Second Quarter 2020

2

Interim Consolidated Financial Statements (unaudited)
For the quarter ended June 30, 2020

Intact Financial Corporation

Interim Consolidated financial statements (unaudited)

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INTACT FINANCIAL CORPORATION

Interim Consolidated balance sheets (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

As at	Note		June 30, 2020		December 31, 2019
Assets					
Investments	5				
Cash and cash equivalents		**$**	**875**	$	936
Debt securities			**13,469**		11,826
Preferred shares			**1,294**		1,465
Common shares			**3,267**		4,063
Loans			**294**		318
Investments			**19,199**		18,608
Premiums receivable			**3,699**		3,588
Reinsurance assets	9		**1,586**		1,511
Income taxes receivable			**45**		14
Deferred tax assets			**131**		175
Deferred acquisition costs			**1,074**		1,026
Other assets	10		**940**		968
Investments in associates and joint ventures			**732**		715
Property and equipment			**534**		538
Intangible assets			**2,530**		2,523
Goodwill			**2,714**		2,626
Total assets		**$**	**33,184**	$	32,292
Liabilities					
Claims liabilities	9	**$**	**12,571**	$	11,846
Unearned premiums			**6,151**		5,960
Financial liabilities related to investments	6		**213**		295
Income taxes payable			**29**		150
Deferred tax liabilities			**254**		286
Other liabilities	10		**2,551**		2,646
Debt outstanding	11		**2,524**		2,362
Total liabilities			**24,293**		23,545
Shareholders' equity					
Common shares			**3,265**		3,265
Preferred shares	12		**1,175**		1,028
Contributed surplus			**164**		170
Retained earnings			**4,115**		3,959
Accumulated other comprehensive income (loss)					
Available-for-sale securities			**34**		275
Translation of foreign operations, net of hedges			**138**		46
Other			**-**		4
			8,891		8,747
Total liabilities and shareholders' equity		**$**	**33,184**	$	32,292

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Interim Consolidated statements of income (unaudited)

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

For the periods ended June 30,	Note	Three months 2020	Three months 2019	Six months 2020	Six months 2019
Direct premiums written		**$ 3,389**	$ 3,119	**$ 5,946**	$ 5,327
Premiums ceded		**(119)**	(102)	**(277)**	(202)
Net premiums written		**3,270**	3,017	**5,669**	5,125
Change in unearned premiums		**(558)**	(516)	**(191)**	(184)
Net earned premiums		**2,712**	2,501	**5,478**	4,941
Other underwriting revenues		**32**	29	**65**	57
Investment income	*14*				
Interest income		**90**	94	**183**	188
Dividend income		**57**	60	**119**	112
Other revenues		**80**	45	**155**	86
Total revenues		**2,971**	2,729	**6,000**	5,384
Net claims incurred	*9*	**(1,733)**	(1,753)	**(3,562)**	(3,613)
Underwriting expenses		**(941)**	(785)	**(1,831)**	(1,538)
Investment expenses	*14*	**(6)**	(6)	**(11)**	(12)
Net gains (losses)	*15*	**144**	60	**123**	234
Share of profit from investments in associates and joint ventures		**16**	18	**19**	22
Finance costs		**(29)**	(28)	**(57)**	(57)
Integration and restructuring costs		**(13)**	(8)	**(37)**	(12)
Other expenses		**(92)**	(37)	**(181)**	(81)
Income before income taxes		**317**	190	**463**	327
Income tax benefit (expense)	*16*	**(54)**	(22)	**(93)**	-
Net income attributable to shareholders		**$ 263**	$ 168	**$ 370**	$ 327
Weighted-average number of common shares outstanding (in millions)	*17*	**143.0**	139.2	**143.0**	139.2
Earnings per common share, basic and diluted (in dollars)	*17*	**$ 1.74**	$ 1.13	**$ 2.40**	$ 2.19
Dividends paid per common share (in dollars)		**$ 0.83**	$ 0.76	**$ 1.66**	$ 1.52

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Interim Consolidated statements of comprehensive income (unaudited)

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

For the periods ended June 30,	Note	Three months 2020	Three months 2019	Six months 2020	Six months 2019
Net income attributable to shareholders		**$ 263**	$ 168	**$ 370**	$ 327
Other comprehensive income (loss)					
Available-for-sale securities:					
net changes in unrealized gains (losses)		**579**	33	**(418)**	389
income tax benefit (expense)		**(135)**	(2)	**118**	(88)
reclassification of net losses (gains)		**(1)**	(17)	**82**	(44)
income tax (benefit) expense		**(1)**	4	**(23)**	11
		442	18	**(241)**	268
Foreign exchange gains (losses) on:					
translation of foreign operations		**(172)**	(85)	**193**	(172)
net investment hedges		**93**	40	**(106)**	82
income tax benefit (expense)		**(2)**	-	**5**	-
		(81)	(45)	**92**	(90)
Other, net of tax		**1**	2	**(4)**	6
Items that may be reclassified subsequently to net income		**362**	(25)	**(153)**	184
Net actuarial gains (losses) on employee future benefits	*19*	**(213)**	(85)	**79**	(103)
income tax benefit (expense)		**55**	22	**(21)**	27
Items that will not be reclassified subsequently to net income		**(158)**	(63)	**58**	(76)
Other comprehensive income (loss)		**204**	(88)	**(95)**	108
Total comprehensive income (loss) attributable to shareholders		**$ 467**	$ 80	**$ 275**	$ 435

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Interim Consolidated statements of changes in shareholders' equity (unaudited)

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

	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as at January 1, 2020		**$ 3,265**	**$ 1,028**	**$ 170**	**$ 3,959**	**$ 325**	**$ 8,747**
Net income attributable to shareholders		**-**	**-**	**-**	**370**	**-**	**370**
Other comprehensive income (loss)		**-**	**-**	**-**	**58**	**(153)**	**(95)**
Total comprehensive income (loss)		**-**	**-**	**-**	**428**	**(153)**	**275**
Preferred shares issued	*12*	**-**	**147**	**-**	**-**	**-**	**147**
Dividends declared on:							
common shares		**-**	**-**	**-**	**(237)**	**-**	**(237)**
preferred shares		**-**	**-**	**-**	**(26)**	**-**	**(26)**
Share-based payments		**-**	**-**	**(6)**	**(9)**	**-**	**(15)**
Balance as at June 30, 2020		**$ 3,265**	**$ 1,175**	**$ 164**	**$ 4,115**	**$ 172**	**$ 8,891**
Balance as at January 1, 2019		$ 2,816	$ 1,028	$ 149	$ 3,776	$ 41	$ 7,810
Impact of the adoption of IFRS 16		-	-	-	(39)	-	(39)
Adjusted balance as at January 1, 2019		2,816	1,028	149	3,737	41	7,771
Net income attributable to shareholders		-	-	-	327	-	327
Other comprehensive income (loss)		-	-	-	(76)	184	108
Total comprehensive income (loss)		-	-	-	251	184	435
Dividends declared on:							
common shares		-	-	-	(212)	-	(212)
preferred shares		-	-	-	(22)	-	(22)
Share-based payments		-	-	5	(4)	-	1
Balance as at June 30, 2019		$ 2,816	$ 1,028	$ 154	$ 3,750	$ 225	$ 7,973

See accompanying notes to the interim Consolidated financial statements.

Interim Consolidated statements of cash flows (unaudited)

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

For the periods ended June 30,	Note	Three months 2020	Three months 2019	Six months 2020	Six months 2019
Operating activities					
Income before income taxes		**$ 317**	$ 190	**$ 463**	$ 327
Income tax received (paid), net		**-**	(1)	**(154)**	(8)
Contributions to the defined benefit pension plans		**(12)**	(14)	**(25)**	(26)
Share-based payments		**(4)**	(6)	**(7)**	(7)
Net losses (gains)	*15*	**(144)**	(60)	**(123)**	(234)
Adjustments for non-cash items	*21*	**99**	76	**209**	165
Changes in other operating assets and liabilities	*21*	**180**	117	**(23)**	(136)
Changes in net claims liabilities	*9*	**357**	77	**553**	336
Net cash flows provided by (used in) operating activities		**793**	379	**893**	417
Investing activities					
Proceeds from sale of investments		**3,777**	2,547	**7,385**	5,493
Purchases of investments		**(4,485)**	(2,713)	**(8,162)**	(5,689)
Purchases of brokerages and other equity investments, net		**(14)**	(8)	**(57)**	(50)
Purchases of intangibles and property and equipment, net		**(37)**	(34)	**(66)**	(60)
Net cash flows provided by (used in) investing activities		**(759)**	(208)	**(900)**	(306)
Financing activities					
Payment of lease liabilities		**(14)**	(11)	**(29)**	(24)
Proceeds from issuance of debt, net of issuance costs	*11*	**(1)**	-	**298**	-
Proceeds from (repurchase of) securities sold under repurchase agreements	*6*	**-**	-	**(20)**	-
Borrowing (repayment) on the credit facility, net		**(175)**	-	**(163)**	-
Proceeds from issuance of preferred shares, net of issuance costs	*12*	**-**	-	**146**	-
Repurchase of common shares for share-based payments		**(30)**	(25)	**(41)**	(34)
Payment of dividends on common shares		**(118)**	(106)	**(237)**	(212)
Payment of dividends on preferred shares		**(14)**	(11)	**(26)**	(22)
Net cash flows provided by (used in) financing activities		**(352)**	(153)	**(72)**	(292)
Net increase (decrease) in cash and cash equivalents		**(318)**	18	**(79)**	(181)
Cash and cash equivalents, beginning of period		**1,207**	241	**936**	442
Exchange rate differences on cash and cash equivalents		**(14)**	(5)	**18**	(7)
Cash and cash equivalents, end of period		**$ 875**	$ 254	**$ 875**	$ 254
Composition of cash and cash equivalents					
Cash		**611**	82	**611**	82
Cash equivalents		**264**	172	**264**	172
Cash and cash equivalents, end of period		**$ 875**	$ 254	**$ 875**	$ 254
Other relevant cash flow disclosures – operating activities					
Interest paid		**34**	32	**57**	58
Interest received		**102**	111	**177**	189
Dividends received		**63**	66	**130**	123

See accompanying notes to the interim Consolidated financial statements.

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

Glossary of abbreviations

AFS	Available-for-sale	**LTIP**	Long-term incentive plan
CAD	Canadian Dollar	**MBS**	Mortgage-backed securities
CALs	Company action levels	**MCT**	Minimum capital test (Canada)
DB	Defined benefits	**MD&A**	Management's Discussion and Analysis
DPW	Direct premiums written	**MYA**	Market yield adjustment
DSU	Deferred share unit	**NEP**	Net earned premiums
EBITA	Earnings before interest, taxes and amortization	**NOI**	Net operating income
EPS	Earnings per share to common shareholders	**OCI**	Other comprehensive income
ESPP	Employee share purchase plan	**P&C**	Property and casualty
FVTPL	Fair value through profit and loss	**PTOI**	Pre-tax operating income
IAS	International Accounting Standards	**RBC**	Risk-based capital (U.S.)
IBNR	Insurance claims incurred but not yet reported by policyholders	**U.S.**	United States
IFRS	International Financial Reporting Standards	**USD**	U.S. Dollar
JV	Joint ventures		

Note 1 – Status of the Company

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

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

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

Note 2 – Basis of presentation

2.1 Statement of compliance

These interim Consolidated financial statements are prepared in accordance with IAS 34 – *Interim Financial Reporting*. These interim Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on July 28, 2020.

2.2 Preparation and presentation of financial statements

These interim Consolidated financial statements are condensed financial statements and should be read in conjunction with the Company's annual Consolidated financial statements for the year ended December 31, 2019.

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

2.3 Seasonality

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

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

2.4 Foreign currency translation

Table 2.1 – Exchange rates used

	As at		Average rate for the three-month periods ended		Average rate for the six-month periods ended	
	June 30, 2020	**December 31, 2019**	**June 30, 2020**	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
USD vs CAD	**1.35755**	1.29835	**1.38539**	1.33774	**1.36460**	1.33371

2.5 COVID-19 pandemic

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. The magnitude of the impact of the COVID-19 crisis on the economy and financial markets continues to evolve while also contributing to increased market volatility and changes to the macroeconomic environment. The significant response from governments to support businesses and economies led to a rebound in financial markets during the three-month period ended June 30, 2020. While restrictions have eased for parts of the economy, until the COVID-19 crisis has passed and economies fully reopen, the Company expects financial markets to remain volatile.

The Company continues to manage the impact on its business and believes that its operations and financial position remain strong and that it is well positioned to deal with this crisis. Various scenarios and the potential impacts to the underwriting results were assessed. In addition, the effects of the COVID-19 crisis related to emerging coverage issues and claims, including certain class actions relating to business interruption coverage and related defence costs, as well as other indirect claims could negatively impact our claims reserves.

The extent to which the COVID-19 crisis may impact the Company's operations will depend on future developments and the effectiveness of measures to contain the spread of the virus and actions that will be taken by the governments and central banks in Canada, the U.S and abroad. Consequently, the Company's financial results will be subject to volatility.

The Company has provided additional disclosures on the following areas impacted by COVID-19:

- The valuation of the Company's investments ***(refer to Note 15 – Net gains (losses))***;
- The valuation of the DB obligation and the related plan assets ***(refer to Note 19 – Employee future benefits)***;
- The sensitivity analysis to market risk ***(refer to Section 18 – Sensitivity analyses of the Company's interim MD&A)***;
- The increase in provisions in Claims liabilities to reflect the potential risks for certain lines of business ***(refer to Note 9.1 – Claims liabilities)***;
- The actions taken to maintain solid capital levels despite the COVID-19 crisis ***(refer to Note 13 – Capital management)***;
- The customer relief measures announced ***(see below)***.

Customer relief measures

In April 2020, the Company announced customer relief measures including premium reductions and flexible payment options, which were to be in place until June 30, 2020. The Company extended at the end of June 2020 these measures until July 31, 2020. Premium reductions include changes in driving habits, adjustments for commercial clients severely impacted from a sales receipts and payroll perspective as well as cap and reduction in rates on renewals and new business.

Premium reductions are reported against DPW with a corresponding decrease in Premiums receivable and are recognized on the contract modification date (or when coverage begins for renewals and new business). Premium reductions are deferred as Unearned premiums and are recognized against NEP on a pro rata basis over the remaining term of the underlying policy or immediately if they clearly relate to past services to match the decrease in insurance risk. For the three-month period ended June 30, 2020, these measures negatively impacted DPW and NEP by $134 million and $79 million respectively. The Company has provided over $260 million of premium reductions (on issued policies) to date, including reductions provided during the three-month period ended June 30, 2020.

The COVID-19 crisis also impacted significantly the level of bad debt expense and allowance for doubtful accounts on Premiums receivable and other customer receivables. The Company applied judgment in its evaluation of the provision to consider flexible payment options provided, as well as experience during the crisis and in past economic downturns. As a result, for the three-and six-month periods ended June 30, 2020, the Company recognized a bad debt expense of $35 million and $38 million respectively, mainly as a part of Underwriting expenses.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the six-month period ended June 30, 2020 are the same as those described and disclosed in ***Note 2 – Summary of significant accounting policies*** of the annual Consolidated financial statements for the year ended December 31, 2019, except for the amendments to existing standards and revised Conceptual Framework described below and adopted on January 1, 2020.

3.1 Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – *Business Combinations* ("IFRS 3"). The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or as an asset.

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

3.2 Definition of material

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The objective of theses amendments is to improve disclosure effectiveness in the financial statements by improving the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

3.3 Conceptual framework for financial reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting: the revised Conceptual Framework for Financial Reporting ("Conceptual Framework"), which replaces its previous version. It assists companies in developing accounting policies when no IFRS standard applies to a particular transaction and it helps stakeholders more broadly to better understand the standards.

The revised Conceptual Framework was adopted prospectively with no impact on the interim Consolidated financial statements.

3.4 Interest rate benchmark reform

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

Hedging relationships extending beyond December 31, 2021 are impacted by the reform and require additional disclosures. As at January 1, 2020, the Company's derivatives indexed to rates impacted by the reform and designated as hedging relations mature before December 31, 2021 and therefore no additional disclosure was required.

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

Note 4 – Business combinations

4.1 Business combinations

The Company completed the following acquisitions during the year ended December 31, 2019:

On Side Restoration

- On October 1, 2019, the Company acquired control of On Side Developments Ltd., the parent company of On Side Restoration (collectively known as "On Side"), a leading Canadian restoration firm based in Vancouver.

The Guarantee Company of North America and Frank Cowan Company Limited

- On December 2, 2019, the Company acquired all outstanding shares of The Guarantee Company of North America ("The Guarantee"), a specialty lines insurer in Canada and the U.S. and Frank Cowan Company Limited ("Frank Cowan"), a managing general agent focused on specialty insurance.

There were no significant changes to the consideration and the preliminary fair value of the assets acquired and liabilities assumed as at the acquisition date, for the above acquisitions as disclosed in ***Note 5 – Business combinations*** of the annual Consolidated financial statements for the year ended December 31, 2019.

The final determination of the fair value of identifiable assets acquired and liabilities assumed will be completed within the prescribed period of one year following the acquisition. The Company does not expect any significant adjustments.

The acquisition-related and integration costs in connection with the acquisitions are reported in the line Integration and restructuring costs in the Consolidated statements of income.

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

Note 5 – Investments

5.1 Classification of investments

Table 5.1 – Classification of investments

	Fair value			Amortized cost	
As at	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, and loans	Total carrying amount
June 30, 2020					
Cash and cash equivalents	**-**	**-**	**-**	**875**	**875**
Short-term notes	**137**	**-**	**-**	**-**	**137**
Fixed income					
Investment grade					
Government	**2,872**	**-**	**2,972**	**-**	**5,844**
Corporate	**2,416**	**-**	**2,863**	**-**	**5,279**
Asset backed[1]	**407**	**-**	**96**	**-**	**503**
Mortgage backed					
Agency[2]	**436**	**-**	**245**	**-**	**681**
Non agency	**485**	**-**	**246**	**-**	**731**
Below investment grade Corporate	**7**	**-**	**-**	**-**	**7**
Non rated	**287**	**-**	**-**	**-**	**287**
Debt securities	**7,047**	**-**	**6,422**	**-**	**13,469**
Investment grade					
Retractable	**20**	**-**	**-**	**-**	**20**
Fixed-rate perpetual	**285**	**-**	**-**	**-**	**285**
Other perpetual	**989**	**-**	**-**	**-**	**989**
Preferred shares	**1,294**	**-**	**-**	**-**	**1,294**
Common shares	**2,098**	**17**	**1,152**	**-**	**3,267**
Loans	**-**	**-**	**-**	**294**	**294**
	10,439	**17**	**7,574**	**1,169**	**19,199**
December 31, 2019					
Cash and cash equivalents	-	-	-	936	936
Short-term notes	61	-	-	-	61
Fixed income					
Investment grade					
Government	2,515	-	2,715	-	5,230
Corporate	1,903	-	2,443	-	4,346
Asset backed[1]	540	-	101	-	641
Mortgage backed					
Agency[2]	257	-	329	-	586
Non agency	450	-	266	-	716
Non rated	246	-	-	-	246
Debt securities	5,972	-	5,854	-	11,826
Investment grade					
Retractable	24	-	-	-	24
Fixed-rate perpetual	266	-	-	-	266
Other perpetual	1,175	-	-	-	1,175
Preferred shares	1,465	-	-	-	1,465
Common shares	2,712	202	1,149	-	4,063
Loans	-	-	-	318	318
	10,149	202	7,003	1,254	18,608

[1] Credit card receivables and auto loans.

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

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

5.2 Carrying value of investments

Table 5.2 – Carrying value of investments

	FVTPL investments				Other investments	Total investments
As at	Carrying value	Amortized cost	Unrealized gains[2]	Unrealized losses[2]	Carrying value	Carrying value
June 30, 2020						
Cash and cash equivalents	**-**	**875**	**-**	**-**	**875**	**875**
Debt securities	**6,422**	**6,747**	**308**	**(8)**	**7,047**	**13,469**
Preferred shares[1]	**-**	**1,512**	**18**	**(236)**	**1,294**	**1,294**
Common shares	**1,169**	**2,129**	**177**	**(208)**	**2,098**	**3,267**
Loans	**-**	**294**	**-**	**-**	**294**	**294**
	7,591	**11,557**	**503**	**(452)**	**11,608**	**19,199**
December 31, 2019						
Cash and cash equivalents	-	936	-	-	936	936
Debt securities	5,854	5,865	118	(11)	5,972	11,826
Preferred shares[1]	-	1,529	39	(103)	1,465	1,465
Common shares	1,351	2,398	361	(47)	2,712	4,063
Loans	-	318	-	-	318	318
	7,205	11,046	518	(161)	11,403	18,608

[1] Includes unrealized gains (losses) on embedded derivatives of $23 million as at June 30, 2020 (nil as at December 31, 2019). These derivatives were presented in Investments, with the related perpetual preferred shares, on the interim Consolidated balance sheets but their change in fair value was reported in Net gains (losses) in Net income.

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

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

Table 5.3 – Credit quality of debt securities

As at	June 30, 2020	December 31, 2019
Debt securities		
AAA	**39%**	41%
AA	**28%**	30%
A	**22%**	19%
BBB	**9%**	8%
BB and not rated	**2%**	2%
	100%	100%

Table 5.4 – Credit quality of preferred shares

As at	June 30, 2020	December 31, 2019
Preferred shares		
P2	**80%**	77%
P3	**20%**	23%
	100%	100%

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

5.3 Market neutral equity investment strategy

Table 5.5 – Market neutral equity investment strategy

	June 30, 2020		December 31, 2019	
As at	Fair value	Collateral	Fair value	Collateral
Long positions – reported in Common shares	**7**	**-**	195	-
Short positions – reported in Financial liabilities related to investments *(Table 6.1)*	**(7)**	**7**	(197)	202

The Company reduced certain common equity strategies in order to de-risk and unwind capital-intensive strategies in the first quarter of 2020.

Note 6 – Financial liabilities related to investments

Table 6.1 – Financial liabilities related to investments

As at	June 30, 2020	December 31, 2019
Accounts payable to investment brokers on unsettled trades	**138**	33
Derivative financial liabilities *(Table 7.1)*	**68**	45
Equities sold short positions *(Table 5.5)*	**7**	197
Securities sold under repurchase agreements	**-**	20
	213	295

Note 7 – Derivative financial instruments

7.1 Fair value and notional amount of derivatives

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

Table 7.1 – Fair value and notional amount of derivatives by nature of risk

	June 30, 2020			December 31, 2019		
	Notional	Fair value		Notional	Fair value	
As at	amount	Asset	Liability	amount	Asset	Liability
Foreign currency contracts[1]						
Forwards	**2,407**	**27**	**40**	2,063	23	1
Cross currency swaps	**266**	**-**	**6**	266	6	-
Interest rate contracts						
Futures	**1,797**	**-**	**-**	516	-	-
Equity contracts						
Swap	**1,144**	**8**	**22**	1,139	-	44
Futures	**386**	**-**	**-**	155	-	-
	6,000	**35**	**68**	4,139	29	45
Held for risk management purposes	**5,884**	**35**	**68**	4,026	29	45
Held for trading purposes	**116**	**-**	**-**	113	-	-
	6,000	**35**	**68**	4,139	29	45
Term to maturity:						
less than one year	**5,489**			3,873		
from one to five years	**511**			266		
over five years	**-**			-		
	6,000			4,139		

[1] Includes net investment hedges using forwards and cross currency swaps.

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

Note 8 – Fair value measurement

8.1 Categorization of fair values

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

As at	Level 1 Valued using quoted (unadjusted) market prices	Level 2 Valued using models (with observable inputs)	Level 3 Valued using models (without observable inputs)	Total
June 30, 2020				
Short-term notes	**137**	**-**	**-**	**137**
Fixed income				
Investment grade				
Government	**2,713**	**3,131**	**-**	**5,844**
Corporate	**-**	**5,279**	**-**	**5,279**
Asset backed	**-**	**503**	**-**	**503**
Mortgage backed				
Agency	**-**	**681**	**-**	**681**
Non agency	**-**	**731**	**-**	**731**
Below Investment grade Corporation	**-**	**7**	**-**	**7**
Non rated	**-**	**-**	**287**	**287**
Debt securities	**2,850**	**10,332**	**287**	**13,469**
Preferred shares[1]	**1,294**	**-**	**-**	**1,294**
Common shares	**3,242**	**-**	**25**	**3,267**
Derivative financial assets *(Table 7.1)*	**-**	**35**	**-**	**35**
Total financial assets measured at fair value	**7,386**	**10,367**	**312**	**18,065**
Total financial liabilities measured at fair value *(Table 6.1)*	**7**	**68**	**-**	**75**
December 31, 2019				
Short-term notes	36	25	-	61
Fixed income				
Investment grade				
Government	2,367	2,863	-	5,230
Corporate	-	4,346	-	4,346
Asset backed	-	641	-	641
Mortgage backed				
Agency	-	586	-	586
Non agency	-	716	-	716
Non rated	-	-	246	246
Debt securities	2,403	9,177	246	11,826
Preferred shares[1]	1,465	-	-	1,465
Common shares	4,039	-	24	4,063
Derivative financial assets *(Table 7.1)*	-	29	-	29
Total financial assets measured at fair value	7,907	9,206	270	17,383
Total financial liabilities measured at fair value *(Table 6.1)*	197	45	-	242

[1] Includes perpetual preferred shares with call options amounting to $1,144 million as at June 30, 2020 ($1,296 million as at December 31, 2019). The fair value of the embedded derivatives component amounting to $26 million as at June 30, 2020 ($49 million as at December 31, 2019) was determined using a Level 3 methodology.

The fair value of loans was $300 million as at June 30, 2020 ($314 million as at December 31, 2019).

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

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

Note 9 – Claims liabilities and reinsurance

9.1 Claims liabilities

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

In relation to COVID-19, the Company applied judgment and actuarial standards to determine its Claims liabilities reserve, using different scenarios and assumptions based on the information currently available. This resulted in a provision of nil and $83 million for certain lines of business for the three-and six-month periods ended June 30, 2020, respectively.

Table 9.1 – Movements in claims liabilities

For the three-month periods ended	**Direct**	**Ceded**	**Net**
June 30, 2020			
Balance, beginning of period	**12,275**	**1,411**	**10,864**
Current period claims	**1,608**	**73**	**1,535**
Unfavourable (favourable) prior-year claims development	**19**	**18**	**1**
Increase (decrease) due to changes in discount rate	**231**	**34**	**197**
Total claims incurred	**1,858**	**125**	**1,733**
Claims paid	**(1,475)**	**(99)**	**(1,376)**
Exchange rate differences	**(87)**	**(30)**	**(57)**
Balance, end of period	**12,571**	**1,407**	**11,164**
June 30, 2019			
Balance, beginning of period	10,868	769	10,099
Current period claims	1,654	34	1,620
Unfavourable (favourable) prior-year claims development	112	37	75
Increase (decrease) due to changes in discount rate	68	10	58
Total claims incurred	1,834	81	1,753
Claims paid	(1,706)	(30)	(1,676)
Exchange rate differences	(45)	(12)	(33)
Balance, end of period	10,951	808	10,143

For the six-month periods ended	**Direct**	**Ceded**	**Net**
June 30, 2020			
Balance, beginning of period	**11,846**	**1,300**	**10,546**
Current period claims	**3,483**	**130**	**3,353**
Unfavourable (favourable) prior year claims development	**9**	**55**	**(46)**
Increase (decrease) due to changes in discount rate	**289**	**34**	**255**
Total claims incurred	**3,781**	**219**	**3,562**
Claims paid	**(3,159)**	**(150)**	**(3,009)**
Exchange rate differences	**103**	**38**	**65**
Balance, end of period	**12,571**	**1,407**	**11,164**
June 30, 2019			
Balance, beginning of period	10,623	746	9,877
Current period claims	3,462	63	3,399
Unfavourable (favourable) prior year claims development	148	84	64
Increase (decrease) due to changes in discount rate	167	17	150
Total claims incurred	3,777	164	3,613
Claims paid	(3,356)	(79)	(3,277)
Exchange rate differences	(93)	(23)	(70)
Balance, end of period	10,951	808	10,143

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

9.2 Reinsurance

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

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

As at	June 30, 2020	December 31, 2019
Single risk events		
Retentions in Canada:		
on property policies	**7.5**	7.5
on liability policies	**5 - 10**	5 - 10
Retentions in the U.S. (in USD):		
on property and liability policies	**3**	3
Multi-risk events and catastrophes		
Retention	**100**	100
Coverage limits	**5,300**	4,050

For certain special classes of business or types of risks, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance. On January 1, 2020, the Company increased its coverage to $5,300 million for multi-risk events and catastrophes. As at June 30, 2020, the Company retains participations averaging 10.2% on reinsurance layers between the retention and coverage limit (5.5% as at December 31, 2019). The coverage limit prudently exceeds the Company's risk assessment of an earthquake in Western Canada at a 1-in-500-year return period.

Since January 1, 2020, The Guarantee is covered by the corporate multi-risk events and catastrophes reinsurance program and the corporate single risk events property program. The operations of The Guarantee are covered by their own reinsurance program for liability single risk events. The Guarantee also purchased dedicated reinsurance protection for certain lines of business.

With respect to Intact U.S. (OneBeacon) claims liabilities for accident years 2016 and prior, the Company purchased from a major reinsurer in 2017, an adverse development cover subject to an aggregate limit of US$200 million. Capacity remains on this cover as at June 30, 2020.

See Note 14 – Reinsurance of the annual Consolidated financial statements for the year ended December 31, 2019 for further details.

Table 9.3 – Components of reinsurance assets

As at	June 30, 2020	December 31, 2019
Reinsurers' share of claims liabilities ***(Table 9.1)***	**1,407**	1,300
Reinsurers' share of unearned premiums	**179**	211
	1,586	1,511

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

Note 10 – Other assets and other liabilities

10.1 Other assets

Table 10.1 – Components of other assets

As at	June 30, 2020	December 31, 2019
Other receivables and recoverables	**184**	178
Industry pools receivable	**141**	137
Reinsurance receivable	**119**	77
Restricted funds	**92**	95
Investments, at cost	**91**	90
Accrued investment income	**83**	77
Financial assets related to investments	**82**	106
Prepaids	**67**	59
Premium and sale taxes receivable	**36**	40
Other	**32**	39
Contract assets[1]	**13**	34
Surplus notes[2]	**-**	36
	940	968

[1] Unbilled revenues related to supply chain operations.

[2] Surplus notes were written-off in Q1-2020 ***(refer to Note 15 – Net gains (losses))***. Previously they were recorded at fair value based on a discounted cash flow model using information as of the measurement date and classified in Level 3 of the fair value hierarchy.

Considering the COVID-19 crisis and based on the information currently available, the Company believes that the carrying value of investments at cost is not impaired as at June 30, 2020.

10.2 Other liabilities

Table 10.2 – Components of other liabilities

As at	June 30, 2020	December 31, 2019
Lease liabilities	**459**	461
Deposits received in connection with insurance contracts[1]	**424**	363
Premium and sale taxes payable	**237**	266
Pension plans in a deficit position and unfunded plans	**223**	284
Other payables and other liabilities	**240**	274
Commissions payable	**215**	189
Accrued salaries and related compensation	**185**	252
Contingent considerations[2]	**147**	143
Account payables and accrued expenses	**151**	158
Industry pools payable	**140**	131
Reinsurance payable	**55**	55
Other post-employment benefits and other post-retirement benefits	**55**	54
Deposits received from reinsurers	**20**	16
	2,551	2,646

[1] Unrestricted collateral held by the Company primarily in relation with the surety business.

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

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

Note 11 – Debt outstanding

11.1 New financing

On March 24, 2020, the Company completed an offering of $300 million principal amount of Series 8 unsecured medium-term notes (the ''Notes''). The Notes bear interest at a fixed annual rate of 3.691% until maturity on March 24, 2025, payable in semi-annual instalments commencing on September 24, 2020. The net proceeds from this offering of Notes will be used for general corporate purposes.

11.2 Summary of debt outstanding

Table 11.1 – Carrying value of debt outstanding

As at,	Maturity date	Initial term (years)	Fixed rate	Coupon (payment)	Principal amount	Carrying value (net of fees) June 30, 2020	Carrying value (net of fees) December 31, 2019
Term notes							
Series 2	Nov. 2039	30	6.40%	May & Nov.	250	**248**	248
Series 3	July 2061	50	6.20%	Jan. & July	100	**99**	99
Series 4	Aug. 2021	10	4.70%	Feb. & Aug.	300	**300**	300
Series 5	June 2042	30	5.16%	June & Dec.	250	**249**	249
Series 6	Mar. 2026	10	3.77%	Mar. & Sept.	250	**249**	249
Series 7	June 2027	10	2.85%	June & Dec.	425	**423**	422
Series 8	Mar. 2025	5	3.69%	Mar. & Sept.	300	**298**	-
2012 U.S. Senior Notes	Nov. 2022	10	4.60%	May & Nov.	USD275	**384**	370
Term loan	May 2021	1.5			USD200	**272**	260
Credit facility						**2**	165
						2,524	2,362

The Company has an unsecured revolving term credit facility available for an amount of $750 million which matures on November 26, 2024. As at June 30, 2020, no balance was drawn under this credit facility as it was repaid in full on April 28, 2020 ($138 million or US$106 million as at December 31, 2019).

The fair value of debt outstanding amounted to $2,905 million as at June 30, 2020 ($2,650 million as at December 31, 2019) and was established using valuation data from a benchmark firm.

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

Note 12 – Preferred shares

12.1 New financing

On February 18, 2020, the Company completed a Class A Series 9 offering of preferred shares (the "Series 9 Preferred Shares") by issuing and selling 6,000,000 Series 9 Preferred Shares, at a price of $25.00 per share, for aggregate gross proceeds of $150 million. Share issuance costs of $4 million ($3 million after tax), were accounted for as a reduction in preferred shares on the interim Consolidated balance sheets.

The holders of the Series 9 Preferred Shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, if, as and when declared by the Board of Directors of the Company, on the last day of March, June, September and December in each year at an annual rate equal to $1.35 per share. The initial dividend of $0.4906 per share was paid on June 30, 2020.

On or after March 31, 2025, the Company may redeem, in whole or in part, at its option, the Series 9 Preferred Shares, subject to certain conditions.

12.2 Issued and outstanding shares

Table 12.1 – Issued and outstanding shares

	June 30, 2020		December 31, 2019	
As at	Number of shares	Amount	Number of shares	Amount
Preferred shares - Class A Shares				
Series 1	**10,000,000**	**244**	10,000,000	244
Series 3	**8,405,004**	**206**	8,405,004	206
Series 4	**1,594,996**	**39**	1,594,996	39
Series 5	**6,000,000**	**147**	6,000,000	147
Series 6	**6,000,000**	**147**	6,000,000	147
Series 7	**10,000,000**	**245**	10,000,000	245
Series 9	**6,000,000**	**147**	-	-
	48,000,000	**1,175**	42,000,000	1,028

Table 12.2 – Reconciliation of number of shares outstanding

	Preferred shares Class A shares (in shares)	
As at	June 30, 2020	December 31, 2019
Balance, beginning of period	**42,000,000**	42,000,000
Issued	**6,000,000**	-
Balance, end of period	**48,000,000**	42,000,000

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

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

Note 13 – Capital management

13.1 Capital management objectives

The Company's objectives when managing capital consist of:

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

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

For further details on the Company's capital and how it is managed ***see Note 21 – Capital management*** of the annual Consolidated financial statements for the year ended December 31, 2019.

13.2 Capital position

As at June 30, 2020 and December 31, 2019, all the Company's regulated P&C insurance subsidiaries were well capitalized on an individual basis with capital levels well in excess of regulator supervisory minimum levels, as well as CALs. CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 13.1 – Estimated aggregated capital position

As at	June 30, 2020	December 31, 2019
Canadian regulated entities		
Regulatory capital ratio (MCT)	**200%**	198%
Industry-wide supervisory minimum levels	**150%**	150%
Capital above CAL (capital margin)	**645**	554
Other regulated entities		
Capital above CAL (capital margin)[1]	**684**	630
Unregulated entities	**378**	38
Total capital margin[2]	**1,707**	1,222

[1] Includes Atlantic Specialty Insurance Company (U.S.) ("ASIC"), Split Rock Insurance, Ltd. (Bermuda), IB Reinsurance Inc. (Barbados). The Guarantee Company of North America USA was included in Other regulated entities as at June 30, 2020 and in Canadian regulated entities as at December 31, 2019. ASIC's RBC was 444% as at June 30, 2020 (457% as at December 31, 2019).

[2] Includes the aggregate of capital in excess of CALs in regulated entities plus available cash in unregulated entities. The CAL is 165% MCT for most Canadian insurance subsidiaries effective April 1, 2020 (previously CAL of 170% MCT) and 200% RBC for U.S. insurance subsidiaries.

The Company took actions to maintain solid capital levels despite the COVID-19 crisis, including reducing its common equity portfolio, issuing medium-term notes ***(refer to Note 11 – Debt outstanding)*** and injecting funds into its insurance subsidiaries ***(refer to Section 14.2 – Maintaining a strong capital position of the Company's interim MD&A)***.

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

Note 14 – Net investment income

Table 14.1 – Net investment income

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Interest income from:				
debt securities				
designated or classified as FVTPL	**44**	46	**88**	93
classified as AFS	**40**	42	**81**	82
loans and cash and cash equivalents	**6**	6	**14**	13
Interest income	**90**	94	**183**	188
Dividend income (expense) from:				
common shares, net				
designated or classified as FVTPL	**15**	17	**34**	32
classified as AFS	**24**	28	**49**	52
preferred shares classified as AFS	**18**	16	**37**	30
equities sold short positions	**-**	(1)	**(1)**	(2)
Dividend income	**57**	60	**119**	112
Expenses	**(6)**	(6)	**(11)**	(12)
	141	148	**291**	288

Note 15 – Net gains (losses)

15.1 Net gains (losses)

Table 15.1 – Net gains (losses)

For the three-month periods ended June 30,	**2020**			**2019**		
Portfolios	**Fixed income**	**Equity**	**Total**	**Fixed income**	**Equity**	**Total**
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	**179**	**105**	**284**	59	(9)	50
classified as FVTPL	**-**	**1**	**1**	-	(4)	(4)
classified as AFS	**22**	**(20)**	**2**	4	24	28
	201	**86**	**287**	63	11	74
derivatives[1]:						
swap agreements	**-**	**(110)**	**(110)**	-	(2)	(2)
forwards and futures	**(2)**	**(15)**	**(17)**	(3)	(5)	(8)
	(2)	**(125)**	**(127)**	(3)	(7)	(10)
Embedded derivatives	**-**	**(19)**	**(19)**	-	7	7
Impairment losses from common shares *(Note 15.2)*	**-**	**-**	**-**	-	(12)	(12)
	199	**(58)**	**141**	60	(1)	59
Other gains (losses)			**3**			1
			144			60

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

For the six-month periods ended June 30,	2020			2019		
Portfolios	Fixed income	Equity	Total	Fixed income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	**229**	**(352)**	**(123)**	159	105	264
classified as FVTPL	**-**	**(6)**	**(6)**	-	(2)	(2)
classified as AFS	**29**	**(26)**	**3**	7	55	62
	258	**(384)**	**(126)**	166	158	324
derivatives[1]:						
swap agreements	**-**	**321**	**321**	-	(125)	(125)
forwards and futures	**-**	**12**	**12**	(5)	(24)	(29)
	-	**333**	**333**	(5)	(149)	(154)
Embedded derivatives	**-**	**20**	**20**	-	6	6
Net foreign currency gains (losses)	**-**	**11**	**11**	-	-	-
Impairment losses from common shares *(Note 15.2)*	**-**	**(96)**	**(96)**	-	(18)	(18)
	258	**(116)**	**142**	161	(3)	158
Other gains (losses)[2,3]			**(19)**			76
			123			234

[1] Excluding foreign currency contracts, which are reported in the line net foreign currency gains (losses).

[2] Includes an impairment loss of $30 million recorded in Q1-2020 for the write-off of Surplus notes net of an unrealized gain of $6 million previously recognized in OCI and reclassified to Net income.

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

15.2 Significant accounting judgments, estimates and assumptions

The Company applied its impairment models as described in ***Note 2.4 g) – Impairment of financial assets other than those classified or designated as FVTPL*** of the annual Consolidated financial statements for the year ended December 31, 2019.

For common shares in an unrealized loss position of 50% or more ("significant") as at March 31, 2020, the Company considered additional factors before concluding to an evidence of impairment, given the unprecedented volatility and uncertainty in the worldwide financial markets in March 2020. Additional factors reviewed include publicly announced dividend reductions and average stock performance in March as well as the review of sector and specific securities. As at June 30, 2020, financial markets and volatility had stabilized. As a result, the Company applied its usual quantitative impairment model policy.

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

Note 16 – Income taxes

16.1 Income tax expense recorded in net income

Table 16.1 – Components of income tax expense recorded in net income

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Current income tax expense (benefit)	**59**	24	**91**	9
Deferred income tax expense (benefit)	**(5)**	(2)	**2**	(9)
	54	22	**93**	-

16.2 Effective income tax rate

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

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

Table 16.2 – Effective income tax rate reconciliation

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Income tax expense calculated at statutory tax rates	**26.4%**	26.7%	**26.4%**	26.7%
Increase (decrease) in income tax rates resulting from:				
non-taxable investment income	**(7.7)%**	(9.8)%	**(7.8)%**	(10.6)%
foreign income taxed at different rates	**(1.0)%**	(1.3)%	**(1.2)%**	(2.0)%
non-deductible losses (non-taxable income) from subsidiaries	**(1.8)%**	(2.5)%	**(1.4)%**	(1.8)%
non-deductible losses (non-taxable gains)[1]	**0.3%**	(0.2)%	**0.1%**	(6.2)%
adjustments related to changes in tax legislation[2]	**-**	(1.2)%	**(0.1)%**	(5.8)%
non-deductible expenses	**0.4%**	0.9%	**0.7%**	0.8%
taxable foreign exchange gains	**(0.8)%**	-	**0.6%**	-
adjustments related to the U.S. Corporate Tax reform[3]	**0.8%**	-	**3.0%**	-
other	**0.4%**	(1.0)%	**(0.2)%**	(1.1)%
Effective income tax rate	**17.0%**	11.6%	**20.1%**	-%

[1] Includes a non-taxable gain of $72 million recorded in Q1-2019 related to a change of control of a subsidiary *(refer to Note 15 – Net gains (losses).*

[2] Includes a deferred income tax benefit of $17 million recorded in Q1-2019 related to changes in the taxable status of a Canadian subsidiary.

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

16.3 Dividend received deduction

In January 2020, the Canada Revenue Agency ("CRA") issued a letter in which it proposed to reassess the Company for an expected additional income tax and interest of $11 million (including estimated provincial tax and interest) in respect to the 2013 taxation year. The CRA proposes denying certain dividend deductions on the basis that they were part of a "dividend rental arrangement". It is possible that subsequent years up to 2016 may be reassessed for similar activities. In March 2020, the Company began receiving the related notices of reassessments from the CRA and the Alberta Tax and Revenue Administration for some of its subsidiaries. The Company is confident that its tax filing position was appropriate and intends to defend itself vigorously. As a result, no amounts have been accrued in the interim Consolidated financial statements.

Note 17 – Earnings per share

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

Table 17.1 – Earnings per share

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Net income attributable to shareholders	**263**	168	**370**	327
Less: dividends declared on preferred shares, net of tax	**(14)**	(11)	**(26)**	(22)
Net income attributable to common shareholders	**249**	157	**344**	305
Weighted-average number of common shares outstanding (in millions)	**143.0**	139.2	**143.0**	139.2
EPS – basic and diluted (in dollars)	**1.74**	1.13	**2.40**	2.19

Note 18 – Share-based payments

18.1 Long-term incentive plan

Table 18.1 – Movements in LTIP share units

	Three months		Six months	
For the periods ended June 30,	**2020 (in units)**	**2019 (in units)**	**2020 (in units)**	**2019 (in units)**
Outstanding, beginning of period	**1,673,919**	1,498,056	**1,357,796**	1,087,611
Awarded (forfeited)	**(65,430)**	6,129	**375,089**	429,594
Net change in estimate of units outstanding	**(18,140)**	25,019	**(77,468)**	64,194
Units settled	**(217,614)**	(219,384)	**(282,682)**	(271,579)
Outstanding, end of period	**1,372,735**	1,309,820	**1,372,735**	1,309,820

The LTIP expense was $11 million and $18 million for the three- and six-month periods ended June 30, 2020, respectively ($17 million and $31 million for the three- and six-month periods ended June 30, 2019, respectively).

18.2 Employee share purchase plan

Table 18.2 – Movements in restricted common shares

	Three months		Six months	
For the periods ended June 30,	**2020 (in units)**	**2019 (in units)**	**2020 (in units)**	**2019 (in units)**
Outstanding, beginning of period	**117,956**	132,474	**116,036**	131,681
Accrued	**28,651**	32,280	**62,038**	66,968
Awarded and vested	**(26,144)**	(34,140)	**(56,873)**	(65,988)
Forfeited	**(348)**	(2,082)	**(1,086)**	(4,129)
Outstanding, end of period	**120,115**	128,532	**120,115**	128,532

The ESPP expense was $3 million and $8 million for the three- and six-month periods ended June 30, 2020 and June 30, 2019, respectively.

18.3 Deferred share unit

The DSU provision amounted to $14 million as at June 30, 2020 ($15 million as at December 31, 2019).

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

18.4 Common shares repurchased for share-based payments

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

Table 18.3 – Settlement in shares (LTIP and ESPP plans)

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Value of common shares repurchased for share-based payments	**30**	25	**41**	34
Cumulative cost of the units for the Company	**21**	21	**30**	29
Excess of market price over the cumulative cost for the Company	**9**	4	**11**	5
Amount recognized in Retained earnings, net of taxes	**8**	3	**9**	4

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

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

Note 19 – Employee future benefits

19.1 Employee future benefit expense recognized in net income

Table 19.1 – Employee future benefit expense recognized in net income

	Pension plans			
	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Current service cost	**18**	14	**36**	27
Net interest expense				
Interest expense on defined benefit obligation	**21**	21	**42**	42
Interest income on plan assets	**(19)**	(19)	**(37)**	(38)
Other	**1**	1	**2**	2
	21	17	**43**	33

19.2 Net actuarial gains (losses) recognized in OCI

Table 19.2 – Net actuarial gains (losses) recognized in OCI

	Pension plans			
	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Re-measurements related to:				
change in discount rate used to determine the benefit obligation	**(554)**	(165)	**(124)**	(369)
actual return on plan assets	**362**	80	**155**	266
change in other financial assumptions[1]	**(21)**	-	**48**	-
	(213)	(85)	**79**	(103)

[1] Other financial assumptions were revised during the six-month period ended June 30, 2020, due to the significant change in inflation rate.

Remeasurements of the DB obligation and pension plan assets were impacted by the market volatility resulting from the COVID-19 crisis ***(refer to Note 19.3 a) – Assumptions used and sensitivity analysis)***.

19.3 Significant accounting judgments, estimates and assumptions

The cost of the DB plans and the DB obligation are calculated by the Company's independent actuaries using assumptions determined by management. Due to the complexity of the valuation and its long-term nature, the DB obligation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date. The COVID-19 crisis impacted the long-term yields of high-quality corporate bonds, which resulted in significant volatility in the discount rate.

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

a) Assumptions used and sensitivity analysis

The following table presents changes of certain key assumptions as disclosed in ***Note 27.6 – Significant accounting judgments, estimates and assumptions*** of the annual Consolidated financial statements for the year ended December 31, 2019.

Table 19.3 – Key weighted-average assumptions used in measuring the Company's pension plans

	Pension Plan			
	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
To determine the defined benefit obligation:				
Discount rate				
beginning of period	**4.21%**	3.37%	**3.15%**	3.86%
end of period	**2.91%**	3.06%	**2.91%**	3.06%
Rate of increase in future compensation beyond 3 years				
beginning of period	**1.89%**	2.39%	**2.34%**	2.39%
end of period	**2.01%**	2.39%	**2.01%**	2.39%
Rate of inflation				
beginning of period	**1.14%**	1.64%	**1.59%**	1.64%
end of period	**1.26%**	1.64%	**1.26%**	1.64%
To determine the benefit expense:				
Discount rate:				
current service cost	**3.18%**	3.91%	**3.18%**	3.91%
interest expense on the DB obligation	**2.97%**	3.62%	**2.97%**	3.62%
Rate of increase in future compensation beyond 3 years	**2.34%**	2.39%	**2.34%**	2.39%
Rate of inflation	**1.59%**	1.64%	**1.59%**	1.64%

The following table presents the sensitivity analysis of the DB pension obligation to key assumptions.

Table 19.4 – Sensitivity of the DB pension obligation to key assumptions

As at	**Change**	**June 30, 2020**		**December 31, 2019**	
		increase	**decrease**	**increase**	**decrease**
Discount rates	1%	**(488)**	**654**	(461)	618
Rate of increase in future compensation	1%	**131**	**(115)**	121	(106)
Rate of inflation	1%	**91**	**(83)**	88	(80)
Life expectancy	One year	**74**	**(74)**	69	(69)

The effect on the DB pension obligation at the end of the reporting period 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 approximated by measuring the impact of members being one year younger than their actual age on the valuation date.

Note 20 – Segment information

20.1 Reportable segments

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

Canada

- Underwriting of automobile, home and business insurance contracts to individuals and businesses in Canada distributed through a wide network of brokers and directly to consumers, including the results of the Canadian operations of The Guarantee in 2020.
- Distribution and other include the results from the Company's wholly-owned subsidiaries (BrokerLink Inc. and Frank Cowan) and broker affiliates as well as supply chain operations from On Side.

U.S.

- Underwriting of specialty contracts mainly to small and midsize businesses in the United States, including the results of the U.S. operations of The Guarantee in 2020. The Company distributes insurance through independent agencies, brokers, wholesalers and managing general agencies.

Corporate and Other ("Corporate") consists of investment management, treasury and capital management activities, as well as other corporate activities, including internal reinsurance. In 2019, the results of The Guarantee were included in Corporate and its underwriting results were included in other income (expense) from the acquisition date.

20.2 Segment operating performance

All segment operating revenues presented in ***Table 20.1 – Segment operating performance*** are generated from external customers.

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

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

The reconciliation of the segment information to the amounts reported in the interim Consolidated statements of income is presented in ***Table 20.2 – Reconciliation of segment information to amounts reported in the interim Consolidated statements of income***.

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

Table 20.1 – Segment operating performance[1]

	2020				2019			
For the three-month periods ended June 30,	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Operating income								
NEP	**2,330**	**381**	**1**	**2,712**	2,155	343	2	2,500
Investment income	**-**	**-**	**147**	**147**	-	-	154	154
Other	**78**	**-**	**2**	**80**	42	-	3	45
Segment operating revenues	**2,408**	**381**	**150**	**2,939**	2,197	343	159	2,699
Net claims incurred (before MYA)	**(1,323)**	**(205)**	**-**	**(1,528)**	(1,485)	(192)	-	(1,677)
Underwriting expenses	**(750)**	**(150)**	**-**	**(900)**	(615)	(133)	-	(748)
Investment expenses	**-**	**-**	**(6)**	**(6)**	-	-	(6)	(6)
Share of profit from invest. in associates & JV	**40**	**-**	**-**	**40**	39	-	-	39
Finance costs	**(3)**	**-**	**(29)**	**(32)**	(2)	-	(28)	(30)
Other	**(40)**	**-**	**(17)**	**(57)**	(9)	-	(8)	(17)
PTOI	**332**	**26**	**98**	**456**	125	18	117	260
Operating income taxes				**(106)**				(48)
NOI				**350**				212
PTOI is comprised of:								
underwriting income	**257**	**26**	**1**	**284**	55	18	2	75
net investment income	**-**	**-**	**141**	**141**	-	-	148	148
distribution EBITA	**78**	**-**	**-**	**78**	72	-	-	72
finance costs	**(3)**	**-**	**(29)**	**(32)**	(2)	-	(28)	(30)
other income (expense)	**-**	**-**	**(15)**	**(15)**	-	-	(5)	(5)

	2020				2019			
For the six-month periods ended June 30,	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Operating income								
NEP	**4,708**	**767**	**3**	**5,478**	4,239	696	3	4,938
Investment income	**-**	**-**	**302**	**302**	-	-	300	300
Other	**149**	**-**	**6**	**155**	76	-	10	86
Segment operating revenues	**4,857**	**767**	**311**	**5,935**	4,315	696	313	5,324
Net claims incurred (before MYA)	**(2,846)**	**(441)**	**-**	**(3,287)**	(3,042)	(392)	-	(3,434)
Underwriting expenses	**(1,447)**	**(301)**	**-**	**(1,748)**	(1,201)	(265)	-	(1,466)
Investment expenses	**-**	**-**	**(11)**	**(11)**	-	-	(12)	(12)
Share of profit from invest. in associates & JV	**57**	**-**	**-**	**57**	55	-	-	55
Finance costs	**(6)**	**-**	**(57)**	**(63)**	(5)	-	(57)	(62)
Other	**(84)**	**-**	**(29)**	**(113)**	(23)	-	(16)	(39)
PTOI	**531**	**25**	**214**	**770**	99	39	228	366
Operating income taxes				**(177)**				(41)
NOI				**593**				325
PTOI is comprised of:								
underwriting income	**415**	**25**	**3**	**443**	(4)	39	3	38
net investment income	**-**	**-**	**291**	**291**	-	-	288	288
distribution EBITA	**122**	**-**	**-**	**122**	108	-	-	108
finance costs	**(6)**	**-**	**(57)**	**(63)**	(5)	-	(57)	(62)
other income (expense)	**-**	**-**	**(23)**	**(23)**	-	-	(6)	(6)

[1] ***See Section 20 – Non IFRS financial measures of the Company's interim MD&A*** for the definition and reconciliation of related operating measures.

Notes to the interim Consolidated financial statements (unaudited)

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

Table 20.2 – Reconciliation of segment information to amounts reported in the interim Consolidated statements of income

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Segment operating revenues *(Table 20.1)*	**2,939**	2,699	**5,935**	5,324
Add: other underwriting revenues	**32**	29	**65**	57
Add: NEP from Intact U.S. (OneBeacon) exited lines	**-**	1	**-**	3
Revenues, as reported in the interim Consolidated statements of income	**2,971**	2,729	**6,000**	5,384
Segment PTOI *(Table 20.1)*	**456**	260	**770**	366
Non-operating items:				
net gains (losses)	**144**	60	**123**	234
positive (negative) impact of MYA on underwriting	**(197)**	(58)	**(255)**	(150)
amortization of intangible assets recognized in business combinations	**(39)**	(24)	**(76)**	(48)
integration and restructuring costs	**(13)**	(8)	**(37)**	(12)
difference between expected return and discount rate on pension assets	**(14)**	(12)	**(27)**	(24)
underwriting results from Intact U.S. (OneBeacon) exited lines	**(3)**	(13)	**(11)**	(17)
other non-operating costs	**(8)**	(7)	**(13)**	(12)
Pre-tax income, as reported in the interim MD&A	**326**	198	**474**	337
Less: income taxes from broker associates	**(9)**	(8)	**(11)**	(10)
Pre-tax income, as reported in the interim Consolidated statements of income	**317**	190	**463**	327

20.3 Selected segment assets and liabilities

Table 20.3 – Selected segment assets and liabilities

	June 30, 2020				December 31, 2019			
As at	**Canada**	**U.S.**	**Corporate**	**Total**	**Canada**	**U.S.**	**Corporate**	**Total**
Investments	**-**	**-**	**19,199**	**19,199**	-	-	18,608	18,608
Net claims liabilities *(Table 9.1)*	**9,618**	**1,546**	**-**	**11,164**	8,568	1,422	556	10,546

20.4 Information by geographic areas

Table 20.4 – Information by geographic areas

	Revenues				Total assets	
	For the periods ended June 30,				As at	
	Three months		Six months		June 30,	December 31,
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Canada	**2,568**	2,355	**5,184**	4,627	**26,068**	24,907
U.S.	**403**	374	**816**	757	**7,116**	7,385
	2,971	2,729	**6,000**	5,384	**33,184**	32,292

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

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

Note 21 – Additional information on the interim Consolidated statements of cash flows

21.1 Adjustments for non-cash items

Table 21.1 – Adjustments for non-cash items

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Depreciation of property and equipment[1]	**28**	21	**53**	44
Amortization of intangible assets	**49**	32	**96**	65
Net premiums on debt securities classified as AFS	**7**	4	**13**	7
Defined benefit pension expense	**21**	17	**43**	33
Share-based payments expense	**14**	20	**26**	39
Share of profit from investments in associates and joint ventures	**(16)**	(18)	**(19)**	(22)
Other	**(4)**	-	**(3)**	(1)
	99	76	**209**	165

[1] Includes depreciation of right-of-use assets of leases.

21.2 Changes in other operating assets and liabilities

Table 21.2 – Changes in other operating assets and liabilities

	Three months		Six months	
For the periods ended June 30,	**2020**	**2019**	**2020**	**2019**
Unearned premiums, net	**557**	515	**191**	183
Premiums receivable, net	**(439)**	(456)	**(96)**	(148)
Deferred acquisition costs	**(100)**	(103)	**(46)**	(61)
Other operating assets	**30**	10	**(28)**	37
Other operating liabilities	**126**	143	**(55)**	(159)
Dividends received from investments in associates and joint ventures	**6**	8	**11**	12
	180	117	**(23)**	(136)

Note 22 – Standards issued but not yet effective

There have been no significant updates to ***Note 33 – Standards issued but not yet effective*** of the annual Consolidated financial statements for the year ended December 31, 2019, except as described below.

22.1 Insurance contracts

In May 2017, the IASB published IFRS 17 – *Insurance Contracts* ("IFRS 17") a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, which replaces IFRS 4 – *Insurance Contracts* ("IFRS 4") and introduces consistent accounting for all insurance contracts.

The original effective date was for annual periods beginning on or after January 1, 2021, however, in June 2019, the IASB issued an exposure draft which proposed amendments to IFRS 17, including the deferral of the effective date by one year to January 1, 2022. In March 2020, the IASB tentatively decided to further extend the deferral of the effective date to January 1, 2023 as well as extend the temporary exemption from applying IFRS 9 as provided by IFRS 4 until the effective date of IFRS 17. In June 2020, amendments to the final standard were issued and the IASB officially extended the deferral.

In addition to the deferred effective date, the main amendments that would be applicable to the Company are the following: the recognition of a loss recovery on reinsurance contracts held when an underlying insurance contract is onerous, the transitional reliefs related to contracts acquired in their settlement period and the treatment of accounting estimates in the interim financial statements.

The Company plans to adopt the new standard on the required effective date together with IFRS 9. In addition, the Company continues to monitor developments and industry discussions related to this standard and is currently evaluating the impact that IFRS 17, in conjunction with IFRS 9, will have on its Consolidated financial statements but has not yet determined the impact.

See Notes 33.1 – Insurance contracts and 33.2 – Financial instruments of the annual Consolidated financial statements for the year ended December 31, 2019 for further details.

22.2 Reference to the Conceptual Framework (amendments to IFRS 3)

In May 2020, the IASB issued amendments to IFRS 3 to update references to the revised Conceptual Framework without significantly changing its requirements ***(see Note 3.3 - Conceptual framework for financial reporting).*** It also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential day 2 gains or losses for some types of liabilities and contingent liabilities. Finally, it clarifies existing guidance by explicitly prohibiting the recognition of contingent assets in a business combination.

The amendments apply prospectively to annual periods beginning on or after January 1, 2022, with earlier application permitted. The Company does not expect any significant impact from the adoption of these amendments.