

Third Quarter **2020**

3

Interim Consolidated Financial Statements (unaudited)
For the quarter ended September 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	September 30, 2020	December 31, 2019
Assets			
Investments	5		
Cash and cash equivalents		\$ 837	\$ 936
Debt securities		13,632	11,826
Preferred shares		1,472	1,465
Common shares		3,380	4,063
Loans		286	318
<hr/>			
Investments		19,607	18,608
Premiums receivable		3,842	3,588
Reinsurance assets	9	1,522	1,511
Income taxes receivable		27	14
Deferred tax assets		160	175
Deferred acquisition costs		1,095	1,026
Other assets	10	1,205	968
Investments in associates and joint ventures		762	715
Property and equipment		531	538
Intangible assets		2,560	2,523
Goodwill		2,799	2,626
<hr/>			
Total assets		\$ 34,110	\$ 32,292
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Liabilities			
Claims liabilities	9	\$ 12,750	\$ 11,846
Unearned premiums		6,398	5,960
Financial liabilities related to investments	6	157	295
Income taxes payable		35	150
Deferred tax liabilities		276	286
Other liabilities	10	2,803	2,646
Debt outstanding	11	2,476	2,362
<hr/>			
Total liabilities		24,895	23,545
<hr/>			
Shareholders' equity			
Common shares		3,265	3,265
Preferred shares	12	1,175	1,028
Contributed surplus		177	170
Retained earnings		4,294	3,959
Accumulated other comprehensive income (loss)			
Available-for-sale securities		206	275
Translation of foreign operations, net of hedges		99	46
Other		(1)	4
<hr/>			
		9,215	8,747
<hr/>			
Total liabilities and shareholders' equity		\$ 34,110	\$ 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 September 30,	Note	Three months		Nine months	
		2020	2019	2020	2019
Direct premiums written		\$ 3,269	\$ 2,996	\$ 9,215	\$ 8,323
Premiums ceded		(125)	(103)	(402)	(305)
Net premiums written		3,144	2,893	8,813	8,018
Change in unearned premiums		(280)	(289)	(471)	(473)
Net earned premiums		2,864	2,604	8,342	7,545
Other underwriting revenues		34	30	99	87
Investment income	14				
Interest income		87	93	270	281
Dividend income		61	58	180	170
Other revenues		81	43	236	129
Total revenues		3,127	2,828	9,127	8,212
Net claims incurred	9	(1,658)	(1,676)	(5,220)	(5,289)
Underwriting expenses		(933)	(797)	(2,764)	(2,335)
Investment expenses	14	(5)	(5)	(16)	(17)
Net gains (losses)	15	13	(38)	136	196
Share of profit from investments in associates and joint ventures		16	4	35	26
Finance costs		(29)	(27)	(86)	(84)
Integration and restructuring costs		(25)	(14)	(62)	(26)
Other expenses		(80)	(43)	(261)	(124)
Income before income taxes		426	232	889	559
Income tax benefit (expense)	16	(92)	(45)	(185)	(45)
Net income attributable to shareholders		\$ 334	\$ 187	\$ 704	\$ 514
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	\$ 2.25	\$ 1.26	\$ 4.65	\$ 3.45
Dividends paid per common share (in dollars)		\$ 0.83	\$ 0.76	\$ 2.49	\$ 2.28

See accompanying notes to the interim Consolidated financial statements.

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

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

For the periods ended September 30,	Note	Three months		Nine months	
		2020	2019	2020	2019
Net income attributable to shareholders		\$ 334	\$ 187	\$ 704	\$ 514
Other comprehensive income (loss)					
Available-for-sale securities:					
net changes in unrealized gains (losses)		262	69	(156)	458
income tax benefit (expense)		(68)	(15)	50	(103)
reclassification of net losses (gains)		(29)	33	53	(11)
income tax (benefit) expense		7	(9)	(16)	2
		172	78	(69)	346
Foreign exchange gains (losses) on:					
translation of foreign operations		(90)	47	103	(125)
net investment hedges		52	(27)	(54)	55
income tax benefit (expense)		(1)	-	4	-
		(39)	20	53	(70)
Other, net of tax		(1)	1	(5)	7
Items that may be reclassified subsequently to net income		132	99	(21)	283
Net actuarial gains (losses) on employee future benefits	19	(32)	13	47	(90)
income tax benefit (expense)		9	(4)	(12)	23
Items that will not be reclassified subsequently to net income		(23)	9	35	(67)
Other comprehensive income (loss)		109	108	14	216
Total comprehensive income (loss) attributable to shareholders		\$ 443	\$ 295	\$ 718	\$ 730

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		-	-	-	704	-	704
Other comprehensive income (loss)		-	-	-	35	(21)	14
Total comprehensive income (loss)		-	-	-	739	(21)	718
Preferred shares issued	12	-	147	-	-	-	147
Dividends declared on:							
common shares		-	-	-	(356)	-	(356)
preferred shares		-	-	-	(39)	-	(39)
Share-based payments		-	-	7	(9)	-	(2)
Balance as at September 30, 2020		\$ 3,265	\$ 1,175	\$ 177	\$ 4,294	\$ 304	\$ 9,215
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		-	-	-	514	-	514
Other comprehensive income (loss)		-	-	-	(67)	283	216
Total comprehensive income (loss)		-	-	-	447	283	730
Dividends declared on:							
common shares		-	-	-	(320)	-	(320)
preferred shares		-	-	-	(34)	-	(34)
Share-based payments		-	-	12	(4)	-	8
Balance as at September 30, 2019		\$ 2,816	\$ 1,028	\$ 161	\$ 3,826	\$ 324	\$ 8,155

See accompanying notes to the interim Consolidated financial statements.

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

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

For the periods ended September 30,	Note	Three months		Nine months	
		2020	2019	2020	2019
Operating activities					
Income before income taxes		\$ 426	\$ 232	\$ 889	\$ 559
Income tax received (paid), net		(141)	8	(295)	-
Contributions to the defined benefit pension plans		(13)	(11)	(38)	(37)
Share-based payments		-	-	(7)	(7)
Net losses (gains)	15	(13)	38	(136)	(196)
Adjustments for non-cash items	21	121	93	330	258
Changes in other operating assets and liabilities	21	145	209	122	73
Changes in net claims liabilities	9	254	117	807	453
Net cash flows provided by (used in) operating activities		779	686	1,672	1,103
Investing activities					
Proceeds from sale of investments		1,777	1,962	9,162	7,455
Purchases of investments		(2,274)	(2,183)	(10,436)	(7,872)
Purchases of brokerages and other equity investments, net		(71)	(36)	(128)	(86)
Purchases of intangibles and property and equipment, net		(42)	(30)	(108)	(90)
Net cash flows provided by (used in) investing activities		(610)	(287)	(1,510)	(593)
Financing activities					
Payment of lease liabilities		(15)	(13)	(44)	(37)
Proceeds from (repurchase of) securities sold under repurchase agreements	6	-	75	(20)	75
Proceeds from issuance of debt, net of issuance costs	11	-	-	298	-
Repayment of debt	11	(47)	(250)	(47)	(250)
Borrowing (repayment) on the credit facility, net		-	-	(163)	-
Proceeds from issuance of preferred shares, net of issuance costs	12	-	-	146	-
Repurchase of common shares for share-based payments		(4)	(5)	(45)	(39)
Payment of dividends on common shares		(119)	(108)	(356)	(320)
Payment of dividends on preferred shares		(13)	(12)	(39)	(34)
Net cash flows provided by (used in) financing activities		(198)	(313)	(270)	(605)
Net increase (decrease) in cash and cash equivalents		(29)	86	(108)	(95)
Cash and cash equivalents, beginning of period		875	254	936	442
Exchange rate differences on cash and cash equivalents		(9)	3	9	(4)
Cash and cash equivalents, end of period		\$ 837	\$ 343	\$ 837	\$ 343
Composition of cash and cash equivalents					
Cash		725	258	725	258
Cash equivalents		112	85	112	85
Cash and cash equivalents, end of period		\$ 837	\$ 343	\$ 837	\$ 343
Other relevant cash flow disclosures – operating activities					
Interest paid		25	26	82	84
Interest received		73	79	250	268
Dividends received		67	61	197	184

See accompanying notes to the interim Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Glossary of abbreviations

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 November 3, 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.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

2.4 Foreign currency translation

Table 2.1 – Exchange rates used

	As at		Average rate for the three-month periods ended		Average rate for the nine-month periods ended	
	September 30, 2020	December 31, 2019	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
USD vs CAD	1.33170	1.29835	1.33228	1.32046	1.35371	1.32923

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 over the past few months. While restrictions have eased for parts of the economy, the second wave of COVID-19 has increased uncertainty and has led to renewed lockdowns measures. Until the 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. Regarding the class actions relating to business interruption coverage, most commercial policies, except in very limited instances, do not provide for business interruption coverage in the context of a closure due to COVID-19 since direct physical damage is required to trigger this coverage. The Company plans to contest these class actions vigorously. In the event that these cases result in a significant judgment against the Company, the resulting liability could be material. Based on information currently known, the Company does not believe that the outcome of these cases will have a material impact on its consolidated financial condition, cash flows, or results of operations.

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 those to reflect 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 and nine-month periods ended September 30, 2020, these measures were estimated to have negatively impacted DPW by \$150 million and \$284 million respectively along with NEP by \$39 million and \$118 million respectively.

In October 2020, the Company announced additional immediate relief measures for small business customers, and that it will reimburse an amount equivalent to 20% of their annual premium. The Company estimates that these measures will impact DPW and NEP by \$50 million in Q4.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

The Company has provided \$419 million of premium reductions (on issued policies) to date, including the above small business customer relief measures.

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 nine-month period ended September 30, 2020, the Company recognized a bad debt expense of \$35 million, mainly as a part of Underwriting expenses. This includes a reversal of the bad debt provision of \$3 million recognized in the three-month period ended September 30, 2020.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the nine-month period ended September 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 these 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 September 30, 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.

Notes to the interim Consolidated financial statements (unaudited)

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

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 final determination of the fair value of identifiable assets acquired and liabilities assumed at the acquisition date was completed with no significant adjustments.

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

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 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.

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 5 – Investments

5.1 Classification of investments

Table 5.1 – Classification of investments

As at	Fair value			Amortized cost	Total carrying amount
	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, and loans	
September 30, 2020					
Cash and cash equivalents	-	-	-	837	837
Short-term notes	64	-	-	-	64
Fixed income					
Investment grade					
Government	2,877	-	3,067	-	5,944
Corporate	2,334	-	2,945	-	5,279
Asset-backed ¹	424	-	88	-	512
Mortgage-backed					
Agency ²	407	-	294	-	701
Non-agency	466	-	352	-	818
Below investment grade Corporate	15	-	4	-	19
Non-rated	295	-	-	-	295
Debt securities	6,882	-	6,750	-	13,632
Investment grade					
Retractable	20	-	-	-	20
Fixed-rate perpetual	335	-	-	-	335
Other perpetual	1,117	-	-	-	1,117
Preferred shares	1,472	-	-	-	1,472
Common shares	2,187	16	1,177	-	3,380
Loans	-	-	-	286	286
	10,541	16	7,927	1,123	19,607
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.

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

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

5.2 Carrying value of investments

Table 5.2 – Carrying value of investments

As at	FVTPL				Other	Total
	investments	investments	investments	investments	investments	investments
	Carrying value	Amortized cost	Unrealized gains ²	Unrealized losses ²	Carrying value	Carrying value
September 30, 2020						
Cash and cash equivalents	-	837	-	-	837	837
Debt securities	6,750	6,572	316	(6)	6,882	13,632
Preferred shares ¹	-	1,569	44	(141)	1,472	1,472
Common shares	1,193	2,143	238	(194)	2,187	3,380
Loans	-	286	-	-	286	286
	7,943	11,407	598	(341)	11,664	19,607
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 \$1 million as at September 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	September 30, 2020	December 31, 2019
Debt securities		
AAA	38%	41%
AA	28%	30%
A	23%	19%
BBB	9%	8%
BB and not rated	2%	2%
	100%	100%

Table 5.4 – Credit quality of preferred shares

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

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

5.3 Market neutral equity investment strategy

Table 5.5 – Market neutral equity investment strategy

As at	September 30, 2020		December 31, 2019	
	Fair value	Collateral	Fair value	Collateral
Long positions – reported in Common shares	8	-	195	-
Short positions – reported in Financial liabilities related to investments (<i>Table 6.1</i>)	(8)	8	(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	September 30, 2020	December 31, 2019
Accounts payable to investment brokers on unsettled trades	149	33
Derivative financial liabilities (<i>Table 7.1</i>)	-	45
Equities sold short positions (<i>Table 5.5</i>)	8	197
Securities sold under repurchase agreements	-	20
	157	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

As at	September 30, 2020			December 31, 2019		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign currency contracts¹						
Forwards	2,312	68	-	2,063	23	1
Cross currency swaps	266	-	-	266	6	-
Interest rate contracts						
Futures	1,811	-	-	516	-	-
Equity contracts						
Swap	1,167	37	-	1,139	-	44
Futures	399	-	-	155	-	-
	5,955	105	-	4,139	29	45
Held for risk management purposes	5,837	105	-	4,026	29	45
Held for trading purposes	118	-	-	113	-	-
	5,955	105	-	4,139	29	45
Term to maturity:						
less than one year	5,476			3,873		
from one to five years	479			266		
over five years	-			-		
	5,955			4,139		

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

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

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

Note 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
September 30, 2020				
Short-term notes	64	-	-	64
Fixed income				
Investment grade				
Government	2,643	3,301	-	5,944
Corporate	-	5,279	-	5,279
Asset-backed	-	512	-	512
Mortgage-backed				
Agency	-	701	-	701
Non-agency	-	818	-	818
Below Investment grade Corporation	-	19	-	19
Non-rated	-	-	295	295
Debt securities	2,707	10,630	295	13,632
Preferred shares¹	1,472	-	-	1,472
Common shares	3,355	-	25	3,380
Derivative financial assets (Table 7.1)	-	105	-	105
Total financial assets measured at fair value	7,534	10,735	320	18,589
Total financial liabilities measured at fair value (Table 6.1)	8	-	-	8
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 shares¹	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 \$1,307 million as at September 30, 2020 (\$1,296 million as at December 31, 2019). The fair value of the embedded derivatives component amounting to \$51 million as at September 30, 2020 (\$49 million as at December 31, 2019) was determined using a Level 3 methodology.

The fair value of loans was \$293 million as at September 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.

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(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 nine-month periods ended September 30, 2020, respectively.

Table 9.1 – Movements in claims liabilities

For the three-month periods ended	Direct	Ceded	Net
September 30, 2020			
Balance, beginning of period	12,571	1,407	11,164
Current period claims	1,687	60	1,627
Unfavourable (favourable) prior-year claims development	13	19	(6)
Increase (decrease) due to changes in discount rate	41	4	37
Total claims incurred	1,741	83	1,658
Claims paid	(1,516)	(112)	(1,404)
Exchange rate differences	(46)	(17)	(29)
Balance, end of period	12,750	1,361	11,389
September 30, 2019			
Balance, beginning of period	10,951	808	10,143
Current period claims	1,704	39	1,665
Unfavourable (favourable) prior-year claims development	17	16	1
Increase (decrease) due to changes in discount rate	15	5	10
Total claims incurred	1,736	60	1,676
Claims paid	(1,595)	(36)	(1,559)
Exchange rate differences	26	7	19
Balance, end of period	11,118	839	10,279
For the nine-month periods ended	Direct	Ceded	Net
September 30, 2020			
Balance, beginning of period	11,846	1,300	10,546
Current period claims	5,170	190	4,980
Unfavourable (favourable) prior year claims development	22	74	(52)
Increase (decrease) due to changes in discount rate	330	38	292
Total claims incurred	5,522	302	5,220
Claims paid	(4,675)	(262)	(4,413)
Exchange rate differences	57	21	36
Balance, end of period	12,750	1,361	11,389
September 30, 2019			
Balance, beginning of period	10,623	746	9,877
Current period claims	5,166	102	5,064
Unfavourable (favourable) prior year claims development	165	100	65
Increase (decrease) due to changes in discount rate	182	22	160
Total claims incurred	5,513	224	5,289
Claims paid	(4,951)	(115)	(4,836)
Exchange rate differences	(67)	(16)	(51)
Balance, end of period	11,118	839	10,279

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Notes to the interim Consolidated financial statements (unaudited)

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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	September 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 September 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 September 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	September 30, 2020	December 31, 2019
Reinsurers' share of claims liabilities (Table 9.1)	1,361	1,300
Reinsurers' share of unearned premiums	161	211
	1,522	1,511

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Notes to the interim Consolidated financial statements (unaudited)

(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	September 30, 2020	December 31, 2019
Financial assets related to investments	242	106
Industry pools receivable	158	137
Reinsurance receivable	117	77
Investments, at cost	110	90
Accrued investment income	97	77
Restricted funds	90	95
Prepays	69	59
Premium and sale taxes receivable	44	40
Other	32	39
Contract assets ¹	16	34
Surplus notes ²	-	36
Other receivables and recoverables	230	178
	1,205	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 September 30, 2020.

10.2 Other liabilities

Table 10.2 – Components of other liabilities

As at	September 30, 2020	December 31, 2019
Lease liabilities	456	461
Deposits received in connection with insurance contracts ¹	421	363
Commissions payable	274	189
Pension plans in a deficit position and unfunded plans	264	284
Premium and sale taxes payable	242	266
Accrued salaries and related compensation	218	252
Account payables and accrued expenses	170	158
Industry pools payable	153	131
Contingent considerations ²	145	143
Other post-employment benefits and other post-retirement benefits	54	54
Reinsurance payable	46	55
Deposits received from reinsurers	20	16
Other payables and other liabilities ³	340	274
	2,803	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.

³ Includes an amount of \$76M recorded in Q3-2020 payable to a broker classified as an investment in joint venture in exchange for the acquisition of a portion of its business (refer to Note 15 – Net gains (losses)).

INTACT FINANCIAL CORPORATION

Notes to the interim Consolidated financial statements (unaudited)

(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 have been 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)	
						September 30, 2020	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	376	370
Term loan	May 2021	1.5			USD165	220	260
Other debt¹	Oct. 2028					11	-
Credit facility						3	165
						2,476	2,362

¹ Related to the acquisition of control of a portion of an investment in joint venture see (refer to 15 – Net gains (losses)).

The Company has an unsecured revolving term credit facility available for an amount of \$750 million which matures on November 26, 2024. As at September 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).

On September 30, 2020, the Company repaid US\$35 million (\$47 million) of its term loan.

The fair value of debt outstanding amounted to \$2,885 million as at September 30, 2020 (\$2,650 million as at December 31, 2019) and was established using valuation data from a benchmark firm.

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Notes to the interim Consolidated financial statements (unaudited)

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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

As at	September 30, 2020		December 31, 2019	
	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

As at	Preferred shares Class A shares (in shares)	
	September 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.

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Notes to the interim Consolidated financial statements (unaudited)

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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 September 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	September 30, 2020	December 31, 2019
Canadian regulated entities		
Regulatory capital ratio (MCT)	205%	198%
Industry-wide supervisory minimum levels	150%	150%
Capital above CAL (capital margin)	735	554
Other regulated entities		
Capital above CAL (capital margin) ¹	633	630
Unregulated entities	503	38
Total capital margin²	1,871	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 September 30, 2020 and in Canadian regulated entities as at December 31, 2019. ASIC's RBC was 451% as at September 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*).

INTACT FINANCIAL CORPORATION
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Note 14 – Net investment income

Table 14.1 – Net investment income

For the periods ended September 30,	Three months		Nine months	
	2020	2019	2020	2019
Interest income from:				
debt securities				
designated or classified as FVTPL	45	45	133	138
classified as AFS	39	41	120	123
loans and cash and cash equivalents	3	7	17	20
Interest income	87	93	270	281
Dividend income (expense) from:				
common shares, net				
designated or classified as FVTPL	18	17	52	49
classified as AFS	23	26	72	78
preferred shares classified as AFS	19	16	56	46
equities sold short positions	-	(2)	(1)	(4)
investments, at cost	1	1	1	1
Dividend income	61	58	180	170
Expenses	(5)	(5)	(16)	(17)
	143	146	434	434

Note 15 – Net gains (losses)
15.1 Net gains (losses)

Table 15.1 – Net gains (losses)

For the three-month periods ended Sept. 30,	2020			2019		
	Fixed income	Equity	Total	Fixed income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	15	29	44	3	13	16
classified as FVTPL	-	(1)	(1)	-	3	3
classified as AFS	5	27	32	11	1	12
	20	55	75	14	17	31
derivatives ¹ :						
swap agreements	-	(41)	(41)	-	(18)	(18)
forwards and futures	(1)	(17)	(18)	(3)	(5)	(8)
	(1)	(58)	(59)	(3)	(23)	(26)
Embedded derivatives	-	(22)	(22)	-	(3)	(3)
Impairment losses from common shares (Note 15.2)	-	(3)	(3)	-	(44)	(44)
	19	(28)	(9)	11	(53)	(42)
Other gains (losses) ²			22			4
			13			(38)

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Notes to the interim Consolidated financial statements (unaudited)

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Portfolios	2020			2019		
	Fixed income	Equity	Total	Fixed income	Equity	Total
Net gains (losses) from:						
financial instruments:						
designated as FVTPL	244	(323)	(79)	162	118	280
classified as FVTPL	-	(7)	(7)	-	1	1
classified as AFS	34	1	35	18	56	74
	278	(329)	(51)	180	175	355
derivatives ¹ :						
swap agreements	-	280	280	-	(143)	(143)
forwards and futures	(1)	(5)	(6)	(8)	(29)	(37)
	(1)	275	274	(8)	(172)	(180)
Embedded derivatives	-	(2)	(2)	-	3	3
Net foreign currency gains (losses)	-	11	11	-	-	-
Impairment losses from common shares (Note 15.2)	-	(99)	(99)	-	(62)	(62)
	277	(144)	133	172	(56)	116
Other gains (losses) ^{2,3,4}			3			80
			136			196

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

² Includes a gain of \$21 million recorded in Q3-2020 related to the acquisition of control of a portion of an investment in joint venture's business.

³ 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.

⁴ 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. Since the second quarter, financial markets and volatility have stabilized. As a result, the Company applied its usual quantitative impairment model policy.

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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

For the periods ended September 30,	Three months		Nine months	
	2020	2019	2020	2019
Current income tax expense (benefit)	113	48	204	57
Deferred income tax expense (benefit)	(21)	(3)	(19)	(12)
	92	45	185	45

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

For the periods ended September 30,	Three months		Nine months	
	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	(3.1)%	(6.3)%	(5.5)%	(8.8)%
foreign income taxed at different rates	(0.7)%	(0.5)%	(1.0)%	(1.4)%
non-deductible losses (non-taxable income) from subsidiaries	(0.7)%	(0.6)%	(1.1)%	(1.3)%
non-deductible losses (non-taxable gains) ¹	(1.2)%	(0.6)%	(0.6)%	(3.9)%
adjustments related to changes in tax legislation ²	-	0.2%	(0.1)%	(3.3)%
non-deductible expenses	0.2%	0.5%	0.4%	0.7%
taxable foreign exchange gains	-	-	0.3%	-
adjustments related to the U.S. Corporate Tax reform ³	0.1%	-	1.6%	-
other	0.6%	-	0.4%	(0.6)%
Effective income tax rate	21.6%	19.4%	20.8%	8.1%

¹ Includes non-taxable gains of \$21 million recorded in Q3-2020 related to the acquisition of control of a portion of an investment in joint venture's business and \$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". The CRA has indicated its intention to reassess subsequent years up to 2016 for similar activities. The Company received 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.

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

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

For the periods ended September 30,	Three months		Nine months	
	2020	2019	2020	2019
Net income attributable to shareholders	334	187	704	514
Less: dividends declared on preferred shares, net of tax	(13)	(12)	(39)	(34)
Net income attributable to common shareholders	321	175	665	480
Weighted-average number of common shares outstanding (in millions)	143.0	139.2	143.0	139.2
EPS – basic and diluted (in dollars)	2.25	1.26	4.65	3.45

Note 18 – Share-based payments

18.1 Long-term incentive plan

Table 18.1 – Movements in LTIP share units

For the periods ended September 30,	Three months		Nine months	
	2020 (in units)	2019 (in units)	2020 (in units)	2019 (in units)
Outstanding, beginning of period	1,372,735	1,309,820	1,357,796	1,087,611
Awarded (forfeited)	1,825	(5,464)	376,914	424,130
Net change in estimate of units outstanding	32,057	25,703	(45,411)	89,897
Units settled	-	-	(282,682)	(271,579)
Outstanding, end of period	1,406,617	1,330,059	1,406,617	1,330,059

The LTIP expense was \$21 million and \$39 million for the three- and nine-month periods ended September 30, 2020, respectively (\$13 million and \$44 million for the three- and nine-month periods ended September 30, 2019, respectively).

18.2 Employee share purchase plan

Table 18.2 – Movements in restricted common shares

For the periods ended September 30,	Three months		Nine months	
	2020 (in units)	2019 (in units)	2020 (in units)	2019 (in units)
Outstanding, beginning of period	120,115	128,532	116,036	131,681
Accrued	33,292	24,773	95,330	91,741
Awarded and vested	(29,568)	(29,682)	(86,441)	(95,670)
Forfeited	(381)	(659)	(1,467)	(4,788)
Outstanding, end of period	123,458	122,964	123,458	122,964

The ESPP expense was \$4 million and \$12 million for the three- and nine-month periods ended September 30, 2020 and 2019 respectively.

18.3 Deferred share unit

The DSU provision amounted to \$16 million as at September 30, 2020 (\$15 million as at December 31, 2019).

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Notes to the interim Consolidated financial statements (unaudited)

(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)

For the periods ended September 30,	Three months		Nine months	
	2020	2019	2020	2019
Value of common shares repurchased for share-based payments	4	5	45	39
Cumulative cost of the units for the Company	4	4	34	33
Excess of market price over the cumulative cost for the Company	-	1	11	6
Amount recognized in Retained earnings, net of taxes	-	-	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

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2020	2019	2020	2019
Current service cost	18	13	54	40
Net interest expense				
Interest expense on defined benefit obligation	21	21	63	63
Interest income on plan assets	(18)	(19)	(55)	(57)
Other	1	1	3	3
	22	16	65	49

19.2 Net actuarial gains (losses) recognized in OCI

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

For the periods ended September 30,	Pension plans			
	Three months		Nine months	
	2020	2019	2020	2019
Re-measurements related to:				
change in discount rate used to determine the benefit obligation	(48)	(36)	(172)	(405)
actual return on plan assets	60	49	215	315
change in other financial assumptions ¹	(44)	-	4	-
	(32)	13	47	(90)

¹ Other financial assumptions were revised during the nine-month period ended September 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 the first half of the year.

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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

For the periods ended September 30,	Pension Plan			
	Three months		Nine months	
	2020	2019	2020	2019
To determine the defined benefit obligation:				
Discount rate				
beginning of period	2.91%	3.06%	3.15%	3.86%
end of period	2.83%	3.03%	2.83%	3.03%
Rate of increase in future compensation beyond 3 years				
beginning of period	2.01%	2.39%	2.34%	2.39%
end of period	2.29%	2.39%	2.29%	2.39%
Rate of inflation				
beginning of period	1.26%	1.64%	1.59%	1.64%
end of period	1.54%	1.64%	1.54%	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	September 30, 2020		December 31, 2019	
		increase	decrease	increase	decrease
Discount rates	1%	(514)	690	(461)	618
Rate of increase in future compensation	1%	143	(125)	121	(106)
Rate of inflation	1%	97	(88)	88	(80)
Life expectancy	One year	79	(79)	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.

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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*.

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Notes to the interim Consolidated financial statements (unaudited)

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

 Table 20.1 – Segment operating performance¹

For the three-month periods ended Sept. 30,	2020				2019			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Operating income								
NEP	2,479	383	1	2,863	2,234	346	1	2,581
Investment income	-	-	148	148	-	-	151	151
Other	78	-	3	81	40	-	3	43
Segment operating revenues	2,557	383	152	3,092	2,274	346	155	2,775
Net claims incurred (before MYA)	(1,393)	(212)	-	(1,605)	(1,430)	(199)	-	(1,629)
Underwriting expenses	(739)	(150)	-	(889)	(621)	(133)	-	(754)
Investment expenses	-	-	(5)	(5)	-	-	(5)	(5)
Share of profit from invest. in associates & JV	32	-	-	32	23	-	-	23
Finance costs	(2)	-	(29)	(31)	(3)	-	(27)	(30)
Other	(29)	-	(19)	(48)	(7)	-	(18)	(25)
PTOI	426	21	99	546	236	14	105	355
Operating income taxes				(135)				(78)
NOI				411				277
PTOI is comprised of:								
underwriting income	347	21	1	369	183	14	1	198
net investment income	-	-	143	143	-	-	146	146
distribution EBITA	81	-	-	81	56	-	-	56
finance costs	(2)	-	(29)	(31)	(3)	-	(27)	(30)
other income (expense)	-	-	(16)	(16)	-	-	(15)	(15)

For the nine-month periods ended Sept. 30,	2020				2019			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Operating income								
NEP	7,187	1,150	4	8,341	6,473	1,042	4	7,519
Investment income	-	-	450	450	-	-	451	451
Other	227	-	9	236	116	-	13	129
Segment operating revenues	7,414	1,150	463	9,027	6,589	1,042	468	8,099
Net claims incurred (before MYA)	(4,239)	(653)	-	(4,892)	(4,472)	(591)	-	(5,063)
Underwriting expenses	(2,186)	(451)	-	(2,637)	(1,822)	(398)	-	(2,220)
Investment expenses	-	-	(16)	(16)	-	-	(17)	(17)
Share of profit from invest. in associates & JV	89	-	-	89	78	-	-	78
Finance costs	(8)	-	(86)	(94)	(8)	-	(84)	(92)
Other	(113)	-	(48)	(161)	(30)	-	(34)	(64)
PTOI	957	46	313	1,316	335	53	333	721
Operating income taxes				(312)				(119)
NOI				1,004				602
PTOI is comprised of:								
underwriting income	762	46	4	812	179	53	4	236
net investment income	-	-	434	434	-	-	434	434
distribution EBITA	203	-	-	203	164	-	-	164
finance costs	(8)	-	(86)	(94)	(8)	-	(84)	(92)
other income (expense)	-	-	(39)	(39)	-	-	(21)	(21)

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

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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

For the periods ended September 30,	Three months		Nine months	
	2020	2019	2020	2019
Segment operating revenues (Table 20.1)	3,092	2,775	9,027	8,099
Add: other underwriting revenues	34	30	99	87
Add: NEP from Intact U.S. (OneBeacon) exited lines	1	23	1	26
Revenues, as reported in the interim Consolidated statements of income	3,127	2,828	9,127	8,212
Segment PTOI (Table 20.1)	546	355	1,316	721
Non-operating items:				
net gains (losses)	13	(38)	136	196
positive (negative) impact of MYA on underwriting	(37)	(10)	(292)	(160)
amortization of intangible assets recognized in business combinations	(38)	(25)	(114)	(73)
integration and restructuring costs	(25)	(14)	(62)	(26)
difference between expected return and discount rate on pension assets	(13)	(12)	(40)	(36)
underwriting results from Intact U.S. (OneBeacon) exited lines	(12)	(15)	(23)	(32)
other non-operating costs	(2)	(5)	(15)	(17)
Pre-tax income, as reported in the interim MD&A	432	236	906	573
Less: income taxes from broker associates	(6)	(4)	(17)	(14)
Pre-tax income, as reported in the interim Consolidated statements of income	426	232	889	559

20.3 Selected segment assets and liabilities

Table 20.3 – Selected segment assets and liabilities

As at	September 30, 2020				December 31, 2019			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Investments	-	-	19,607	19,607	-	-	18,608	18,608
Net claims liabilities (Table 9.1)	9,838	1,551	-	11,389	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 September 30,				As at	
	Three months		Nine months		September 30, 2020	December 31, 2019
	2020	2019	2020	2019		
Canada	2,721	2,433	7,905	7,060	26,952	24,907
U.S.	406	395	1,222	1,152	7,158	7,385
	3,127	2,828	9,127	8,212	34,110	32,292

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

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Notes to the interim Consolidated financial statements (unaudited)

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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

For the periods ended September 30,	Three months		Nine months	
	2020	2019	2020	2019
Depreciation of property and equipment ¹	32	26	85	70
Amortization of intangible assets	48	33	144	98
Net premiums on debt securities classified as AFS	9	4	22	11
Defined benefit pension expense	22	16	65	49
Share-based payments expense	25	17	51	56
Share of profit from investments in associates and joint ventures	(16)	(4)	(35)	(26)
Other	1	1	(2)	-
	121	93	330	258

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

For the periods ended September 30,	Three months		Nine months	
	2020	2019	2020	2019
Unearned premiums, net	279	290	470	473
Premiums receivable, net	(148)	(122)	(244)	(270)
Deferred acquisition costs	(24)	(27)	(70)	(88)
Other operating assets	(85)	(32)	(113)	5
Other operating liabilities	116	96	61	(63)
Dividends received from investments in associates and joint ventures	7	4	18	16
	145	209	122	73

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Notes to the interim Consolidated financial statements (unaudited)

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

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 to 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 clarified 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.

22.3 Interest rate benchmark reform – Phase 2

In August 2020, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Leases* (“IFRS 16”). The amendments complement those issued in 2019 (see *Note 3.4 – Interest rate benchmark reform*) and focus on the effects on financial statements when an entity replaces an old interest rate benchmark with an alternative benchmark rate as part of the reform.

The amendments clarify that, if the contractual cash flows of a financial instrument are modified as a result of the reform, an entity updates the effective interest rate to reflect the change instead of derecognizing it or adjusting its carrying amount. In addition, hedge accounting relationships shall not be discontinued if changes are required by the reform, as long as the hedge meets other hedge accounting criteria. Finally, additional disclosures about new risks arising from the reform and how the entity manages the transition to alternative benchmark rates are required.

The amendments apply retrospectively to annual periods beginning on or after January 1, 2021, with earlier application permitted. Companies are not required to restate prior periods. The Company is currently assessing the impact of these amendments.