	**1,023**
Preferred shares	**1,377**	**-**	**-**	**-**	**1,377**
Common shares	**2,184**	**420**[2]	**1,031**	**-**	**3,635**
Loans	**-**	**-**	**-**	**405**	**405**
	7,358	**420**	**6,035**	**573**	**14,386**
As at December 31, 2015					
Cash and cash equivalents	-	-	-	141	141
Short-term notes	210	-	-	-	210
Fixed income					
Investment grade					
Government	1,868	-	3,047	-	4,915
Corporate	1,604	-	1,730	-	3,334
Asset-backed[1]	211	-	39	-	250
Non-rated	-	-	-	-	-
Debt securities	3,893	-	4,816	-	8,709
Investment grade					
Retractable	69	-	-	-	69
Fixed-rate perpetual	328	-	-	-	328
Other perpetual	838	-	-	-	838
Preferred shares	1,235	-	-	-	1,235
Common shares	1,886	327[2]	758	-	2,971
Loans	-	-	-	448	448
	7,014	327	5,574	589	13,504

[1] Asset-backed securities consist of mortgage-backed securities and credit card receivables.
[2] Comprised of Long positions ***(Note 5.4)*** and Net asset value attributable to third party unit holders ***(Note 6)***.

5.2 Carrying value of investments

Table 5.2 – *Carrying value of investments*

	FVTPL investments	Other investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	At carrying value	At carrying value
As at December 31, 2016						
Cash and cash equivalents	**-**	**168**	**-**	**-**	**168**	**168**
Short-term notes	**-**	**105**	**-**	**-**	**105**	**105**
Fixed income						
Investment grade						
Government	**3,329**	**1,958**	**76**	**(5)**	**2,029**	**5,358**
Corporate	**1,642**	**1,475**	**14**	**(4)**	**1,485**	**3,127**
Asset-backed	**33**	**142**	**2**	**-**	**144**	**177**
Non-rated	**-**	**34**	**-**	**-**	**34**	**34**
Debt securities	**5,004**	**3,714**	**92**	**(9)**	**3,797**	**8,801**
Investment grade						
Retractable	**-**	**45**	**1**	**-**	**46**	**46**
Fixed-rate perpetual	**-**	**291**	**24**	**(7)**	**308**	**308**
Other perpetual	**-**	**1,108**	**31**	**(116)**	**1,023**	**1,023**
Preferred shares	**-**	**1,444**	**56**	**(123)**	**1,377**	**1,377**
Common shares	**1,451**	**1,931**	**273**	**(20)**	**2,184**[1]	**3,635**
Loans	**-**	**405**	**-**	**-**	**405**	**405**
	6,455	**7,662**	**421**	**(152)**	**7,931**	**14,386**
As at December 31, 2015						
Cash and cash equivalents	-	141	-	-	141	141
Short-term notes	-	210	-	-	210	210
Fixed income						
Investment grade						
Government	3,047	1,762	106	-	1,868	4,915
Corporate	1,730	1,591	16	(3)	1,604	3,334
Asset-backed	39	209	2	-	211	250
Debt securities	4,816	3,772	124	(3)	3,893	8,709
Investment grade						
Retractable	-	69	-	-	69	69
Fixed-rate perpetual	-	316	21	(9)	328	328
Other perpetual	-	961	9	(132)	838	838
Preferred shares	-	1,346	30	(141)	1,235	1,235
Common shares	1,085	1,898	159	(171)	1,886[1]	2,971
Loans	-	448	-	-	448	448
	5,901	7,605	313	(315)	7,603	13,504

[1] Includes net foreign currency gains of $52 million as at December 31, 2016 ($90 million as at December 31, 2015).

The Company invests in high-quality non-financial U.S. corporate bonds and U.S. common shares as a means to provide geographic and sector diversification to its investment portfolio, which is mainly comprised of Canadian securities. As at December 31, 2016, the Company held $980 million in U.S. fixed-income securities (December 31, 2015: $986 million) and $638 million in U.S. common shares (December 31, 2015: $594 million). Foreign currency exposure in the U.S. fixed-income portfolio is mitigated through the use of foreign-currency forward contracts.

5.3 Market neutral equity investment strategy

The market neutral equity investment strategy consists of having both long and short equity positions. The objective of this strategy is to maximize the value added from active equity portfolio management while at the same time using short positions to mitigate overall equity market volatility. The Company has secured its short positions by pledging government debt securities as collateral.

Table 5.3 – *Market neutral equity investment strategy*

	2016		2015	
As at December 31,	**Fair value**	**Debt securities pledged as collateral**	**Fair value**	**Debt securities pledged as collateral**
Long positions				
Common shares	**324**	**-**	164	-
Short positions				
Financial liabilities related to investments	**(327)**	**338**	(166)	172

5.4 Securities lending

The Company participates in a securities lending program to generate fee income. This program is managed by the Company's custodian, a major Canadian financial institution. The Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. Collateral, mainly consisting of government securities, is provided by the counterparty and held in trust by the custodian for the benefit of the Company until the underlying security has been returned to the Company. The collateral cannot be sold or re-pledged externally by the Company, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of underlying loaned securities fluctuates.

The Company loaned securities with a fair value of $0.7 billion as at December 31, 2016 (December 31, 2015 – $1.9 billion) that are reported in Investments. The collateral amounted to $0.8 billion as at December 31, 2016 (December 31, 2015 – $2.0 billion), representing approximately 105% of the securities loaned fair value as at December 31, 2016 and 2015.

Note 6 – Financial liabilities related to investments

Table 6.1 – *Financial liabilities related to investments*

As at December 31,	**2016**	**2015**
Equities sold short positions ***(Table 5.3)***	**327**	166
Net asset value attributable to third party unit holders	**96**	163
Embedded derivatives ***(Note 7.3)***	**39**	24
Accounts payable to investment brokers on unsettled trades	**29**	22
Derivative financial liabilities ***(Table 7.2)***	**38**	3
	529	378

Note 7 – Derivative financial instruments

7.1 Types of derivatives used

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivative financial instruments are used for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investments, as long as the resulting exposures are within the investment policy guidelines.

Table 7.1 – *Types of derivatives used*

Derivatives used	Description	Objective	Intent to hold instrument
Forwards	**Contractual obligations to exchange:**		
Currency	one currency for another on a predetermined future date	Mitigate risk arising from foreign currency fluctuations on the U.S. debt portfolio	Risk management purposes
Futures	**Contractual obligations to buy or sell:**		
Interest rate	an interest rate sensitive financial instrument on a predetermined future date at a specified price	Modify or mitigate exposure to interest rate fluctuations	Mostly for risk management purposes
Equity	a specified amount of stocks, a basket of stocks or an equity index at an agreed price on a specified date	Mitigate exposure to Canadian equity market	Risk management purposes
Swaps	**Over-the-counter contracts:**		
Swap agreements	in which two counterparties exchange a series of cash flows based on a basket of stocks, applied to a notional amount	Mitigate exposure to equity market fluctuations	Trading purposes
Credit default	that transfer credit risk related to an underlying financial instrument from one counterparty to another	Modify exposure to credit	Trading purposes
Options	**Contractual agreements under which the seller grants to the buyer the right, but not the obligation either to buy (call option) or sell (put option):**		
Inflation caps	an index at a predetermined price, at or by a specified future date	Mitigate exposure to inflation risk	Trading purposes

Refer to Table 7.2 hereafter for the net gain (loss), fair value and notional amount of derivatives

7.2 Fair value and notional amount of derivatives

Derivative financial assets are presented on the Consolidated balance sheets as part of Other assets and derivative financial liabilities are presented as part of Financial liabilities related to investments.

Table 7.2 – *Net gain (loss), fair value and notional amount of derivatives by term to maturity and nature of risk*

	For the years ended	As at		As at		
	Net gain (loss) on derivatives	Fair value		Notional amount: term to maturity		
		Positive (Asset)	Negative (Liability)	Less than 1 year	From 1 to 5 years	Over 5 years
December 31, 2016						
Foreign currency contracts						
Forwards	**23**	**6**	**-**	**1,098**	**-**	**-**
Interest rate contracts						
Futures and forwards	**(2)**	**-**	**-**	**949**	**-**	**-**
Equity contracts						
Swap agreements	**(239)**	**-**	**38**	**1,023**	**-**	**-**
Futures	**(29)**	**-**	**-**	**167**	**-**	**-**
Credit contracts						
Swap agreements	**-**	**1**	-	-	**39**	-
Inflation contracts						
Options	**-**	**-**	**-**	**29**	**64**	**-**
	(247)	**7**	**38**			
Foreign currency contracts	**23**					
Other contracts *(Table 23.1)*	**(270)**					
December 31, 2015						
Foreign currency contracts						
Forwards	(180)	5	-	1,069	-	-
Interest rate contracts						
Futures	(6)	-	-	986	-	-
Equity contracts						
Swap agreements	177	48	2	751	-	-
Futures	12	-	-	142	-	-
Credit Contracts						
Swap Agreements	-	1	1	-	69	-
Inflation contracts						
Options	-	-	-	42	97	-
	3	54	3			
Foreign currency contracts	(180)					
Other contracts *(Table 23.1)*	183					

7.3 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable.

The fair value of embedded derivatives amounted to $39 million as at December 31, 2016 (December 31, 2015 – $24 million) and is linked entirely to the Company's investment in perpetual preferred shares. The Company did not attempt to establish a notional amount for these embedded derivatives but a proxy for that amount could be the fair value of these perpetual preferred shares which amounted to $1,185 million as at December 31, 2016 (December 31, 2015 – $1,062 million). Embedded derivatives are reported in Financial liabilities related to investments.

Note 8 – Fair value measurement

8.1 Categorization of fair values

The Company categorizes its fair value measurements according to a three-level fair value hierarchy. ***Refer to Note 2.4b) for details.***

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

	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)	
As at December 31, 2016				
Short-term notes	**105**	**-**	**-**	**105**
Fixed income				
Investment grade				
Government	**4,134**	**1,224**	**-**	**5,358**
Corporate	**1,403**	**1,724**	**-**	**3,127**
Asset-backed	**-**	**177**	**-**	**177**
Non-rated	**-**	**-**	**34**	**34**
Debt securities	**5,642**	**3,125**	**34**	**8,801**
Preferred shares	**1,338**	**-**	**39**	**1,377**
Common shares	**3,635**	**-**	**-**	**3,635**
Derivative financial assets *(Table 7.2)*	**-**	**7**	**-**	**7**
Total financial assets measured at fair value	**10,615**	**3,132**	**73**	**13,820**
Total financial liabilities measured at fair value	**423**	**38**	**39**	**500**
As at December 31, 2015				
Short-term notes	210	-	-	210
Fixed income				
Investment grade				
Government	3,643	1,272	-	4,915
Corporate	1,484	1,850	-	3,334
Asset-backed	-	250	-	250
Debt securities	5,337	3,372	-	8,709
Preferred shares	1,211	-	24	1,235
Common shares	2,971	-	-	2,971
Derivative financial assets *(Table 7.2)*	-	54	-	54
Total financial assets measured at fair value	9,519	3,426	24	12,969
Total financial liabilities measured at fair value	329	3	24	356

The fair value of loans was $400 million as at December 31, 2016 (December 31, 2015 – $449 million). The fair value is determined using a valuation technique based on the income approach. Future inflows of principal and interest are discounted using a pre-tax risk-free rate from the Government of Canada bonds curve plus a risk premium that is based on the credit risk to which the Company would be exposed from the borrowers. The Company ensures that the discount rate is consistent with borrowing rates on similar loans issued by financial institutions. The Company receives guarantees for loans.

8.2 Reclassifications between Level 1 and Level 2

As at the end of each reporting period, the Company determines if reclassifications have occurred between levels in the hierarchy based on the application of the classification criteria.

Table 8.2 – *Reclassifications of debt securities between Level 1 and Level 2*

As at December 31, 2016	
From Level 1 to Level 2	**389**
From Level 2 to Level 1	**409**

Note 9 – Financial risk

The Company has a comprehensive risk management framework and internal control procedures designed to manage and monitor various risks in order to protect the Company's business, clients, shareholders and employees. The risk management programs aim to manage risks that could materially impair the Company's financial position, accept risks that contribute to sustainable earnings and growth and disclose these risks in a full and complete manner.

Effective risk management consists in identifying, understanding and communicating all material risks that the Company is exposed to in the course of its operations. In order to make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of Directors ensures that the Company's management has put appropriate risk management programs in place. The Board of Directors, directly and in particular through its Risk Management Committee, oversees the Company's risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the Risk Management Department through the Chief Risk Officer and internal auditors.

The Company's exposure to financial risk arising from its financial instruments together with the Company's risk management policies and practices used to mitigate it are explained hereafter.

The majority of the investment portfolio is invested in well established, active and liquid markets.

Table 9.1 – *Financial risk*

	Market risk	**Basis risk**	**Credit risk**	**Liquidity risk**
Risk definition	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity market prices, interest rates or spreads, or foreign exchange rates.	Risk that offsetting investments in an economic hedging strategy will not experience price changes that entirely offset each other.	Possibility that counterparties may not be able to meet payment obligations when they become due.	Risk that the Company will encounter difficulty in raising funds to meet obligations associated with financial liabilities.
Reference	*Note 9.1*	*Note 9.2*	*Note 9.3*	*Note 9.4*

9.1 Market risk

The Company's exposure to market risk together with the Company's risk management policy and practices used to mitigate it are explained below.

Table 9.2 – *Market risk*

	Equity price risk	Currency risk	Interest rate risk
Risk definition	Risk of losses arising from changes in equity market prices.	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates or spreads.
Risk exposure	Significant exposure to price changes for common shares and preferred shares.	Some exposure to foreign exchange risks arising from investments denominated in foreign currency, mainly U.S. dollars.	Significant exposure to changes in interest rates from debt securities and preferred shares.
Risk management investment policy	Set forth limits in terms of equity exposure.	Set forth limits in terms of currency exposure.	Set forth limits in terms of interest rate and credit spread duration.
Risk mitigation	Through asset class and economic sector diversification and, in some cases, the use of derivatives.	Foreign currency exposure in the U.S. debt portfolio is mitigated through the use of foreign-currency forward contracts.	Through the use of derivatives. Changes in the discount rate applied to the Company's claims liabilities offers a partial offset to the change in price of interest sensitive assets.

The Operational Investment Committee and Compliance Review and Corporate Governance Committee regularly monitor and review compliance, respectively, with the Company's investment policies.

a) Sensitivity analyses to market risk

Sensitivity analyses are one risk management technique that assists management in ensuring that risks assumed remain within the Company's risk tolerance level. Sensitivity analyses involve varying a single factor to assess the impact that this would have on the Company's results and financial condition, excluding any management action. Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 9.3 – *Sensitivity analyses*

For the years ended December 31,	2016		2015	
	Net income	OCI	Net income	OCI
Equity price risk				
Common share prices (10% decrease)[1]	**9**	**(193)**	(5)	(156)
Preferred share prices (5% decrease)[2]	**8**	**(57)**	5	(50)
Interest rate risk[3] (100 basis point increase)				
Investments	**4**	**(75)**	7	(89)
Currency risk (strengthening of Canadian dollar by 10%)[4]				
Investments	**2**	**(47)**	2	(45)

[1] Net of any equity hedges, including the impact of any impairment.
[2] Including the impact on related embedded derivatives.
[3] The yield curve experiences an instantaneous parallel shift.
[4] After giving effect to forward-exchange contracts.

These sensitivity analyses were prepared using the following assumptions:

- Shifts in the yield curve are parallel.
- Interest rates, equity prices and foreign currency move independently.
- Credit, liquidity and basis risks have not been considered.
- Impact on the Company's pension plans has been considered.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- For FVTPL debt securities, the estimated impact on Net income is assumed to be offset by the market-yield adjustment.
- AFS debt or equity securities in an unrealized loss position, as reflected in AOCI may, at some point in the future, be realized through sale.

A decline in the price of AFS perpetual preferred shares is recorded in OCI and would normally lead to a lower valuation for associated embedded derivative liabilities which are recorded as gains in Net income. Conversely, an increase in the price of these preferred shares is also recorded in OCI and would normally lead to a higher valuation for associated embedded derivative liabilities which are recorded as losses in Net income.

Gains and losses resulting from changes in interest rates vary depending on the Company's position on the interest rate risk.

b) Exposure to currency risk

The following table presents the net currency exposure on foreign-denominated investments.

Table 9.4 – *Net currency exposure on foreign-denominated investments*

As at December 31,	2016	2015
Investments denominated in U.S. dollars		
Fixed-income securities	**980**	986
Common shares	**638**	594
Other	**131**	44
Investments denominated in U.S. dollars	**1,749**	1,624
Less: U.S. dollar foreign-currency forward contracts, notional amount	**1,027**	1,029
Net currency exposure – U.S. dollar	**722**	595

The Company's net exposure to other currencies was not significant as at December 31, 2016 and 2015.

c) Exposure to interest rate risk

The Company's net exposure to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates is detailed hereafter in Table 9.5.

Movements in short-term and long-term interest rates, including changes in credit spreads, cause changes in realized and unrealized gains and losses. Interest rate risk exposures are reported based on the earlier of the financial instruments contractual repricing date or maturity date.

The effective rates shown in Table 9.5 represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value. The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates.

Table 9.5 – *Contractual repricing and maturity schedule*

		Fixed rates				
	Floating rates	Less than 1 year	From 1 to 5 years	Over 5 years	Non-rate sensitive	Total
As at December 31, 2016						
Assets						
Cash and cash equivalents	**167**	**1**	**-**	**-**	**-**	**168**
Effective interest rate		***0.48%***				
Short-term notes	**-**	**105**	**-**	**-**	**-**	**105**
Effective interest rate		***0.66%***				
Fixed-income securities	**1**	**890**	**4,729**	**3,076**	**-**	**8,696**
Effective interest rate		***1.09%***	***1.55%***	***2.06%***		
Preferred shares	**54**	**24**	**952**	**347**	**-**	**1,377**
Effective interest rate		***4.80%***	***4.76%***	***5.32%***		
Common shares	**-**	**-**	**-**	**-**	**3,635**	**3,635**
Loans	**204**	**5**	**36**	**160**	**-**	**405**
Effective interest rate		***4.41%***	***5.34%***	***4.88%***		
Reinsurance assets	**-**	**193**	**195**	**94**	**-**	**482**
Effective interest rate		***1.84%***	***1.84%***	***1.84%***		
Other assets	**50**	**6**	**1**	**-**	**8,066**	**8,123**
	476	**1,224**	**5,913**	**3,677**	**11,701**	**22,991**
Liabilities and shareholders' equity						
Claims liabilities	**-**	**3,414**	**3,449**	**1,673**	**-**	**8,536**
Effective interest rate		***1.84%***	***1.84%***	***1.84%***		
Debt outstanding	**-**	**-**	**250**	**1,143**	**-**	**1,393**
Effective interest rate			***5.41%***	***5.10%***		
Other liabilities	**2**	**38**	**25**	**12**	**6,897**	**6,974**
Effective interest rate			***4.75%***	***5.33%***		
Shareholders' equity	**-**	**-**	**-**	**-**	**6,088**	**6,088**
	2	**3,452**	**3,724**	**2,828**	**12,985**	**22,991**
Net long (short) exposure	**474**	**(2,228)**	**2,189**	**849**	**(1,284)**	**-**
As at December 31, 2015						
Assets						
Cash and cash equivalents	98	43	-	-	-	141
Effective interest rate		*0.47%*				
Short-term notes	-	210	-	-	-	210
Effective interest rate		*0.45%*				
Fixed-income securities	5	1,019	4,286	3,189	-	8,499
Effective interest rate		*1.25%*	*1.45%*	*1.82%*		
Preferred shares	58	43	769	365	-	1,235
Effective interest rate		*4.85%*	*4.97%*	*5.37%*		
Common shares	-	-	-	-	2,971	2,971
Loans	219	1	37	191	-	448
Effective interest rate		*4.59%*	*5.57%*	*5.09%*		
Reinsurance assets	-	110	109	55	-	274
Effective interest rate		*1.67%*	*1.67%*	*1.67%*		
Other assets	96	-	-	-	7,441	7,537
	476	1,426	5,201	3,800	10,412	21,315
Liabilities and shareholders' equity						
Claims liabilities	-	3,262	3,221	1,611	-	8,094
Effective interest rate		*1.67%*	*1.67%*	*1.67%*		
Debt outstanding	-	-	249	894	-	1,143
Effective interest rate			*5.41%*	*5.47%*		
Other liabilities	2	-	13	12	6,327	6,354
Effective interest rate			*4.92%*	*5.37%*		
Shareholders' equity	-	-	-	-	5,724	5,724
	2	3,262	3,483	2,517	12,051	21,315
Net long (short) exposure	474	(1,836)	1,718	1,283	(1,639)	-

9.2 Basis risk

The Company's use of derivatives exposes it to a number of risks, including credit and market risks. The hedging of certain risks with derivatives results in basis risk. The imperfect correlation between the hedging instrument and hedged item creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company monitors the effectiveness of its economic hedges on a regular basis. Basis risk is controlled by limits prescribed in the investment policy, which are monitored regularly.

9.3 Credit risk

The Company's credit risk exposure is concentrated primarily in its debt securities and preferred shares and, to a lesser extent, in its premium receivables, reinsurance assets, and structured settlement agreements entered into with various life insurance companies. The Company is also subject to counterparty credit risk arising from reinsurance, over-the-counter derivatives, as well as securities lending and borrowing transactions. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to the Company. These exposures and the Company's risk management policy and practices used to mitigate credit risk are explained below.

a) Maximum exposure to credit risk

The table below presents the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements available to the Company to mitigate this risk. For on-balance sheet exposures, maximum exposure to credit risk is defined as the carrying value of the asset.

Table 9.6 – *Maximum exposure to credit risk*

As at December 31,	2016	2015
Cash and cash equivalents	**168**	141
Debt securities	**8,801**	8,709
Preferred shares	**1,377**	1,235
Loans	**405**	448
Premium receivables	**3,057**	2,868
Reinsurance assets	**482**	274
Other financial assets[1]	**481**	493
On-balance sheet credit risk exposure	**14,771**	14,168
Structured settlements	**1,183**	1,116
Off-balance sheet credit risk exposure	**1,183**	1,116

[1]Include industry pools receivable, other receivables and recoverables, accrued investment income, restricted funds, and financial assets related to investments.

Structured settlements

The Company has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments. In the event that the life insurers are in default, the Company may have to assume a financial guarantee obligation. Therefore, the net risk to the Company is any credit risk related to the life insurers. Since the Company deals with registered life insurers with credit rating of at least 'A-' at the inception of the contract, this credit risk is minimal.

b) Concentration of credit risk

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or industries.

Investments
The Company has a significant concentration of its investments in the financial sector and in Canada; this risk concentration is closely monitored. As a means to provide geographic and sector diversification to its investment portfolio, the Company invests in high-quality non-financial U.S. corporate bonds and U.S. common shares.

Table 9.7 – *Investment breakdown by country of incorporation and by industry*

As at December 31,	2016	2015
By country of incorporation		
Canada	**87%**	87%
U.S.	**11%**	11%
Other	**2%**	2%
	100%	100%
By industry		
Government	**39%**	39%
Banks, insurance and diversified financial services	**33%**	34%
Energy	**8%**	7%
Other	**20%**	20%
	100%	100%

The Company's risk management strategy is to invest in debt securities and preferred shares of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The Company's investment policy requires that, at the time of the investment, all debt securities have a minimum credit rating of 'BBB' and of 'P3' for preferred shares. This credit quality restriction excludes indirect investments through debt funds. In the case of funds, specific policy limits apply to manage the overall exposure to these investments. Management monitors subsequent credit rating changes on a regular basis.

For the Company's federally regulated subsidiaries, the assets invested in any entity or group of related entities are limited by OSFI to 5% of the subsidiaries' assets. The Company also monitors aggregate concentrations of credit risk by country of issuer and by industry regardless of the asset class *(see Table 9.7).* The Company applies limits against that aggregate exposure, which are more conservative than OSFI's limits. Investment portfolio diversification helps to mitigate credit risk and is monitored against established guidelines with respect to exposure to individual issuers.

c) Counterparty credit risk

Counterparty credit risk arises from reinsurance, over-the-counter derivatives, as well as security lending and borrowing transactions.

Reinsurance
The Company relies on reinsurance to manage underwriting risk. Under reinsurance programs, management considers that in order for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes the significant insurance risk related to the underlying reinsured risks and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance.

Although reinsurance makes the assuming reinsurer liable to the Company to the extent of the risk ceded, the Company is not relieved of its primary liability to its policyholders as the direct insurer. There is no certainty that its reinsurers will pay all reinsurance claims on a timely basis or at all. As a result, the Company bears credit risk with respect to its reinsurers.

The Company may also be subject to credit risk on potential future recoverables arising from catastrophes that could be subject to a non-payment (default). The Company's placement of reinsurance is diversified such that it is not dependent on a single reinsurer and the Company's operations are not substantially dependent upon any single reinsurance contract.

The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The Company also has minimum rating requirements for its reinsurers. Substantially all reinsurers are required to have a minimum credit rating of 'A-' at inception of the contract. The Company also requires that its contracts include a special termination and security review clause allowing the Company to replace a reinsurer during the contract period should the reinsurer's credit rating fall below the level acceptable to the Company or for other reasons that might jeopardize the Company's ability to continue doing business with such reinsurer as intended at the time of entering into the reinsurance arrangement.

The Company has collateral in place to support amounts receivable and recoverable from unregistered reinsurers. The Company is the assigned beneficiary of collateral consisting of cash, security agreements and letters of credit totalling $127 million as at December 31, 2016 (December 31, 2015 – $133 million) as guarantees from unregistered reinsurers. This collateral is held in support of policy liabilities of $94 million as at December 31, 2016 (December 31, 2015 – $76 million) and could be used should these reinsurers be unable to meet their obligations.

Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at December 31, 2016 and 2015.

Over-the-counter derivatives, as well as security lending and borrowing transactions
Credit risk from over-the-counter derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of an over-the-counter instrument and is normally a small fraction of the contract's notional amount. In addition, the Company may be subject to wrong-way risk arising from certain derivative transactions. Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

Credit risk from security lending and borrowing transactions arises when the counterparty is allowed to re-hypothecate or re-pledge the collateral externally. Credit risk from security borrowing is the potential for the counterparty to default when the value of the collateral posted is higher than the value of the security borrowed.

The Company subjects its derivative-related, as well as security lending and borrowing credit risk to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a monthly review by the Operational Investment Committee. The Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of 'A-' and an issuer credit spread below established thresholds, or has a guarantee from a company rated 'A-' or better.

The Company uses netting clauses in master derivative agreements to reduce derivative-related credit exposure. Netting clauses in master derivative agreements provide for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Company's financial obligations toward the counterparty to such an agreement can be set off against obligations such counterparty has toward the Company. The overall exposure to credit risk that is reduced through the netting clauses may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as by changes in underlying market rates and values.

The Company's rigorous collateral management process is another significant credit mitigation tool used to manage counterparty credit risk arising from over-the-counter derivative and security lending and borrowing transactions. Most of the Company's legal agreements allow for daily collateral movement. Consequently, the Company regularly validates that the collateral that it pledges is not too high and that mark-to-market provisions for derivatives are sufficient. Mark-to-market provisions provide the Company with the right to request that the counterparty pay down or collateralize the current market value of its derivative positions when the value exceeds a specified threshold amount.

The aggregate credit risk exposure was $90 million as at December 31, 2016 (December 31, 2015 – $133 million) and is the sum of the replacement cost plus an add-on amount for potential future credit exposure. The risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

9.4 Liquidity risk

The Company's liquidity management is governed by establishing a prudent policy that identifies oversight responsibilities as well as by setting limits and implementing effective techniques to monitor, measure and control exposure to liquidity risk. As a result of the nature of the Company's P&C insurance activities, cash flows may be highly volatile and unpredictable.

The Company's liquidity needs are rigorously managed by matching asset and liability cash flows and by establishing forecasts for cash inflows and outflows. The Company invests in various types of assets in order to match them to its liabilities. This method maps the obligations towards insured clients to asset life and performance. The Company reviews the matching status on a quarterly basis. To manage its cash flow requirements, a portion of the Company's investments is maintained in short-term (less than one year) highly liquid money market securities. A large portion of the investments are unencumbered and held in highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements. In addition, the Company also has an unsecured committed credit facility, *see Note 18.3*.

a) Investments by contractual maturity

Table 9.8 – *Investments by contractual maturity*

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2016					
Cash and cash equivalents	**168**	**-**	**-**	**-**	**168**
Debt securities	**995**	**4,695**	**3,077**	**34**	**8,801**
Preferred shares	**22**	**16**	**8**	**1,331**	**1,377**
Common shares	**-**	**-**	**-**	**3,635**	**3,635**
Loans	**6**	**49**	**350**	**-**	**405**
	1,191	**4,760**	**3,435**	**5,000**	**14,386**
As at December 31, 2015					
Cash and cash equivalents	141	-	-	-	141
Debt securities	1,233	4,286	3,190	-	8,709
Preferred shares	39	22	8	1,166	1,235
Common shares	-	-	-	2,971	2,971
Loans	1	51	396	-	448
	1,414	4,359	3,594	4,137	13,504

b) Financial liabilities by contractual maturity

Table 9.9 – *Financial liabilities by contractual maturity*

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2016					
Claims liabilities – undiscounted value	**3,295**	**3,328**	**1,614**	**-**	**8,237**
Debt outstanding	**-**	**250**	**1,143**	**-**	**1,393**
Other financial liabilities	**736**	**115**	**18**	**754**	**1,623**
	4,031	**3,693**	**2,775**	**754**	**11,253**
As at December 31, 2015					
Claims liabilities – undiscounted value	3,125	3,086	1,543	-	7,754
Debt outstanding	-	249	894	-	1,143
Other financial liabilities	670	96	9	585	1,360
	3,795	3,431	2,446	585	10,257

The expected maturity of claims liabilities is determined by estimating when claims liabilities will be settled. Unearned premiums have been excluded because they do not constitute actual obligations.

Note 10 – Claims liabilities

10.1 Movements in claims liabilities

Table 10.1 – *Movements in claims liabilities*

	Direct	Ceded	Net
For the year ended December 31, 2016			
Balance, beginning of year	**8,094**	**253**	**7,841**
Current year claims	**5,884**	**353**	**5,531**
Favourable prior-year claims development	**(396)**	**(6)**	**(390)**
Decrease due to changes in discount rate	**(34)**	**(1)**	**(33)**
Total claims incurred	**5,454**	**346**	**5,108**
Claims paid	**(5,028)**	**(134)**	**(4,894)**
Business combinations *(Note 29)*	**16**	**-**	**16**
Balance, end of year	**8,536**	**465**	**8,071**
For the year ended December 31, 2015			
Balance, beginning of year	8,021	314	7,707
Current year claims	5,144	64	5,080
Favourable prior-year claims development	(503)	(24)	(479)
Increase due to changes in discount rate	59	1	58
Total claims incurred	4,700	41	4,659
Claims paid	(4,717)	(105)	(4,612)
Business combinations *(Note 29)*	90	3	87
Balance, end of year	8,094	253	7,841

10.2 Claims liabilities by line of business

Table 10.2 – *Claims liabilities by line of business*

	Direct	Ceded	Net
As at December 31, 2016			
Personal Auto	**4,752**	**79**	**4,673**
Personal Property	**750**	**131**	**619**
Personal lines	**5,502**	**210**	**5,292**
Commercial Auto	**795**	**11**	**784**
Commercial P&C	**2,239**	**244**	**1,995**
Commercial lines	**3,034**	**255**	**2,779**
	8,536	**465**	**8,071**
As at December 31, 2015			
Personal Auto	4,638	64	4,574
Personal Property	581	10	571
Personal lines	5,219	74	5,145
Commercial Auto	731	8	723
Commercial P&C	2,144	171	1,973
Commercial lines	2,875	179	2,696
	8,094	253	7,841

10.3 Fair value of claims liabilities

The Company estimates that the fair value of its net claims liabilities approximate their carrying values. There was no premium deficiency as at December 31, 2016 and 2015.

Table 10.3 – *Carrying value of claims liabilities*

	Direct	Ceded	Net
As at December 31, 2016			
Undiscounted value	**8,237**	**447**	**7,790**
Effect of time value of money using a discount rate of 1.84%	**(344)**	**(9)**	**(335)**
Provision for adverse deviations (PfAD)	**643**	**27**	**616**
	8,536	**465**	**8,071**
As at December 31, 2015			
Undiscounted value	7,754	244	7,510
Effect of time value of money using a discount rate of 1.67%	(303)	(7)	(296)
Provision for adverse deviations (PfAD)	643	16	627
	8,094	253	7,841

10.4 Prior-year claims development

The following table presents the estimates of cumulative incurred claims, including IBNR, with subsequent developments during the periods and together with cumulative payments to date.

Table 10.4 – *Prior-year claims development – net*

		Accident year									
	Total	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007 & earlier
Undiscounted claims liabilities outstanding at end of accident year		2,683	2,493	2,461	2,524	2,375	2,312	2,038	1,799	1,627	4,294
Revised estimates											
One year later		-	2,390	2,390	2,463	2,342	2,213	1,923	1,740	1,625	4,136
Two years later		-	-	2,384	2,427	2,262	2,142	1,896	1,739	1,596	3,985
Three years later		-	-	-	2,418	2,220	2,058	1,860	1,715	1,586	3,985
Four years later		-	-	-	-	2,194	2,018	1,836	1,679	1,562	3,910
Five years later		-	-	-	-	-	1,986	1,792	1,656	1,525	3,821
Six years later		-	-	-	-	-	-	1,768	1,628	1,511	3,807
Seven years later		-	-	-	-	-	-	-	1,602	1,493	3,794
Eight years later		-	-	-	-	-	-	-	-	1,482	3,753
Nine years later		-	-	-	-	-	-	-	-	-	3,731
Current estimate		2,683	2,390	2,384	2,418	2,194	1,986	1,768	1,602	1,482	3,731
Claims paid to date		-	(917)	(1,232)	(1,552)	(1,662)	(1,669)	(1,544)	(1,470)	(1,356)	(3,446)
Undiscounted claims liabilities	**7,790**	2,683	1,473	1,152	866	532	317	224	132	126	285
Discounting and PfAD	**281**										
Claims liabilities - net	**8,071**										

The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still open or claims still unreported.

Note 11 – Unearned premiums

11.1 Movements in unearned premiums

Table 11.1 – *Movements in unearned premiums*

	Direct	Ceded	Net
For the year ended December 31, 2016			
Balance, beginning of year	**4,390**	**21**	**4,369**
Business combinations *(Note 29)*	**104**	**-**	**104**
Premiums written	**8,197**	**212**	**7,985**
Premiums earned	**(8,118)**	**(216)**	**(7,902)**
Balance, end of year	**4,573**	**17**	**4,556**
For the year ended December 31, 2015			
Balance, beginning of year	4,110	21	4,089
Business combinations *(Note 29)*	71	-	71
Premiums written	7,893	194	7,699
Premiums earned	(7,684)	(194)	(7,490)
Balance, end of year	4,390	21	4,369

11.2 Unearned premiums by line of business

Table 11.2 – *Unearned premiums by line of business*

	Direct	Ceded	Net
As at December 31, 2016			
Personal Auto	**2,250**	**-**	**2,250**
Personal Property	**1,111**	**-**	**1,111**
Personal lines	**3,361**	**-**	**3,361**
Commercial Auto	**337**	**1**	**336**
Commercial P&C	**875**	**16**	**859**
Commercial lines	**1,212**	**17**	**1,195**
	4,573	**17**	**4,556**
As at December 31, 2015			
Personal Auto	2,131	-	2,131
Personal Property	990	-	990
Personal lines	3,121	-	3,121
Commercial Auto	338	1	337
Commercial P&C	931	20	911
Commercial lines	1,269	21	1,248
	4,390	21	4,369

Note 12 – Reinsurance

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

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

Table 12.1 – *Company's reinsurance net retention and coverage limits by nature of risk*

As at December 31,	2016	2015
Single risk events		
Retentions:		
On property policies	**7.5**	7.5
On liability policies	**3 - 10**	2 - 10
Multi-risk events and catastrophes		
Retention	**100**	100
Coverage limits	**3,575**	3,450

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

Multi-risk events and catastrophes
The Company retains participations averaging 5.3% as at December 31, 2016 (December 31, 2015 – 5.5%) on reinsurance layers between the retention and coverage limits.

In 2015 and 2016, the Company entered into an aggregate reinsurance treaty, renewable on an annual basis, to protect for frequency of multi-risk events and catastrophes of $30 million or more. The above retention and coverage limits exclude this aggregate reinsurance treaty.

12.2 Components of reinsurance assets

Table 12.2 – *Components of reinsurance assets*

As at December 31,	2016	2015
Reinsurers' share of claims liabilities ***(Note 10.1)***	**465**	253
Reinsurers' share of unearned premiums ***(Note 11.1)***	**17**	21
	482	274

12.3 Net recovery (expense) from reinsurance

Table 12.3 – *Net recovery (expense) from reinsurance*

For the years ended December 31,	2016	2015
Ceded earned premiums ***(Note 10.1)***	**(216)**	(194)
Ceded claims incurred ***(Note 11.1)***	**346**	41
Commissions earned on ceded reinsurance	**20**	19
	150	(134)

The estimated gross loss related to the Fort McMurray wildfires amounted to $400 million, impacting ceded earned premiums by $27 million and ceded claims incurred by $252 million for a net recovery from reinsurance of $225 million for the year ended December 31, 2016.

Note 13 – Insurance risk

The Company principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses. The majority of the insurance risk to which the Company is exposed is of a short-term nature. Policies generally cover a 12-month period. The average duration of claims liabilities is approximately 2.4 years as at December 31, 2016 and 2015.

Insurance contract risk is the risk that a loss arises from the following reasons:

- underwriting and pricing ***(Note 13.1)***;
- fluctuation in the timing, frequency and severity of claims relative to expectations ***(Note 13.2)***;
- inadequate reinsurance protection ***(Note 9.3c)***; and
- large unexpected losses arising from a single event such as a catastrophe ***(Note 13.3)***.

Insured events can occur at any time during the coverage period and can generate losses of variable amounts. An objective of the Company is to ensure that sufficient claims liabilities are established to cover future insurance claim payments related to past insured events. The Company's success depends upon its ability to accurately assess the risk associated with the insurance contracts underwritten by the Company. The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claims liabilities do not represent an exact calculation of the liability. Rather, claims liabilities are the Company's best estimates of its expected ultimate cost of resolution and administration of claims. Expected inflation is taken into account when estimating claims liabilities, thereby mitigating inflation risk. The composition of the Company's insurance risk, as well as the methods employed to mitigate risks, are described hereafter.

13.1 Underwriting and pricing risks

The insurance business is cyclical in nature whereby the industry generally reduces insurance rates following periods of increased profitability, while it generally increases rates following periods of sustained loss. The Company's profitability tends to follow this cyclical market pattern and can also be affected by demand and competition. In addition, the Company is at risk from changes in automobile insurance legislation, the economic environment and climate patterns.

In order to properly monitor the Company's risk appetite, pricing targets are set by the Insurance Risk Department and distributed to each region. Pricing targets are established using an internal return on equity model and a risk-based capital model.

Risks associated with commercial P&C and personal property insurance contracts may vary in relation to the geographical area of the risk insured by the Company. The Company's exposure to concentration of insurance risk, in terms of type of risk and level of insured benefits, is mitigated by careful selection and implementation of underwriting strategies, which is in turn largely achieved through diversification across industry sectors and geographical areas. For automobile insurance, legislation is in place at a provincial level and this creates differences in the benefits provided among the provinces.

Table 13.1 – *Concentration of insurance contracts on the basis of DPW*

For the years ended December 31,	2016	2015
By line of business		
Personal Auto	**46%**	45%
Personal Property	**24%**	23%
Commercial P&C	**21%**	23%
Commercial Auto	**9%**	9%
	100%	100%
By province		
Ontario	**41%**	41%
Québec	**27%**	27%
Alberta	**18%**	18%
British Columbia	**7%**	6%
Other	**7%**	8%
	100%	100%

The Enterprise Risk Committee monitors the Company's overall risk profile, aiming for a balance between risk, return and capital and determines policies concerning the Company's risk management framework. Its mandate is to identify, measure and monitor risks, as well as avoid risks that are outside of the Company's risk tolerance level. Further, in order to minimize unforeseen risks, new products are subject to an internal product and approval review process. The Company also uses reinsurance under its strategy for managing the underwriting risk. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect the Company's ceded premium volume and profitability. Reinsurance companies exclude some types of coverage from the contracts that the Company purchases from them or may alter the terms of such contracts from time to time. These gaps in reinsurance protection expose the Company to greater risk and greater potential loss and could adversely affect its ability to underwrite future business. Where the Company cannot successfully mitigate risk through reinsurance arrangements, consideration is given to reducing premiums written in order to lower its risk.

13.2 Risk related to the timing, frequency and severity of claims

The occurrence of claims being unforeseeable, the Company is exposed to the risk that the number and the severity of claims could exceed the estimates.

Strict claim review policies are in place to assess all new and ongoing claims. Regular detailed reviews of claims handling procedures and frequent investigations of possible fraudulent claims reduce the Company's risk exposure. Further, the Company enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that could negatively impact the business. The Company has established a Large Loss Committee responsible for analyzing large losses and contentious matters to ensure that appropriate claims liabilities are established and approved.

13.3 Catastrophe risk

Catastrophe risk is the risk of occurrence of a catastrophe defined as any one claim, or group of claims related to a single event such as large fires, hurricanes, earthquakes and hail or wind storms. Catastrophes can have a significant impact on the underwriting income of an insurer.

The Company has limited its exposure to catastrophe risk by imposing maximum claim amounts on certain contracts, as well as by using reinsurance arrangements. The placement of ceded reinsurance is almost exclusively on an excess-of-loss basis (per event or per risk). Ceded reinsurance complies with regulatory guidelines. Retention limits for the excess-of-loss reinsurance vary by product line.

Refer to Note 12 – Reinsurance for the Company's reinsurance net retention and coverage limits by nature of risk.

13.4 Exposure to insurance risk

The principal assumption underlying the claims liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

- average claim costs, including claim handling costs (severity);
- average number of claims by accident year (frequency);
- trends in claims severity and frequency;
- payment patterns;
- other factors such as inflation, expected or in-force government pricing and coverage reforms, and level of insurance fraud;
- discount rate; and
- PfAD.

Most or all of the qualitative factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Company's ability to accurately assess the risk of insurance contracts that the Company underwrites. There may also be significant lags between the occurrence of the insured event and the time it is actually reported to the Company and additional lags between the time of reporting and final settlement of claims. The Company refines its claims liabilities estimates on an ongoing basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process. Reserving policies are overseen by the Company's Reserve Review Committee.

Key assumptions and sensitivity analysis

The claims liabilities' sensitivity to certain of these 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 13.2 – *Sensitivity analysis (claims liabilities)*

Sensitivity factors	Change in assumptions	Impact on Net income
As at December 31, 2016		
Average claim costs (severity)	**+5%**	**(279)**
Average number of claims (frequency)	**+5%**	**(53)**
Discount rate	**+1%**	**137**
As at December 31, 2015		
Average claim costs (severity)	+5%	(271)
Average number of claims (frequency)	+5%	(53)
Discount rate	+1%	134

Note 14 – Investments in associates and joint ventures

Table 14.1 – *Movement in investments in associates and joint ventures*

As at December 31,	2016	2015
Balance, beginning of year	**396**	313
Acquisitions, net of sales	**194**	75
Business combinations *(Note 29)*	**(45)**	-
Dividends received	**(21)**	(15)
Share of profit (loss) :		
recorded in net income	**16**	26
recorded in OCI	**3**	(3)
Balance, end of year	**543**	396
Of which:		
Associates	**382**	207
Joint ventures	**161**	189

During 2016, there were no events or changes in circumstances that indicated that the carrying values of Company's investments in associates and joint ventures, all of which are investments in private entities, may not be recoverable.

Note 15 – Property and equipment

15.1 Net carrying value of property and equipment

Table 15.1 – *Net carrying value of property and equipment*

As at December 31,	2016	2015
Land and buildings	**38**	10
Furniture and equipment	**47**	44
Leasehold improvements	**54**	50
	139	104

Note 16 – Goodwill and intangible assets

16.1 Summary of goodwill and intangible assets

Table 16.1 – *Reconciliation of the carrying value of goodwill and intangible assets*

		Intangible assets			
	Goodwill	Distribution networks	Customer relationships	Internally developed software	Total intangible assets
Cost					
Balance as at January 1, 2016	**1,272**	**910**	**345**	**426**	**1,681**
Acquisitions and costs capitalized	**82**	**-**	**26**	**69**	**95**
Business combinations *(Note 29)*	**63**	**-**	**-**	**-**	**-**
Disposals and write-off	**(14)**	**-**	**(6)**	**-**	**(6)**
Balance as at December 31, 2016	**1,403**	**910**	**365**	**495**	**1,770**
Accumulated amortization					
Balance as at January 1, 2016	**-**	**(11)**	**(143)**	**(242)**	**(396)**
Amortization expense	**-**	**(4)**	**(37)**	**(32)**	**(73)**
Disposals	**-**	**-**	**1**	**-**	**1**
Balance as at December 31, 2016	**-**	**(15)**	**(179)**	**(274)**	**(468)**
Net carrying value	**1,403**	**895**	**186**	**221**	**1,302**
Cost					
Balance as at January 1, 2015 *(Note 4)*	1,206	909	258	364	1,531
Acquisitions and costs capitalized	74	-	89	62	151
Business combinations *(Note 29)*	70	1	78	-	79
Disposals	(78)	-	(80)	-	(80)
Balance as at December 31, 2015	1,272	910	345	426	1,681
Accumulated amortization					
Balance as at January 1, 2015	-	(8)	(119)	(202)	(329)
Amortization expense	-	(3)	(33)	(40)	(76)
Disposals	-	-	9	-	9
Balance as at December 31, 2015	-	(11)	(143)	(242)	(396)
Net carrying value	1,272	899	202	184	1,285

The distribution network with indefinite useful life amounted to $820 million as at December 31, 2016 and 2015. Intangible assets under development amounted to $63 million as at December 31, 2016 (December 31, 2015 – $70 million). These intangible assets are not subject to amortization, but are tested for impairment on an annual basis.

Note 17 – Other assets and other liabilities

17.1 Components of other assets

Table 17.1 – *Components of other assets*

As at December 31,	2016	2015
Industry pools receivable	**233**	229
Other receivables and recoverables	**148**	123
Pension plans in a surplus position ***(Note 27.1)***	**62**	93
Investments, at cost	**54**	54
Restricted funds	**50**	42
Prepaids	**23**	31
Financial assets related to investments	**21**	64
Other	**20**	19
	611	655

During 2016, there were no events or changes in circumstances that indicated that the carrying values of Investments at cost may not be recoverable.

17.2 Components of other liabilities

Table 17.2 – *Components of other liabilities*

As at December 31,	2016	2015
Industry pools payable	**230**	230
Commissions payable	**228**	237
Premium and sale taxes payable	**215**	192
Accrued salaries and other short-term benefits	**162**	136
Pension plans in a deficit position and unfunded plans ***(Note 27.1)***	**95**	82
Deferred income	**72**	54
Accrued expenses	**52**	56
Deposits received from unregistered reinsurers	**32**	15
Unfunded other post-employment benefits and other post-retirement benefits	**29**	30
Other payables	**343**	263
	1,458	1,295

Note 18 – Debt outstanding

18.1 Summary of debt outstanding

On March 1, 2016, the Company completed an offering of $250 million of Series 6 unsecured medium term notes. These notes bear interest at a fixed annual rate of 3.77% until maturity on March 2, 2026, payable in semi-annual instalments commencing on September 2, 2016.

Table 18.1 – *Fair value and carrying value of debt outstanding*

	2016		2015	
As at December 31,	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Series 1	**250**	**275**	249	280
Series 2	**248**	**329**	248	319
Series 3	**99**	**134**	99	129
Series 4	**299**	**335**	298	336
Series 5	**249**	**286**	249	279
Series 6	**248**	**265**	-	-
	1,393	**1,624**	1,143	1,343

The term notes are accounted for at amortized cost which equals their carrying value. They 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 Government of Canada Yield at the date of redemption plus a margin or their par value. Fair value is established using valuation data from a benchmark firm.

Interest expense on term notes is presented as Finance costs.

18.2 Unsecured medium term notes (“term notes”)

Table 18.2 – *Term notes outstanding terms*

	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6
Date issued	Aug. 31, 2009	Nov. 23, 2009	July 8, 2011	Aug. 18, 2011	June 15, 2012	March 1, 2016
Date of supplemental issue		March 23, 2010			Sept. 10, 2012	
Maturity date	Sept. 3, 2019	Nov. 23, 2039	July 8, 2061	Aug. 18, 2021	June 16, 2042	March 2, 2026
Principal amount outstanding	250	250	100	300	250	250
Fixed annual rate	5.41%	6.40%	6.20%	4.70%	5.16%	3.77%
Semi-annual coupon payment due each year on:	March 3 Sept. 3	May 23 Nov. 23	Jan. 8 July 8	Feb. 18 Aug. 18	June 16 Dec. 16	March 2 Sept. 2

18.3 Credit facility

The Company has a $300-million unsecured revolving term credit facility, which matures on December 5, 2020. This credit facility may be drawn as prime loans or base rate (Canada) advances at the prime or base rate plus a margin, as well as bankers' acceptances or Libor advances at the bankers' acceptance or Libor rate plus a margin. This facility was undrawn as at December 31, 2016 and 2015.

As part of the covenants of the loans under the credit facility, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2016 and 2015.

Note 19 – Common shares and preferred shares

19.1 Authorized

Authorized share capital consists of an unlimited number of common shares and Class A Shares.

19.2 Issued and outstanding

On August 31, 2016, the Company announced that it did not intend to exercise its right to redeem the Company's non-cumulative Rate Reset Class A Series 3 Preferred Shares (the "Series 3 Preferred Shares") on September 30, 2016. Holders of 1,594,996 of these shares elected to convert their shares into non-cumulative Floating Rate Class A Series 4 Preferred Shares (the "Series 4 Preferred Shares").

Table 19.1 – *Issued and outstanding shares*

	2016		2015	
As at December 31,	**Number of shares**	**Amount (in millions)**	Number of shares	Amount (in millions)
Common shares	**131,050,134**	**2,082**	131,543,134	2,090
Class A Shares				
Series 1	**10,000,000**	**244**	10,000,000	244
Series 3	**8,405,004**	**206**	10,000,000	245
Series 4	**1,594,996**	**39**	-	-
Total Class A	**20,000,000**	**489**	20,000,000	489

Common shares

Table 19.2 – *Reconciliation of number of common shares outstanding*

As at December 31,	**2016 (in shares)**	**2015 (in shares)**
Balance, beginning of year	**131,543,134**	131,543,134
Common shares repurchased and cancelled *(Note 19.4)*	**(493,000)**	-
Balance, end of year	**131,050,134**	131,543,134

Class A shares

Issued and outstanding Class A shares would rank both with regards to dividends and return of capital in priority to common shares.

The holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of the Company, on a quarterly basis for the initial fixed-rate period ending on December 31, 2017, based on an annual rate of 4.20%. The dividend rate will be reset on December 31, 2017 and every five years thereafter at a rate equal to the five-year Government of Canada bond yield plus 1.72%. Subject to certain conditions, on December 31, 2017 and on December 31 every five years thereafter, the holders of Series 1 Preferred Shares will have the right to convert their shares into Non-cumulative Floating Rate Class A Shares Series 2 (the "Series 2 Preferred Shares"). In addition, the Company has the option to redeem the Series 1 and Series 2 Preferred Shares on the same dates.

The holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of IFC, on a quarterly basis. The annual dividend rate for the Series 3 Preferred Shares for the five-year period from and including September 30, 2016 to but excluding September 30, 2021 will be 3.332%, as determined in accordance with the terms of the Series 3 Preferred Shares.

The holders of Series 4 Preferred Shares are entitled to receive floating rate non-cumulative preferential cash dividends on a quarterly basis, as and when declared by the Board of Directors of IFC. The dividend rate for the Series 4 Preferred Shares for the 3-month floating rate period from and including September 30, 2016 to but excluding December 31, 2016 was 0.79733% (3.172% on an annualized basis), as determined in accordance with the terms of the Series 4 Preferred Shares (the "Floating Quarterly Dividend Rate"). The Floating Quarterly Dividend Rate will be reset every quarter.

19.3 Dividends declared and paid per share

Table 19.3 – *Dividends declared and paid per share (in dollars)*

For the years ended December 31,	2016	2015
Common shares	**2.32**	2.12
Preferred Shares		
Series 1	**1.05**	1.05
Series 3	**1.00**	1.05
Series 4	**0.20**	n/a

19.4 Normal course issuer bid (NCIB)

On February 12, 2016, the Company commenced a NCIB to purchase for cancellation during the next twelve months up to 6,577,156 common shares, representing approximately 5% of its issued and outstanding common shares as at February 1, 2016.

As at December 31, 2016, 493,000 common shares had been repurchased and cancelled under the NCIB at an average price of $88.54 per share for a total consideration of approximately $44 million. The cost paid, including fees, was first charged to Share capital to the extent of the average carrying value of the common shares purchased for cancellation and the excess of $36 million was charged to Retained earnings.

Note 20 – Capital management

20.1 Capital management objectives

The Company's objectives when managing capital consist of:

- maintaining strong regulatory capital levels (see Regulatory capital section below) and ensuring policyholders are well protected; and
- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company.

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

Regulatory capital

The Company manages regulatory capital on an aggregate basis, as well as individually for each regulated entity. Its federally chartered P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the *Insurance Companies Act,* while its Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the *Act respecting insurance.*

Federal and Québec regulated P&C insurers are required, at a minimum, to maintain a MCT ratio of 100%. OSFI and the AMF have also established an industry-wide supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement. To ensure that there is minimal risk of breaching the supervisory target, the Company has established a higher internal threshold in its principal insurance subsidiaries in excess of which, under normal circumstances, it will maintain its capital.

Total capital available and total capital required represent amounts applicable to the Company's P&C insurance subsidiaries and are determined in accordance with prescribed OSFI and AMF rules. Total capital available mostly represents total shareholders' equity less specific deductions for disallowed assets including goodwill and intangible assets, net of related deferred tax liabilities.

Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. It is further increased by an operational risk margin, based on the overall riskiness of a P&C insurer (its capital required) and its premium volume. Capital required is then reduced by a credit for diversification between investment risk and insurance risk.

2016 MCT Guidelines
On November 30, 2015, OSFI issued a final 2016 MCT Guideline, which amends regulatory capital requirements. The most significant changes are the addition of capital requirements for equity derivatives and equity instruments sold short, as well as the recognition of equity hedging strategies. The new guidelines came into effect on January 1, 2016 and the impact on our MCT ratios is positive, with the benefit phasing in over a two-year period.

20.2 Capital position

Table 20.1 – *Estimated aggregate capital position of the Company's P&C insurance subsidiaries*

As at December 31,	2016	2015[1]
Total capital available	**4,300**	3,840
Total capital required	**1,972**	1,889
MCT %	**218%**	203%
Excess capital at 100%	**2,328**	1,951
Excess capital at 150%	**1,342**	1,007
Excess capital at 170%	**947**	629

[1] Comparative figures are presented under the MCT guidelines in effect as at December 31, 2015.

As at December 31, 2016 and 2015, the Company's P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements. Including net liquid assets outside of the P&C insurance subsidiaries, the Company's total estimated excess capital at an MCT of 170% was $970 million as at December 31, 2016 (December 31, 2015 – $625 million).

Annually, the Company performs Dynamic Capital Adequacy Testing (DCAT) on the MCT to ensure that the Company has sufficient capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The 2016 results indicated that the Company's capital position is strong. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

Note 21 – Revenues

Table 21.1 – *Revenues*

For the years ended December 31,	2016	2015
Net premiums earned	**7,902**	7,490
Other underwriting revenues	**122**	122
Interest income *(Table 22.1)*	**265**	280
Dividend income *(Table 22.1)*	**184**	179
Net investment losses *(Table 23.1)*	**(70)**	(64)
Share of profit from investments in associates and joint ventures	**16**	26
Other revenues	**143**	121
	8,562	8,154

Table 21.2 – *Premiums written and net premiums earned*

For the years ended December 31,	2016	2015
Premiums written		
Direct	**8,197**	7,893
Ceded	**(212)**	(194)
Net	**7,985**	7,699
Changes in unearned premiums	**(83)**	(209)
Net premiums earned	**7,902**	7,490

Note 22 – Net investment income

Table 22.1 – *Net investment income*

For the years ended December 31,	2016	2015
Interest income from:		
Debt securities		
designated or classified as FVTPL	**157**	163
classified as AFS	**85**	92
Loans and cash and cash equivalents	**23**	25
Interest income	**265**	280
Dividend income (expense) from:		
Common shares, net		
designated or classified as FVTPL	**54**	50
classified as AFS	**74**	79
Preferred shares		
classified as AFS	**61**	54
Equities sold short	**(6)**	(5)
Long-term investments, at cost	**1**	1
Dividend income	**184**	179
Expenses	**(35)**	(36)
	414	423

Note 23 – Net investment losses

Table 23.1 – *Net investment gains (losses)*

For the years ended December 31,	2016			2015		
Strategies	**Fixed Income**	**Equity**	**Total**	**Fixed Income**	**Equity**	**Total**
Net gains (losses) from:						
Financial instruments[1]:						
designated as FVTPL	**(103)**	**205**	**102**	(16)	(195)	(211)
classified as FVTPL	**-**	**7**	**7**	-	4	4
classified as AFS	**2**	**122**	**124**	15	6	21
Derivatives[2] *(Table 7.2)*	**(2)**	**(268)**	**(270)**	(6)	189	183
Embedded derivatives	**-**	**(13)**	**(13)**	-	38	38
	(103)	**53**	**(50)**	(7)	42	35
Net foreign currency gains (losses)	**(1)**	**21**	**20**	-	19	19
Impairment losses from:						
Common shares	**-**	**(41)**	**(41)**	-	(124)	(124)
Preferred shares	**-**	**-**	**-**	-	(38)	(38)
	-	**(41)**	**(41)**	-	(162)	(162)
	(104)	**33**	**(71)**	(7)	(101)	(108)
Other gains (losses)[3]			**1**			44
			(70)			(64)

[1] Refer to *Note 2.4a)* for details on the classification of financial instruments.

[2] Excluding foreign currency contracts, which are reported in Net foreign currency gains (losses).

[3] Including net gains on investments in associates and joint ventures related to a change of control and losses arising from the write-off of goodwill and intangible assets recognized in business combinations.

Note 24 – Income taxes

24.1 Income tax expense recorded in Net income

Table 24.1 – *Components of income tax expense recorded in Net income*

For the years ended December 31,	2016	2015
Current income tax expense	**103**	211
Prior-year adjustment expense	**-**	1
Deferred income tax expense (benefit)	**42**	(43)
	145	169

24.2 Income tax expense (benefit) recorded in OCI

Table 24.2 – *Components of income tax expense (benefit) recorded in OCI*

For the years ended December 31,	2016	2015
Income tax expense (benefit) related to:		
Reclassification to income of net losses (gains) on AFS instruments	**(29)**	31
Net change in unrealized gains (losses) on AFS instruments	**94**	(85)
Net actuarial gains (losses) on employee future benefits	**(9)**	13
	56	(41)

24.3 Effective income tax rate

The effective income tax rates are different from the combined Canadian federal and provincial income tax rates. The Consolidated statements of comprehensive 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 tax rates.

Table 24.3 – *Effective income tax rate reconciliation*

For the years ended December 31,	2016	2015
Income tax expense calculated at statutory tax rates	**26.9 %**	26.7 %
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	**(4.8)%**	(5.2)%
Non-taxable income	**(1.5)%**	(0.9)%
Non-deductible expenses	**1.1 %**	0.7 %
Non-taxable income from subsidiaries	**(0.7)%**	(0.8)%
Non-deductible losses (non-taxable gains)	**(0.1)%**	(1.1)%
Prior-year adjustments	**-**	0.1 %
Other	**0.2 %**	(0.2)%
Effective income tax rate	**21.1 %**	19.3 %

24.4 Components of deferred tax assets and liabilities

Table 24.4 – *Components of deferred tax assets and liabilities*

	Consolidated balance sheets Asset (liability)		Consolidated statements of comprehensive income Expense (benefit)	
As at December 31,	**2016**	**2015**	**2016**	**2015**
Net claims liabilities	**108**	106	**(2)**	(5)
Deferred loss for tax purposes	**-**	64	**64**	(64)
Difference between market value and book value of investments	**-**	7	**7**	(7)
Deferred expenses for tax purposes	**52**	66	**13**	4
Losses available for carry forward	**3**	7	**4**	8
Defined benefit plans	**18**	6	**(12)**	6
Other	**2**	1	**(1)**	2
Deferred tax assets	**183**	257	**73**	(56)
Intangible assets	**(262)**	(266)	**(1)**	(2)
Deferred income for tax purposes	**(140)**	-	**140**	(58)
Deferred gains and losses on specified debt obligations	**(13)**	(14)	**(1)**	(2)
Property and equipment	**(28)**	(21)	**7**	(1)
Difference between market value and book value of investments	**(2)**	-	**2**	-
Deferred tax liabilities	**(445)**	(301)	**147**	(63)
Net deferred tax asset (liability)/ expense (benefit)	**(262)**	(44)	**220**	(119)
Reported in:				
Deferred tax assets ***(Note 4)***	**142**	146		
Deferred tax liabilities ***(Note 4)***	**(404)**	(190)		
Net income			**71**	(60)
OCI			**149**	(59)

The Company believes that it is probable that it will generate sufficient taxable income in the future to realize the above deferred tax assets.

24.5 Movement in the net deferred tax asset (liability)

Table 24.5 – *Movement in the net deferred tax asset (liability)*

As at December 31,	**2016**	**2015**
Balance, beginning of year ***(Note 4)***	**(44)**	(144)
Income tax benefit (expense):		
recorded in net income	**(71)**	60
recorded in OCI	**(149)**	59
Business combinations ***(Note 29)***	**3**	(16)
Reclassifications	**(1)**	(3)
Balance, end of year	**(262)**	(44)

The Company had allowable capital losses of $25 million as at December 31, 2016 (December 31, 2015 – $24 million), which had not been recognized when computing the deferred tax asset. These losses, which have no expiry date, can be used to reduce future taxable capital gains.

The Company has recognized a deferred tax asset for unused non-capital losses as at December 31, 2016 and 2015.

Note 25 – 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 year. Dilution is not applicable and, therefore, diluted EPS is the same as basic EPS.

Table 25.1 – *Earnings per share*

For the years ended December 31,	2016	2015
Net income attributable to shareholders	**541**	706
Less: Dividends declared on preferred shares, net of tax	**20**	21
Net income attributable to common shareholders	**521**	685
Weighted-average number of common shares outstanding (in millions)	**131.2**	131.5
EPS – basic and diluted (in dollars)	**3.97**	5.20

Note 26 – Share-based payments

26.1 Long-term incentive plan

a) Outstanding LTIP units and fair value at grant date

Table 26.1 – *Outstanding units and weighted-average fair value at grant date by performance cycle*

Performance cycles	Number of units	Weighted-average fair value at grant date (in $)	Amount (in millions of $)
As at December 31, 2016			
2014–2016	**255,253**	**66.25**	**17**
2015–2017	**229,928**	**77.89**	**18**
2016–2018	**217,065**	**90.36**	**19**
	702,246	**77.51**	**54**
As at December 31, 2015			
2013–2015	236,151	62.08	15
2014–2016	246,094	66.25	16
2015–2017	215,679	77.89	17
	697,924	68.44	48

b) Movements in LTIP units

Table 26.2 – *Movements in LTIP share units*

For the years ended December 31,	2016 (in units)	2015 (in units)
Outstanding, beginning of year	**697,924**	726,455
Awarded	**182,170**	188,106
Net change in estimate of units outstanding	**62,802**	46,347
Units settled	**(240,650)**	(262,984)
Outstanding, end of year	**702,246**	697,924

c) LTIP expense recognized in Net income

The LTIP expense was $18 million for the years ended December 31, 2016 and 2015.

d) LTIP settlement in shares

Table 26.3 – *Settlement in shares*

As at December 31,	2016	2015
Value of common shares repurchased for share-based payments	**19**	17
Less: cumulative cost of the units for the Company	**13**	11
Excess of market price over the cumulative cost for the Company	**6**	6

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

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

26.2 Employee share purchase plan (ESPP)

a) Movements in restricted common shares

Table 26.4 – *Movements in restricted common shares*

	New plan	Old plan	
For the years ended December 31,	2016 (in units)	2016 (in units)	2015 (in units)
Outstanding, beginning of year	**-**	**157,953**	161,434
Awarded	**-**	**-**	146,236
Estimated shares to be awarded	**145,368**	**-**	-
Vested or forfeited	**-**	**(157,953)**	(149,717)
Outstanding, end of year	**145,368**	**-**	157,953

As at December 31, 2016, the Company estimated that 145,368 restricted common shares were to be awarded in accordance with the terms of the new employee share purchase plan effective January 1, 2016. ***Refer to Note 2.11b) for details.***

b) ESPP expense recognized in Net income

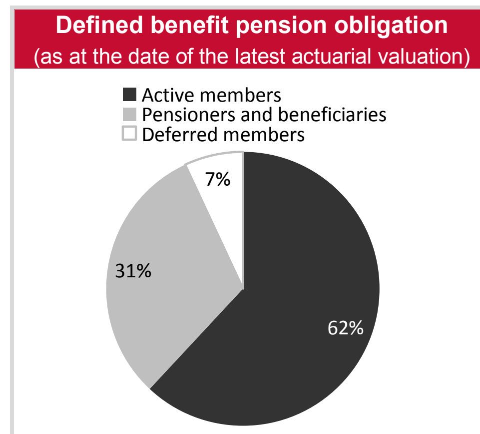
The ESPP expense was $14 million for the year ended December 31, 2016 (December 31, 2015 – $13 million). The ESPP expense for the year ended December 31, 2016 includes an amount of $6 million recognized upon the change to the new ESPP, representing the value of the unvested shares as at December 31, 2015 that vested on January 1, 2016.

26.3 Deferred share unit plan

The DSU provision amounted to $8 million as at December 31, 2016 (December 31, 2015 – $6 million). The DSU expense was $2 million for the year ended December 31, 2016 (December 31, 2015 – $1 million).

Note 27 – Employee future benefits

The Company has a number of funded and unfunded defined benefit pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life based on final average earnings and contingent upon certain age and service requirements. The Company provides active employees a choice between a defined benefit and a defined contribution pension plan.



Subject to applicable pension legislation, plans are administered either by the Company or by a pension committee, with assets held in a pension fund that is legally separate from the Company. The assets cannot be used for any purpose other than payment of pension benefits and related administrative fees.

Provincial minimum funding regulations require special payments from the Company to amortize any shortfall of registered plans' assets relative to the cost of settling all accrued benefit entitlements through the purchase of annuities or payment of an equivalent lump sum value. Security in the form of letters of credit is permitted in lieu of those special payments, up to a limit of 15% of the above cost of settling accrued benefit entitlements.

Subject to applicable legal requirements, any balance of assets remaining after providing for the accrued benefits of the plan members may be returned to the Company upon termination of the plan. Pension legislation may require that the Company submit a proposal to the members and beneficiaries regarding the allocation of surplus assets. However, on an ongoing basis, a portion of such surplus may be recoverable by the Company through a reduction in future contributions or through payment of eligible administrative expenses.

The Company also offers employer-paid post-retirement life insurance and health care benefit plans to a limited number of active employees and retirees and are now closed to new entrants, as well as post-employment benefit plans that provide health and dental coverage to employees on disability for the duration of their leaves. These post-retirement and post-employment benefit plans are unfunded.

27.1 Funded status

Table 27.1 – *Funded status*

	Pension plans	
As at December 31,	**2016**	**2015**
Defined benefit obligation	**(2,014)**	(1,801)
Fair value of plan assets	**1,981**	1,812
Net defined benefit asset (liability)	**(33)**	11
Reported in:		
Other assets – plans in a surplus position	**62**	93
Other liabilities – unfunded plans	**(95)**	(82)
	(33)	11
Funded status – funded plans	**103%**	105%

The measurement date for the defined benefit ("DB") pension plans is December 31. The latest actuarial valuations for the DB pension plans were performed as at December 31, 2015.

The Company's liquidity risk with regards to pension plans is not significant, as inflows from contributions receivable generally outweigh outflows for benefit payments. A large portion of the investments are held in short-term notes and highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements.

27.2 Defined benefit obligation

The defined benefit obligation is based on the current value of expected benefit payment cash flows to plan members over their expected lifetime.

Table 27.2 – *Movement in the defined benefit obligation*

As at December 31,	Pension plans	
	2016	**2015**
Balance, beginning of year	**1,801**	1,742
Current service cost	**63**	66
Interest expense on defined benefit obligation	**76**	72
Actuarial losses (gains) due to changes in:		
financial assumptions	**110**	(68)
plan experience	**8**	24
Employee contributions	**26**	25
Benefit payments	**(70)**	(60)
Balance, end of year	**2,014**	1,801

27.3 Fair value of plan assets

a) Movement in the fair value of plan assets

Table 27.3 – *Movement in the fair value of plan assets*

As at December 31,	Pension plans	
	2016	**2015**
Balance, beginning of year	**1,812**	1,728
Employer contributions	**61**	50
Employee contributions	**26**	25
Actual return on plan assets		
Interest income on plan assets (recognized in Net income)	**75**	70
Actuarial gains (recognized in OCI)	**82**	4
Benefit payments	**(70)**	(60)
Other	**(5)**	(5)
Balance, end of year	**1,981**	1,812

The Company makes contributions to the defined benefit pension plans to secure the benefits. The amount and timing of the Company's contributions are made in accordance with applicable pension and tax legislation following the advice of an actuary. Under the provisions of the pension plans, members may annually select between three different defined benefit levels and are required to make contributions to their respective plans based on the benefit level selected. The Company must fund the excess of the required funding over the members' contributions.

Based on the latest projections of the financial position of all its plans, total cash contributions by the Company are expected to be approximately $62 million in 2017 compared to actual contributions of $61 million in 2016. The contributions will vary depending on the results of the December 31, 2016 actuarial valuations, use of funding relief measures, if any, and decisions taken by the Company to use or not use letters of credit as permitted by legislation. The Company is also expected to meet the cost of eligible administrative expenses through the pension funds.

b) Composition of pension plan assets

Table 27.4 – *Composition of pension plan assets*

	2016		2015	
As at December 31,	**Fair value**	**% of total**	**Fair value**	**% of total**
Cash and short-term notes	**45**	**2%**	45	2%
Fixed income				
Investment grade				
Government	**823**	**42%**	756	42%
Corporate	**382**	**19%**	354	20%
Asset-backed	**8**	**-**	8	-
Debt securities	**1,213**	**61%**	1,118	62%
Common shares	**685**	**35%**	611	34%
Derivative financial instruments	**38**	**2%**	38	2%
	1,981	**100%**	1,812	100%

Plan assets are essentially all quoted in an active market.

27.4 Employee future benefit expense recognized in Net income

Table 27.5 – *Employee future benefit expense recognized in Net income*

	Pension plans	
For the years ended December 31,	**2016**	**2015**
Current service cost	**63**	66
Net interest expense		
Interest expense on defined benefit obligation	**76**	72
Interest income on plan assets	**(75)**	(70)
Other	**5**	5
	69	73

27.5 Actuarial losses (gains) recognized in OCI

Table 27.6 – *Actuarial losses (gains) recognized in OCI*

	Pension plans	
For the years ended December 31,	**2016**	**2015**
Balance, beginning of year	**55**	103
Actuarial losses (gains) on the defined benefit obligation due to changes in:		
discount rate	**106**	(32)
other financial assumptions[1]	**4**	(36)
plan experience	**8**	24
Actuarial losses (gains) related to actual return on plan assets	**(82)**	(4)
Actuarial losses (gains) recognized in OCI[2]	**36**	(48)
Balance, end of year	**91**	55

[1] Including rate of increase in future compensation and inflation.

[2] Net actuarial losses (gains) on employee future benefits recognized in OCI also include a gain of $1 million for other post-retirement benefits for the year ended December 31, 2016 (nil for the year ended December 31, 2015).

27.6 Assumptions used and sensitivity analysis

The following table summarizes the key weighted-average assumptions used in measuring the Company's pension plans.

Table 27.7 – *Assumptions used*

As at December 31,	Pension plans 2016	2015
To determine the benefit obligation at end of year		
Discount rate	**3.8%**	4.1%
Rate of increase in future compensation – next 3 years[1]	**2.75%**	2.75%
Rate of increase in future compensation – beyond 3 years[1]	**2.75%**	2.75%
Rate of inflation	**2.00%**	1.75%
Life expectancy for pensioners at the age of 65 – male	**21.6**	21.6
Life expectancy for pensioners at the age of 65 – female	**24.1**	24.0
To determine the benefit expense for the year		
Discount rate	**4.1%**	4.0%
Rate of increase in future compensation	**2.75%**	3.0%
Rate of inflation	**1.75%**	2.00%
Life expectancy for pensioners at the age of 65 – male	**21.6**	21.5
Life expectancy for pensioners at the age of 65 – female	**24.0**	24.0

[1] Excludes the impact of a merit and promotion table as at December 31, 2015.

Rate of compensation increase as at December 31, 2016 was based on financial plans approved by management for the next 3 years, and on inflation and long-term expectations of wage salary increase beyond 3 years.

Mortality rates as at December 31, 2016 and 2015 have been established in accordance with the final table and improvement scale published in February 2014 by the CIA.

The following table presents the sensitivity of the defined benefit pension obligation to key assumptions.

Table 27.8 – *Impact of changes in key assumptions*

As at December 31,	Pension plans 2016	2015
Discount rate		
1% increase	**(318)**	(292)
1% decrease	**419**	391
Rate of increase in future compensation		
1% increase	**79**	79
1% decrease	**(76)**	(75)
Rate of inflation		
1% increase	**71**	68
1% decrease	**(68)**	(65)
Life expectancy		
One-year increase	**50**	45

The effect on the defined benefit pension obligation at the end of the year has been calculated by changing one assumption for the sensitivity but without changing any other assumptions.

The impact of a one-year increase in life expectancy has been calculated by determining the adjustment to be made to the mortality rates of a pensioner aged 65 in order to increase the life expectancy by one year and then applying this adjustment to all mortality rates.

27.7 Risk management and investment strategy

Employee defined benefit provisions expose the Company to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market investment risk. The ultimate cost of the defined benefit provisions to the Company will depend upon future events rather than on the assumptions made. In general, the risk to the Company is that the assumptions underlying the disclosures or the calculation of contribution requirements are not borne out in practice and the cost to the Company is higher than expected. This could result in higher contributions required from the Company and a higher deficit disclosed.

Assumptions which may vary significantly include:
- the actual return on plan assets;
- decrease in asset values not being matched by a similar decrease in the value of liabilities; and
- unanticipated future changes in mortality patterns leading to an increase in the defined benefit liabilities.

The defined benefit obligation and the service cost are sensitive to the assumptions made about salary growth levels and inflation, as well as the assumptions made about life expectancy. It is based on estimates of market yields of highly rated corporate bonds.

The Management Pension Committee is responsible for the oversight of the pension plans, including the review of the funding policy and investment performance. The Statement of Investment Policies and Procedures of the pension plan (the "SIP&P") formulates investments principles, guidelines and monitoring procedures to meet the funds needs and objectives, in conformity with applicable rules. It also establishes principles and limits pertaining to debt and equity market risks. Any deviation from the SIP&P is reviewed by the Operational Investment Committee. The Risk Management Committee, which is a committee of the Company's Board of Directors, is responsible for the approval of the SIP&P and the review of the pension plans investment performance.

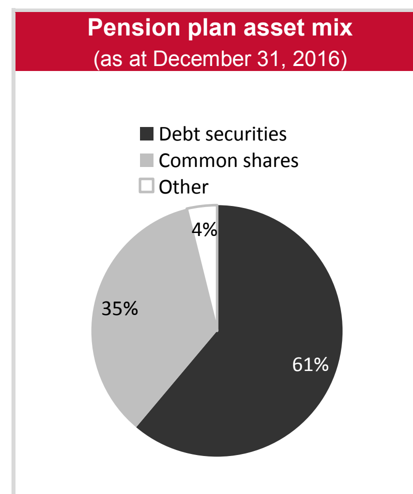
The pension plans investment portfolio is managed by Intact Investment Management Inc., a subsidiary of the Company, in accordance with the SIP&P that focuses on asset diversification and asset-liability matching.

The Company regularly monitors compliance with the SIP&P.

Asset diversification

The goal of asset diversification is to limit the potential to have significant capital losses.

Debt securities in the pension plans are significantly exposed to changes in interest rates and movements in credit spreads. Investment policies seek a balanced target investment allocation between debt and equity securities, within credit concentration limit. The pension plans' risk management strategy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The adopted SIP&P generally requires minimum credit ratings of 'BBB' for investments in debt securities and limits its concentration in any one investee or related group of investees to 5% of the cost of its total assets for debt securities (except for those that are issued or guaranteed by the Government of Canada or by a province of Canada having at least an 'A' rating). The Company has overall limits on credit exposure that include debt and equity securities, as well as off-balance sheet exposure.



Sensitivity analysis is one risk management technique that assists management in ensuring that equity risks assumed remain within the pension plans' risk tolerance level. The Company's pension plans have a significant concentration of their investments in Canada as well as in the Government sector. This risk concentration is closely monitored.

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The Company also establishes asset allocation limits to ensure sufficient diversification.

Table 27.9 – *Pension plan assets by country of incorporation and industry*

As at December 31,	2016	2015
By country of incorporation		
Canada	**85%**	84%
U.S.	**7%**	8%
Other	**8%**	8%
	100%	100%
By industry		
Government	**45%**	46%
Banks, insurance and diversified financial services	**23%**	23%
Energy	**6%**	6%
Other	**26%**	25%
	100%	100%

Asset-liability matching

One objective established in the SIP&P is to maintain an appropriate balance between the interest rate exposure of the Company's invested assets and the duration of its contractual liabilities. The Company calculates a hedge ratio as the dollar-duration of the pension asset portfolio divided by the dollar-duration of the funded pension plans' obligation. A lower hedge ratio increases the Company's exposure to changes in interest rates. The hedge ratio was 74% as at December 31, 2016 (December 31, 2015 – 70%).

A portion of the pension plan liabilities contain an indexation provision linked to the consumer price index (CPI). The Company invests in inflation sensitive assets to partially mitigate the risk of an unanticipated increase in inflation. As at December 31, 2016 and 2015, 10% of pension plan assets were invested in Canada Government Real Return Bonds.

Note 28 – Related-party transactions

The Company enters into transactions with associates and joint ventures in the normal course of business, as well as with key management personnel and pension plans. Transactions with related parties are at normal market prices and mostly comprise commissions for insurance policies and interest and principal payments on loans.

28.1 Transactions with associates and joint ventures

Table 28.1 – *Transactions with associates and joint ventures*

For the years ended December 31,	2016	2015
Income and expenses reported in:		
Net investment income	**8**	7
Underwriting expenses	**232**	197
Assets and liabilities reported in:		
Loans and other receivables	**203**	190
Commissions payable	**35**	29

28.2 Compensation of key management personnel

Key management personnel comprise all members of the Board of Directors and certain members of the Executive Committee. The compensation of key management personnel comprises salaries, share-based awards, annual incentive plans and pension value. Total compensation amounted to $17 million for the year ended December 31, 2016 (December 31, 2015 – $15 million).

Key management personnel can purchase insurance products offered by the Company in the normal course of business. The terms and conditions of such transactions are essentially the same as those available to clients and employees of the Company.

28.3 Pension plans

Intact Investment Management Inc., a subsidiary of the Company, manages the investment portfolio of the pension plans' Master Trust in return for investment advisory fees charged to the pension plans, for a total of $6 million for the years ended December 31, 2016 and 2015. The Company made contributions to pension plans of $61 million for the year ended December 31, 2016 (December 31, 2015 – $50 million).

Note 29 – Business combinations

29.1 InnovAssur

On November 30, 2016, the Company acquired all of the remaining outstanding shares of InnovAssur, assurances générales inc. ("InnovAssur"), a joint venture previously held with National Bank of Canada, for a cash consideration of $30 million and a contingent consideration of $21 million. With this transaction, InnovAssur became a wholly owned subsidiary of the Company and a gain of $7 million was recognized following the revaluation of its original participation held in the joint venture.

The contingent consideration is payable over a 15-year period based on annual DPW of InnovAssur. Total consideration paid (net of cash acquired) amounted to $19 million for the year ended December 31, 2016.

The excess of the purchase price over the provisional fair value of assets acquired and liabilities assumed was preliminarily recorded to Goodwill for $63 million. The determination of the fair value of the identifiable assets and liabilities acquired is expected to be completed within the one-year permitted timeframe following the acquisition.

This agreement is in line with the Company's objective to grow its direct-to-consumer distribution.

29.2 CDI

On February 10, 2015, the Company announced that it had entered into a definitive agreement with Canadian Western Bank for the acquisition of all of the issued and outstanding shares of its subsidiary CDI. The acquisition enhances the Company's product offering, thereby extending its direct-to-consumer operations from coast to coast.

The acquisition closed on May 1, 2015 and CDI became a wholly owned subsidiary of the Company. The results of operations are included in the Consolidated financial statements from that date.

Table 29.1 – *Business combination – CDI*

As at December 31, 2016	
Purchase price – cash consideration paid (net of cash acquired of $2 million)	**187**
Fair value of assets acquired and liabilities assumed	
Investments	**158**
Premium receivables	**35**
Deferred tax assets	**6**
Other assets	**27**
Customer relationships (net of deferred tax liabilities $21 million)	**58**
Claims liabilities	**(90)**
Unearned premiums	**(71)**
Other liabilities	**(6)**
Total identifiable net assets	**117**
Goodwill	**70**

The fair value of the acquired customer relationships is based on a preliminary discounted cash flow analysis and will be amortized on a straight-line basis over 10 years. Goodwill reflects the strategic location of CDI activities, the workforce of the acquired business and the synergies expected following the integration of CDI. The goodwill is not expected to be deductible for tax purposes.

The determination of the fair value of identifiable assets and liabilities acquired was finalized with no significant changes since acquisition.

Note 30 – Additional information on the Consolidated statements of cash flows

Table 30.1 – *Additional details on the items included in net cash flows provided by (used in) operating activities*

For the years ended December 31,	2016	2015
Depreciation of property and equipment	**37**	34
Amortization of intangible assets	**73**	76
Net premiums on debt securities classified as AFS	**10**	13
Defined benefit pension expense	**69**	73
Share-based payments expense (equity-settled plans)	**32**	18
Share of profit from investments in associates and joint ventures	**(16)**	(26)
Other	**3**	(1)
Adjustments for non-cash items	**208**	187
Unearned premiums, net	**85**	209
Deferred acquisition costs, net	**(23)**	(44)
Premium receivables, net	**(98)**	(122)
Other operating assets	**(27)**	(36)
Other operating liabilities	**11**	16
Dividends received from investments in associates and joint ventures	**21**	15
Changes in other operating assets and liabilities	**(31)**	38
Other relevant cash flow disclosures		
Interest paid	**68**	64
Interest received	**269**	281
Dividends received	**204**	191

Note 31 – Commitments and contingencies

31.1 Operating lease commitments

The Company has entered into commercial operating leases on certain property and equipment. These leases have a remaining life ranging from one to 15 years with renewal options included in the contracts.

The following table presents the future minimum rental payments under non-cancellable operating leases.

Table 31.1 – *Operating lease commitments*

As at December 31,	2016
Less than 1 year	**157**
From 1 to 5 years	**392**
Over 5 years	**237**
	786

31.2 Contingencies

In the normal course of operations, various insurance claims and legal proceedings are instituted against the Company. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Company has made adequate provisions for, or has adequate insurance to cover all insurance claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the Company's consolidated future operating results and financial position.

The Company provides indemnification agreements to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements.

Note 32 – Disclosures on rate regulation for automobile insurance

The Company's insurance subsidiaries are licensed under insurance legislation in each of the provinces and territories in which they conduct business. Personal and commercial automobile insurance is a compulsory product and is subject to different regulations across the provinces and territories in Canada, including those with respect to rate setting. Rate setting mechanisms generally fall under three categories:

Table 32.1 – *Rate filing categories*

Category	Description
File and use	Insurers file their rates with the relevant authorities and wait for a prescribed period of time and then implement the proposed rates.
File and approve	Insurers must wait for specific approval of filed rates before they may be used.
Use and file	Rates are filed following use.

The following table lists the provincial authorities which regulate automobile insurance rates. For the years ended December 31, 2016 and 2015, automobile DPW in these provinces totalled $4 billion, which represent approximately 98% as at December 31, 2016 of automobile DPW (December 31, 2015 – 99%).

Table 32.2 – *Regulatory authorities and rate filings for automobile insurance*

Province and territories	Regulatory authority	Rate filing
Alberta	Alberta Automobile Insurance Rate Board	File and approve
Ontario	Financial Services Commission of Ontario	File and approve
Quebec	Autorité des marchés financiers	Use and file
Nova Scotia	Nova Scotia Utility and Review Board	File and approve
New Brunswick	New Brunswick Insurance Board	File and approve
Prince Edward Island	Island Regulatory Appeals Commission	File and approve
Newfoundland and Labrador	Board of Commissioners of Public Utilities	File and approve

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. As at December 31, 2016 and 2015, the Company had no significant regulatory asset or liability.

Note 33 – Standards issued but not yet effective

33.1 Financial instruments

IFRS 9 – *Financial instruments* ("IFRS 9") is a three-part standard that will replace IAS 39 – *Financial instruments: Recognition and measurement* ("IAS 39"). IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. However, the effective date for the Company will depend on the option elected under IFRS 4 *(see Note 33.2)*. The Company is currently evaluating the impact that this standard will have on its Consolidated financial statements.

a) Classification and measurement

The classification of financial instruments is dependent on the business model and the cash flows characteristics.

Table 33.1 – *Classification of financial instruments*

Amortized cost	FVTOCI	FVTPL
Default classification when the objective of the business model is uniquely to receive contractual cash flows of principal and interest.	Default classification when the objective of the business model is equally to receive contractual cash flows of principal and interest and realize cash flows from the sale.	Default classification for all other financial assets, or election to measure them as FVTPL instead of amortized cost or FVTOCI.

An entity can also elect on initial recognition to present fair value changes on an equity investment that is not held for trading directly and permanently in OCI, thus gains or losses are not recognized in income when the investment is disposed of.

b) Hedge accounting

The new model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures (under IAS 39, hedging non-financial components is not permitted). It will enable more entities to:

- apply hedge accounting to reflect their actual risk management activities; and
- use information produced internally for risk management purposes as a basis for hedge accounting, compared to IAS 39 which imposes eligibility and compliance based on metrics that are designed solely for accounting purposes.

c) Expected credit loss

This new impairment model applies only to financial assets classified as amortized cost and debt securities classified as FVTOCI. Under the expected credit loss model, a loss allowance will be established for all financial assets impaired based on a 12-month expected credit losses or a life-time expected credit losses if the credit risk increases significantly.

33.2 Insurance contracts

In September 2016, the IASB issued amendments to IFRS 4 *Insurance Contracts* ("IFRS 4"), to address concerns of insurers about the different effective dates for IFRS 9 and the upcoming new Standard on insurance contracts. The amendments allow insurance entities to elect one of two option approach:

- The deferral approach provides entities whose predominant activities are to issue contracts within the scope of IFRS 4, a temporary exemption to continue using IAS 39, instead of IFRS 9 until January 1, 2021 (the "deferral approach").
- The overlay approach can be applied to eligible financial assets and provides an option for all issuers of insurance contracts to reclassify from profit or loss to OCI any additional accounting volatility that may arise from applying IFRS 9 before the new insurance contracts standard.

This amendment will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of these amendments.

33.3 Revenues from contracts with customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”). The standard supersedes IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and a number of revenue-related interpretations. This new standard specifies how and when to recognize revenue and additional relevant disclosure requirements. IFRS 15 applies to nearly all contracts with customers, except for insurance contracts, financial instruments and leases.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect significant impacts upon adoption of this standard.

33.4 Leases

In January 2016, the IASB issued IFRS 16 – *Leases* (“IFRS 16”). IFRS 16 will replace IAS 17 – *Leases* and IFRIC 4 – *Determining Whether an Arrangement Contains a Lease*. It requires lessees to recognize most leases on their Balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees will have the option not to recognise leases with duration of less than one year and those of low-value assets. Generally, the recognition pattern for recognized leases will be similar to today’s finance lease accounting, with interest and depreciation expense recognized separately in the Consolidated statements of comprehensive income.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early application permitted. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Company does not anticipate early adoption of IFRS 16 and is currently evaluating its impact.

33.5 Share-based payments

In June 2016, the IASB issued amendments to IFRS 2 – *Share-based Payment* (“IFRS 2”), which provide additional guidance on the classification and measurement of share-based payment transactions. The amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

The amendments to IFRS 2 are effective for annual periods beginning on or after January 1, 2018, with early application permitted. It should be applied prospectively; however, retrospective application is permitted in certain instances. The Company is currently assessing the impact of these amendments.

FIVE-YEAR FINANCIAL HISTORY

(Excluding MYA. In millions of Canadian dollars, except as noted)

	2016	2015	2014	2013	2012
Consolidated performance					
Written insured risks (thousands)	7,697	7,419	7,062	7,115	6,729
Direct premiums written	8,293	7,922	7,461	7,345	6,854
Net premiums earned	7,946	7,535	7,207	7,014	6,571
Favourable prior year claims development	(389)	(477)	(364)	(374)	(372)
Underwriting income (loss)	375	628	519	142	451
Combined ratio	95.3%	91.7%	92.8%	98.0%	93.1%
Net investment income	414	424	427	406	389
Net investment gains (losses)	(72)	(64)	174	(83)	37
Income before income taxes	686	875	957	465	712
Effective tax rate	21.1%	19.3%	18.3%	7.3%	19.8%
Net operating income	660	860	767	500	675
Net income attributable to shareholders	541	706	782	431	571
Net operating income per share ($)	4.88	6.38	5.67	3.62	5.00
Earnings per share ($)	3.97	5.20	5.79	3.10	4.20
Weighted-average number of common shares outstanding (millions)	131.2	131.5	131.5	132.4	130.8
Operating return on equity	12.0%	16.6%	16.3%	11.2%	16.8%
Return on equity	9.6%	13.4%	16.1%	9.3%	13.5%
Personal lines – total					
Written insured risks (thousands)	6,751	6,453	6,092	6,123	5,809
Direct premiums written	5,822	5,455	5,089	5,018	4,642
Net premiums earned	5,584	5,244	5,004	4,868	4,539
Combined ratio	96.9%	92.3%	92.7%	96.7%	95.0%
Underwriting income (loss)	175	405	363	162	226
Personal auto					
Written insured risks (thousands)	4,358	4,159	3,900	3,902	3,584
Direct premiums written	3,792	3,591	3,374	3,383	3,092
Net premiums earned	3,704	3,508	3,387	3,349	3,077
Combined ratio	99.9%	95.4%	94.5%	93.2%	95.7%
Underwriting income (loss)	5	161	186	228	132
Personal property					
Written insured risks (thousands)	2,393	2,294	2,192	2,221	2,225
Direct premiums written	2,030	1,864	1,715	1,635	1,550
Net premiums earned	1,880	1,736	1,617	1,519	1,462
Combined ratio	90.9%	85.9%	89.0%	104.4%	93.5%
Underwriting income (loss)	170	244	177	(66)	94
Commercial lines – total					
Written insured risks (thousands)	946	966	970	992	920
Direct premiums written	2,471	2,467	2,372	2,327	2,212
Net premiums earned	2,362	2,291	2,203	2,146	2,032
Combined ratio	91.5%	90.3%	92.9%	100.9%	88.9%
Underwriting income (loss)	200	223	156	(20)	225
Commercial auto					
Written insured risks (thousands)	501	523	520	526	477
Direct premiums written	703	671	632	612	563
Net premiums earned	705	651	615	603	536
Combined ratio	94.6%	99.0%	89.6%	93.3%	81.5%
Underwriting income (loss)	38	7	64	40	99
Commercial P&C					
Written insured risks (thousands)	445	443	450	466	443
Direct premiums written	1,768	1,796	1,740	1,715	1,649
Net premiums earned	1,657	1,640	1,588	1,543	1,496
Combined ratio	90.2%	86.8%	94.2%	103.9%	91.6%
Underwriting income (loss)	162	216	92	(60)	126
Financial condition					
Total excess capital (over 170% MCT)	970	625	681	550	599
MCT %	218%	203%	209%	203%	205%
Cash provided by (used in) operating activities	925	889	1,412	185	723
Debt-to-capital ratio	18.6%	16.6%	17.3%	18.7%	18.9%
Book value per share ($)	42.72	39.83	37.75	33.94	33.03
Investments					
Performance					
Market-based investment yield	3.36%	3.55%	3.65%	3.68%	3.63%
Total investments	14,386	13,504	13,440	12,261	12,959
Portfolio mix (net of hedging positions)					
Short-term notes, including cash and cash equivalents	3%	4%	3%	2%	3%
Fixed-income securities	70%	71%	72%	73%	74%
Preferred shares	10%	9%	9%	10%	10%
Common shares	14%	13%	13%	12%	10%
Loans	3%	3%	3%	3%	3%

THREE-YEAR QUARTERLY REVIEW

(Excluding MYA. In millions of Canadian dollars, except as noted)

	2016				2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance												
Written insured risks (thousands)	1,718	2,064	2,357	1,558	1,680	2,021	2,259	1,459	1,595	1,881	2,142	1,444
Direct premiums written	1,961	2,193	2,458	1,681	1,908	2,095	2,344	1,575	1,775	1,941	2,212	1,533
Net premiums earned	2,043	2,036	1,937	1,930	1,948	1,930	1,865	1,792	1,830	1,826	1,801	1,750
Favourable prior year claims development	(62)	(71)	(93)	(163)	(75)	(107)	(106)	(189)	(78)	(80)	(65)	(141)
Underwriting income (loss)	153	61	16	145	221	131	158	118	216	124	128	51
Combined ratio	92.5%	97.0%	99.2%	92.5%	88.6%	93.2%	91.6%	93.4%	88.2%	93.2%	92.9%	97.1%
Net investment income	104	102	104	104	110	105	104	105	111	106	105	105
Net investment gains (losses)	(97)	17	28	(20)	(72)	(64)	(29)	101	(3)	30	44	103
Income before income taxes	224	156	112	194	241	161	254	219	265	244	252	196
Effective tax rate	23.7%	19.9%	16.9%	21.6%	17.8%	18.6%	21.7%	18.7%	22.6%	17.2%	14.7%	18.3%
Net operating income	212	137	114	197	265	199	210	186	247	185	206	129
Net income attributable to shareholders	171	125	93	152	198	131	199	178	205	202	215	160
Net operating income per share ($)	1.58	1.01	0.83	1.46	1.97	1.47	1.56	1.37	1.84	1.37	1.53	0.94
Earnings per share ($)	1.27	0.91	0.67	1.11	1.46	0.95	1.47	1.32	1.52	1.49	1.60	1.17
Weighted-average number of common shares outstanding (millions)	131.1	131.1	131.3	131.5	131.5	131.5	131.5	131.5	131.5	131.5	131.5	131.5
Operating return on equity	12.0%	13.4%	14.6%	16.7%	16.6%	16.9%	16.8%	17.2%	16.3%	14.3%	11.6%	9.9%
Return on equity	9.6%	10.5%	10.5%	12.7%	13.4%	14.2%	15.4%	16.1%	16.1%	14.5%	11.1%	8.7%
Personal lines – total												
Written insured risks (thousands)	1,490	1,833	2,074	1,354	1,446	1,786	1,971	1,250	1,354	1,645	1,858	1,235
Direct premiums written	1,315	1,601	1,746	1,160	1,260	1,514	1,632	1,049	1,146	1,383	1,532	1,028
Net premiums earned	1,436	1,427	1,365	1,356	1,362	1,347	1,296	1,239	1,262	1,266	1,256	1,220
Combined ratio	92.2%	102.7%	100.5%	91.9%	88.9%	95.4%	91.1%	93.8%	87.1%	96.4%	92.2%	95.3%
Underwriting income (loss)	111	(39)	(7)	110	151	62	116	76	162	46	98	57
Personal auto												
Written insured risks (thousands)	928	1,164	1,373	893	899	1,135	1,307	818	840	1,034	1,220	806
Direct premiums written	829	1,032	1,154	777	808	987	1,090	706	739	905	1,029	700
Net premiums earned	942	944	918	900	909	903	868	828	847	857	853	830
Combined ratio	100.9%	104.3%	97.6%	96.4%	96.9%	94.4%	90.3%	100.3%	93.7%	95.8%	91.5%	97.0%
Underwriting income (loss)	(9)	(41)	23	32	28	51	85	(3)	53	36	72	25
Personal property												
Written insured risks (thousands)	562	669	701	461	547	651	664	432	514	611	638	429
Direct premiums written	486	569	592	383	452	527	542	343	407	478	503	328
Net premiums earned	494	483	447	456	453	444	428	411	415	409	403	390
Combined ratio	75.6%	99.7%	106.7%	82.9%	72.7%	97.4%	92.7%	80.7%	73.6%	97.7%	93.5%	91.8%
Underwriting income (loss)	120	2	(30)	78	123	11	31	79	109	10	26	32
Commercial lines – total												
Written insured risks (thousands)	228	231	283	204	234	235	288	209	241	236	284	209
Direct premiums written	646	592	712	521	648	581	712	526	629	558	680	505
Net premiums earned	607	609	572	574	586	583	569	553	568	560	545	530
Combined ratio	93.2%	83.5%	95.9%	93.9%	88.0%	88.2%	92.6%	92.5%	90.5%	86.0%	94.7%	101.1%
Underwriting income (loss)	42	100	23	35	70	69	42	42	54	78	30	(6)
Commercial auto												
Written insured risks (thousands)	121	118	157	105	125	127	162	109	128	126	159	107
Direct premiums written	180	172	207	144	168	160	204	139	163	148	192	129
Net premiums earned	188	186	166	165	168	166	162	155	159	157	151	148
Combined ratio	101.9%	88.6%	90.3%	97.5%	107.9%	97.0%	94.4%	96.4%	99.5%	89.4%	79.5%	89.3%
Underwriting income (loss)	(3)	21	16	4	(13)	5	9	6	1	16	32	15
Commercial P&C												
Written insured risks (thousands)	107	113	126	99	109	108	126	100	113	110	125	102
Direct premiums written	466	420	505	377	480	421	508	387	466	410	488	376
Net premiums earned	419	423	406	409	418	417	407	398	409	403	394	382
Combined ratio	89.4%	81.3%	98.2%	92.4%	80.1%	84.6%	91.8%	90.9%	87.1%	84.7%	100.5%	105.6%
Underwriting income (loss)	45	79	7	31	83	64	33	36	53	62	(2)	(21)
Financial condition												
Total excess capital (over 170% MCT)	970	881	857	904	625	389	564	763	681	497	657	670
MCT %	218%	215%	212%	215%	203%	195%	200%	213%	209%	203%	208%	213%
Cash provided by (used in) operating activities	153	507	285	(20)	240	419	281	(51)	300	647	486	(21)
Debt-to-capital ratio	18.6%	19.0%	19.3%	19.5%	16.6%	17.3%	16.8%	16.9%	17.3%	17.8%	17.8%	18.4%
Book value per share ($)	42.72	41.47	40.57	40.06	39.83	37.84	39.23	38.95	37.75	36.44	36.29	34.80
Investments												
Performance												
Market-based investment yield	3.27%	3.27%	3.43%	3.47%	3.62%	3.55%	3.62%	3.41%	3.61%	3.57%	3.69%	3.76%
Total investments	14,386	14,342	13,812	13,630	13,504	13,339	13,394	13,443	13,440	13,199	12,913	12,371
Portfolio mix (net of hedging positions)												
Short-term notes, including cash and cash equivalents	3%	5%	4%	4%	4%	5%	4%	3%	3%	3%	4%	2%
Fixed-income securities	70%	69%	70%	70%	71%	70%	70%	72%	72%	73%	72%	72%
Preferred shares	10%	9%	9%	9%	9%	8%	9%	9%	9%	9%	9%	10%
Common shares	14%	14%	14%	14%	13%	13%	13%	13%	13%	12%	12%	13%
Loans	3%	3%	3%	3%	3%	4%	4%	3%	3%	3%	3%	3%

Actuarial gains (losses) Effect of changes in actuarial assumptions and experience adjustments (the effect of differences between the previous actuarial assumptions and what has actually occurred).

Adjusted earnings per share ("AEPS") A non-IFRS financial measure calculated as net income from continuing operations for a specific period less preferred share dividends plus the after-tax impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs and change in fair value of contingent consideration, divided by the weighted-average number of common shares outstanding during the same period.

Adjusted return on equity ("AROE") A non-IFRS financial measure calculated as net income from continuing operations for a 12-month period less preferred share dividends plus the after-tax impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs and change in fair value of contingent consideration, divided by the average shareholders' equity (excluding preferred shares) over the same 12-month period. Net income from continuing operations and shareholders' equity are determined in accordance with IFRS.

Affiliated brokers Brokers in which we hold an equity investment or provide financing.

Asset-backed security A financial security whose value and income payments are derived from and collateralized (or backed) by a specified pool of underlying assets such as mortgage-backed securities, auto loan receivables, credit card receivables and asset-backed commercial paper.

Associates Entities over which the Company has the power to participate in the decisions over the relevant activities of the investee, but does not have control. These investments are accounted for using the equity method.

Average shareholders' equity Mean of shareholders' equity at the beginning and end of the period, adjusted for significant capital transactions, if appropriate. Shareholders' equity is determined in accordance with IFRS.

Basis risk Basis risk is the risk that offsetting investments in an economic hedging strategy will not experience price changes that entirely offset each other.

Book value per share Shareholders' equity (excluding preferred shares) divided by the number of common shares outstanding at the same date. Shareholders' equity is determined in accordance with IFRS.

Case reserves The liability established to reflect the estimated cost of unpaid claims that have been reported and claims expenses that the insurer will ultimately be required to pay.

Cash flow available for investment activities A non-IFRS financial measure, which includes net cash flows from cash and cash equivalents and the investment portfolio.

Catastrophe losses Any one claim, or group of claims, equal to or greater than $7.5 million related to a single event.

Claims liabilities Technical accounting provisions comprising the following: (1) case reserves, (2) claims that are incurred but not reported ("IBNR"), and (3) provision for adverse development as required by accepted actuarial practice in Canada. Claims liabilities are discounted to take into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date.

Claims ratio Claims incurred, net of reinsurance, during a specific period and expressed as a percentage of net premiums earned for the same period.

Combined ratio The sum of the claims ratio and the expense ratio. A combined ratio below 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result.

Credit risk Possibility that counterparties may not be able to meet payment obligations when they become due.

Currency forwards Contractual obligations to exchange one currency for another on a predetermined future date.

Currency risk Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Customer relationships Relationships that exist with the policyholders, either directly (as a direct insurer) or indirectly (through consolidated brokers).

Debt-to-capital ratio Total debt outstanding divided by the sum of total shareholders' equity and total debt outstanding, at the same date.

Derivative financial instruments A financial contract settled at a future date that requires little or no initial investment, and whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. The notional amount of the derivative is the contract amount used as a reference point to calculate the payments to be exchanged between the two parties, and the notional amount itself is generally not exchanged by the parties.

Derivative-related credit risk Potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of an over-the-counter instrument and is normally a small fraction of the contract's notional amount.

Direct premiums written ("DPW") The total amount of premiums for new and renewal policies billed (written) during a specific period, as reported under IFRS.

DPW (MD&A basis) A non-IFRS financial measure calculated as the total amount of premiums for new and renewal policies billed (written) during a specific period, excluding industry pools and normalized for the effect of multi-year policies. This measure matches direct premiums written to the year in which coverage is provided, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.

DPW growth (MD&A basis) Growth normalized for the effect of multi-year policies. This measure matches direct premiums written to accident year, whereas under IFRS, the full value of multi-year policies is recognized in the year the policy is written.

Distribution EBITA Operating income excluding interest and taxes from our wholly owned broker (BrokerLink) and our broker associates for a specific period.

Distribution networks Contractual agreements between the Company and unconsolidated brokers for the distribution of its insurance products.

Earnings per share to common shareholders ("EPS"), basic Net income attributable to common shareholders divided by the weighted-average number of common shares outstanding during the same period.

Earnings per share to common shareholders ("EPS"), diluted Net income attributable to common shareholders divided by the weighted-average number of common shares outstanding during the same period, adjusted for the dilutive effect of stock options and other convertible securities.

Embedded derivatives A component of a hybrid (combined) instrument that also includes a non-derivative host contract. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable.

Equities sold short A transaction in which the seller sells equities and then borrows the equities in order to deliver them to the purchaser upon settlement. At a later date, the seller buys identical equities in the market to replace the borrowed securities.

Equity price risk Risk of losses arising from movements in equity market prices.

Excess capital Excess capital in the P&C insurance subsidiaries at 170% minimum capital test ("MCT").

Expense ratio Underwriting expenses including commissions, premium taxes and general expenses related to underwriting activities for a specific period and expressed as a percentage of net earned premiums for the same period.

Facility Association The Facility Association is an entity established by the automobile insurance industry to ensure that automobile insurance is available to all owners and licensed drivers of motor vehicles where such owners or drivers are unable to obtain automobile insurance through the private insurance market. The Facility Association serves the following provinces and territories: Alberta, New Brunswick, Newfoundland & Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island and Yukon.

Forwards Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market.

Frequency (of claims) Total number of claims reported in a specific period.

Futures Financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset), at a predetermined future date and price. Futures are standardized contracts with respect to amounts and settlement dates, and traded on regular futures exchanges.

Hedge A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal investing operations. The elimination or reduction of such exposure is accomplished by establishing offsetting or "hedging" positions.

Incurred but not reported ("IBNR") claims reserve Reserves for estimated claims that have been incurred but not yet reported by policyholders including a reserve for future developments on claims which have been reported.

Industry pools Industry pools consist of the "residual market" as well as risk-sharing pools ("RSP") in Alberta, Ontario, Québec, New Brunswick and Nova Scotia. Insurers can choose to cede risks to the RSP. The risks ceded are aggregated and assumed by the entities in the Canadian P&C insurance industry, generally in proportion to market share and volume of business ceded to the RSP. These pools are managed by the Facility Association, except for the Québec RSP.

Interest rate futures contracts Contractual obligations to buy or sell interest-rate-sensitive financial instruments at a predetermined future date at a specified price.

Interest rate hedge ratio A ratio calculated by the Company as the dollar-duration of the pension asset portfolio divided by the dollar-duration of the funded pension plans' obligation. A lower hedge ratio increases the Company's exposure to changes in interest rates.

Interest rate risk Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates or spreads.

Joint venture Joint arrangements whereby the parties have joint control of the arrangements, requiring unanimous consent of the parties sharing control for strategic and operating decision-making. The parties sharing control also have rights to the net assets of the arrangements. These investments are accounted for using the equity method.

Large loss A single claim larger than $0.25 million but smaller than the catastrophe threshold of $7.5 million.

Liquidity risk Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet obligations associated with financial liabilities.

Market-based yield Non-IFRS financial measure defined as the annualized total pre-tax investment income (before expenses) divided by the mid-month average fair value of net equity and fixed-income securities held during a period (average net investments).

Market risk Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity market prices, interest rates or spreads, or foreign exchange rates.

Market yield adjustment ("MYA") The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets.

Master netting agreement An agreement between a company and a counterparty designed to reduce the credit risk of derivative transactions through the creation of a legal right to offset the exposure in the event of a default.

Minimum capital test ("MCT") Ratio of total capital available to total capital required, as defined by the Office of the Superintendent of Financial Institutions ("OSFI") and Autorité des marchés financiers ("AMF").

Net distribution income Operating income excluding interest and taxes from our wholly owned broker (BrokerLink) and operating income including interest and taxes from our broker associates for a specific period.

Net earned premiums Net premiums written recognized for accounting purposes as revenue during a period.

Net operating income ("NOI") A non-IFRS financial measure calculated as net income from continuing operations for a specific period less preferred share dividends, plus the after-tax impact of amortization of intangible assets recognized in business combinations, integration and restructuring costs, change in fair value of contingent consideration, net investment gains (losses), difference between expected return and discount rate on pension assets, MYA, as well as other costs that we do not believe to be reflective of our operating performance.

Net operating income per share ("NOIPS") A non-IFRS financial measure calculated as net operating income for a specific period less preferred share dividends, divided by the weighted-average number of common shares outstanding during the same period.

Net premiums written Direct premiums written for a given period less premiums ceded to reinsurers during the same period.

Non-catastrophe weather event A group of claims which is considered significant but that is smaller than the CAT threshold of $7.5 million, related to a single weather event.

Non-operating results A non-IFRS financial measure, which includes elements that are not representative of our operating performance because they relate to special items, bear significant volatility from one period to another, or are not part of our normal activities.

Normal course issuer bid ("NCIB") A program for the repurchase of the Company's own common shares, for cancellation through a stock exchange, that is subject to the various rules of the relevant stock exchange and securities commission.

Notional amount Contract amount used as a reference point to calculate cash payments for derivatives.

Operating return on equity ("OROE") A non-IFRS financial measure calculated as net operating income for a 12-month period less preferred share dividends, divided by the average shareholders' equity (excluding preferred shares and accumulated other comprehensive income) over the same 12-month period.

Options Contractual agreements under which the seller grants to the buyer the right, but not the obligation, either to buy (call option) or sell (put option) an asset (underlying asset) at a predetermined price, at or by a specified future date.

Over-the-counter derivatives Contracts that are negotiated directly between two parties, without going through a formal exchange or other intermediaries.

Prior year claims development Change in total prior year claims liabilities in a given period. A reduction to claims liabilities is called favourable prior year claims development. An increase in claims liabilities is called unfavourable prior year claims development.

Provision for adverse deviation ("PfAD") An amount added to undiscounted case reserves and IBNR to account for adverse deviation from claims reserve estimates.

Reinstatement premium Premium payable to restore the original reinsurance policy limit as a result of a reinsurance loss payment under catastrophe coverage. Reinstatement premiums are reported in net premiums earned.

Reinsurer An insurance company that agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company, under one or more policies.

Return on equity ("ROE") Net income for a 12-month period less preferred share dividends, divided by the average shareholders' equity (excluding preferred shares) over the same 12-month period. Net income and shareholders' equity are determined in accordance with IFRS.

Securities lending Transactions in which the owner of a security agrees to lend it under the terms of a prearranged contract to a borrower for a fee. The borrower must collateralize the security loan at all times.

Severity (of claims) Average cost of a claim calculated by dividing the total cost of claims by the total number of claims.

Structured settlements Periodic payments to claimants for a determined number of years for life, typically in settlement for a claim under a liability policy, usually funded through the purchase of an annuity.

Swap agreements Over-the-counter contracts in which two counterparties exchange a series of cash flows based on a basket of stocks, applied to a contract notional amount.

Total capital available Total capital available mostly represents total shareholders' equity less specific deductions for disallowed assets including goodwill and intangible assets, net of related deferred tax liabilities. These amounts are applicable to our P&C insurance subsidiaries and are determined in accordance with prescribed OSFI and AMF rules.

Total capital required Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. It is further increased by an operational risk margin, based on the overall riskiness of a P&C insurer (its capital required) and its premium volume. Capital required is then reduced by a credit for diversification between investment risk and insurance risk. These amounts are applicable to our P&C insurance subsidiaries and are determined in accordance with prescribed OSFI and AMF rules.

Total excess capital Total excess capital includes excess capital in the P&C insurance subsidiaries at 170% MCT plus excess capital outside of the P&C insurance subsidiaries.

Underlying current year loss ratio A non-IFRS financial measure calculated as current year claims ratio excluding catastrophe losses, reinstatement premiums and prior year claims development.

Underwriting income Net premiums earned less net claims incurred, commissions, premium taxes and general expenses (excluding MYA).

Written insured risks The number of vehicles in automobile insurance, the number of premises in personal property insurance and the number of policies in commercial insurance (excluding commercial auto insurance).

BOARD OF DIRECTORS

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Chairman of the Board of Intact Financial Corporation and President of ACVA Investing Corporation

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Yves Brouillette [1,4]
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Robert W. Crispin [1,4]
Corporate Director

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Robert G. Leary [1,4]
Chief Executive Officer, Nuveen

Eileen Mercier [1,4]
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Timothy H. Penner [2,3]
Corporate Director

Louise Roy [2,3]
Chancellor and Chair of the Board, Université de Montréal and Invited Fellow, Centre for Interuniversity Research and Analysis on Organizations

Frederick Singer [1,3]
Chief Executive Officer, Echo360

Stephen G. Snyder [2,3]
Corporate Director

Carol Stephenson [2,3]
Corporate Director

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Chief Executive Officer

Louis Gagnon
President, Service and Distribution

Jean-François Blais
President, Intact Insurance Company

Patrick Barbeau
Senior Vice President, Claims

Martin Beaulieu
Senior Vice President and Chief Operating Officer, Direct-to-Consumer Distribution

Alan Blair
Senior Vice President, Atlantic Canada

Sonya Côté
Senior Vice President and Chief Internal Auditor

Frédéric Cotnoir
Senior Vice President, Corporate and Legal Services, and Secretary

Debbie Coull-Cicchini
Senior Vice President, Ontario

Joe D'Annunzio
Senior Vice President, Specialty Solutions and Surety

Jean-François Desautels
Senior Vice President, Québec

Monika Federau
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Anne Fortin
Senior Vice President, Sales & Marketing, Direct-to-Consumer Distribution

Darren Godfrey
Senior Vice President, Personal Lines

Karim Hirji
Senior Vice President, International and Ventures

Mathieu Lamy
Senior Vice President and Chief Information Officer

Alain Lessard
Senior Vice President, Commercial Lines

Louis Marcotte
Senior Vice President and Chief Financial Officer

Lucie Martel
Senior Vice President and Chief Human Resources Officer

Benoit Morissette
Senior Vice President and Chief Risk Officer

Jennie Moushos
Senior Vice President, Western Canada

Werner Muehlemann
Senior Vice President and Managing Director, Intact Investment Management Inc.

Lilia Sham
Senior Vice President, Corporate Development

Mark A. Tullis*
Vice Chairman

Don Fox**
Executive Vice President

Peter Weightman
President, BrokerLink

Notes:
1 Denotes member of the Audit Committee
2 Denotes member of the Compliance Review and Corporate Governance Committee
3 Denotes member of the Human Resources and Compensation Committee
4 Denotes member of the Risk Management Committee

* Since March 1, 2017
** Since January 1, 2017

For complete biographies of the members of the Board of Directors, please see www.intactfc.com.

Concept and Design: THE WORKS DESIGN COMMUNICATIONS worksdesign.com

Credit rating

	A.M. Best	DBRS	Fitch	Moody's
IFC long-term issuer credit ratings	a-	A	A-	Baa1
IFC's principal P&C insurance subsidiaries' financial strength ratings	A+	AA (low)	AA-	A1

DBRS has assigned a rating of "Pfd-2" with a Stable trend for the Non-cumulative Rate Reset Class A Series 1 preferred shares, Non-cumulative Rate Reset Class A Series 3 preferred shares and Non-cumulative Floating Rate Class A Series 4 preferred shares (the "Series 1 Preferred Shares", "Series 3 Preferred Shares" and "Series 4 Preferred Shares", respectively) issued on July 12, 2011, August 18, 2011 and September 30, 2016, respectively. Fitch Ratings has assigned a rating of "BBB" with a Stable outlook to the Series 1 Preferred Shares, Series 3 Preferred Shares and Series 4 Preferred Shares.

Toronto Stock Exchange (TSX) listings
Common Shares Ticker Symbol: IFC
Series 1 Preferred Shares Ticker Symbol: IFC.PR.A
Series 3 Preferred Shares Ticker Symbol: IFC.PR.C
Series 4 Preferred Shares Ticker Symbol: IFC.PR.D

Annual Meeting of Shareholders
Date: Wednesday, May 3, 2017
Time: 11:30 a.m. (Atlantic Time)
Venue: Lord Nelson Hotel
1515 South Park Street
Halifax, Nova Scotia
Canada B3J 2L2

Version française
Il existe une version française du présent rapport annuel à la section Investisseurs de notre site Web www.intactfc.com/French/accueil/default.aspx. Les personnes intéressées peuvent obtenir une version imprimée en appelant au 1 866 778 0774 ou en envoyant un courriel à ir@intact.net.

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1 800 564 6253

Auditors
Ernst & Young LLP

Earnings conference call dates
Q1 – May 3, 2017
Q2 – August 2, 2017
Q3 – November 8, 2017
Q4 – February 7, 2018

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Media inquiries
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Director, External Communications
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Dividend reinvestment
Shareholders can reinvest their cash dividends in common shares of Intact Financial Corporation on a commission-free basis either through a broker, subject to eligibility as determined by the broker, or through Canadian ShareOwner Investments Inc. Full details can be obtained by visiting the Investors section of the Company's website at www.intactfc.com.

Eligible dividend designation
For purposes of the enhanced dividend tax credit rules contained in the *Income Tax Act* (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by Intact Financial Corporation to Canadian residents on our common and preferred shares after December 31, 2005 are designated as eligible dividends. Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as eligible dividends for the purposes of such rules.

Information for shareholders outside of Canada
Dividends paid to residents of countries with which Canada has bilateral tax treaties are generally subject to the 15% Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares (assuming ownership of less than 25%) or debt instruments of the Company owned by non-residents not carrying on business in Canada. No government in Canada levies estate taxes or succession duties.

Common share dividend history

Record	Payable	Amount
Dec. 15, 2016	**Dec. 30, 2016**	**$0.58**
Sept. 15, 2016	**Sept. 30, 2016**	**$0.58**
June 15, 2016	**June 30, 2016**	**$0.58**
Mar. 15, 2016	**Mar. 31, 2016**	**$0.58**
Dec. 15, 2015	Dec. 31, 2015	$0.53
Sept. 15, 2015	Sept. 30, 2015	$0.53
June 15, 2015	June 30, 2015	$0.53
Mar. 16, 2015	Mar. 31, 2015	$0.53
Dec. 15, 2014	Dec. 31, 2014	$0.48
Sept. 15, 2014	Sept. 30, 2014	$0.48
June 16, 2014	June 30, 2014	$0.48
Mar. 17, 2014	Mar. 31, 2014	$0.48

Common share prices and volume

	High	Low	Close	Volume traded
Q1	**$ 91.08**	**$ 77.49**	**$ 90.93**	**16,605,531**
Q2	**$ 94.16**	**$ 84.88**	**$ 92.29**	**13,312,286**
Q3	**$ 97.20**	**$ 89.75**	**$ 94.84**	**10,209,134**
Q4	**$ 97.34**	**$ 90.00**	**$ 96.10**	**13,065,874**
Year 2016	**$ 97.34**	**$ 77.49**	**$ 96.10**	**53,192,825**
Q1	$ 95.77	$ 81.74	$ 95.42	18,432,707
Q2	$ 95.36	$ 85.42	$ 86.79	15,894,652
Q3	$ 95.82	$ 86.30	$ 93.72	14,672,799
Q4	$ 96.77	$ 85.81	$ 88.68	19,056,349
Year 2015	$ 96.77	$ 81.74	$ 88.68	68,056,507
Q1	$ 69.95	$ 65.82	$ 68.80	16,814,617
Q2	$ 74.92	$ 67.89	$ 73.58	15,294,740
Q3	$ 76.32	$ 70.52	$ 72.51	16,428,400
Q4	$ 84.42	$ 71.11	$ 83.85	17,726,044
Year 2014	$ 84.42	$ 65.82	$ 83.85	66,263,801

Source: Toronto Stock Exchange

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belairdirect.

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WHY INVEST WITH INTACT

We are the largest provider of P&C insurance in Canada with over $8 billion in annual direct premiums written. We have consistently outperformed the industry due to our disciplined approach to underwriting, our scale advantage and our in-house claims expertise. Our record of strong capital generation and disciplined capital deployment has allowed us to pursue our growth objectives while also returning capital to shareholders. Our financial strength is reinforced by prudent risk management, resulting in a consistent track record of favourable reserve development.

SEE THE FULL STORY ONLINE
REPORTS.INTACTFC.COM/2016