Intact Financial Corporation

Management's Discussion and Analysis

For the year ended December 31, 2017

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INTACT FINANCIAL CORPORATION

Management's Discussion and Analysis for the year ended December 31, 2017

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

The following MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors (or "Board") for the year ended December 31, 2017. This MD&A is intended to enable the reader to assess our results of operations and financial condition for the three- and twelve-month periods ended December 31, 2017 compared to the corresponding periods in 2016. It should be read in conjunction with our Consolidated financial statements for our fiscal year ended December 31, 2017. This MD&A is dated February 6, 2018.

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

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Non-IFRS financial measures

We use both IFRS and non-IFRS financial measures to assess our performance. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. ***See Section 27 – Non-IFRS financial measures for the definition and reconciliation to the most comparable IFRS measures.*** These measures and other insurance-related terms used in this MD&A are defined in the glossary available in the "Investors" section of our web site at www.intactfc.com.

Cautionary note regarding forward-looking statements

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

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

All of the forward-looking statements included in this MD&A are qualified by these cautionary statements and those made in the section entitled Risk management (Sections 19-24) hereafter. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Glossary of abbreviations

	Description		Description
AEPS	Adjusted EPS	**Moody's**	Moody's Investor Service Inc.
AFS	Available for sale	**MYA**	Market yield adjustment
AMF	Autorité des marchés financiers	**NAIC**	National Association of Insurance Commissioners
AOCI	Accumulated OCI	**NCIB**	Normal course issuer bid
AROE	Adjusted ROE	**NEP**	Net earned premiums
BVPS	Book value per share	**NOI**	Net operating income
CAD	Canadian Dollar	**NOIPS**	NOI per share
CAGR	Compound annual growth rate	**OCI**	Other comprehensive income
CAN	Canada	**OROE**	Operating ROE
CAT	Catastrophe	**OSFI**	Office of the Superintendent of Financial Institutions
DBRS	Dominion Bond Rating Services	**P&C**	Property & Casualty
DPW	Direct premiums written	**PTOI**	Pre-tax operating income
EPS	Earnings per share to common shareholders	**PYD**	Prior year claims development
Fitch	Fitch Ratings Inc.	**RBC**	Risk-based capital
FVTPL	Fair value through profit and loss	**ROE**	Return on equity
IFRS	International Financial Reporting Standards	**S&P**	Standard & Poor's
KPI	Key performance indicator	**U.S.**	United States
MCT	Minimum capital test	**USD**	U.S. Dollar
MD&A	Management's Discussion and Analysis		

Important notes

- Unless otherwise noted, DPW refer to DPW normalized for the effect of multi-year policies, excluding industry pools, fronting and exited lines (referred to as "DPW" in this MD&A). ***See Table 37 for details on exited lines and Table 39 for the reconciliation to DPW, as reported under IFRS***. All underwriting results and related ratios exclude the MYA and the results of our U.S. Commercial exited lines, unless otherwise noted. The expense and general expense ratios are presented herein net of other underwriting revenues.
- DPW (pro forma) for 2017 are comprised of the DPW of P&C Canada and the DPW (pro forma) of P&C U.S.
- Catastrophe claims are any one claim, or group of claims, equal to or greater than $7.5 million for P&C Canada (US$5 million for P&C U.S.) related to a single event (referred to as the "CAT threshold"). A non-catastrophe weather event is a group of claims, which is considered significant but that is smaller than the CAT threshold, related to a single weather event. A large loss is defined as a single claim larger than $0.25 million for P&C Canada (US$0.25 million for P&C U.S.) but smaller than the CAT threshold.
- Regulatory Capital Ratios refer to MCT (as defined by OSFI and the AMF in Canada) and RBC (as defined by the NAIC in the U.S.). All references to "total capital margin" in this MD&A include the aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC) plus available cash in unregulated entities ***(see Section 18.2 - Capital position for details)***.
- Unless otherwise noted, market share and market related data for P&C Canada are based on the latest available data (Q3-2017) from MSA Research Inc. ("MSA") and excludes Lloyd's Underwriters Canada, Insurance Corporation of British Columbia, Saskatchewan Government Insurance, Saskatchewan Auto Fund, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty Mortgage Insurance Company. MSA data excludes certain Québec regulated entities. Market share and market positioning reflect the impact of announced or completed acquisitions and are therefore presented on a *pro forma* basis.
- Unless otherwise noted, market share and market related data for P&C U.S. are based on the latest available data from SNL Insurance.
- Certain totals, subtotals and percentages may not agree due to rounding. Not meaningful (nm) is used to indicate that the current and prior year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%.

OVERVIEW

Section 1 – About Intact Financial Corporation

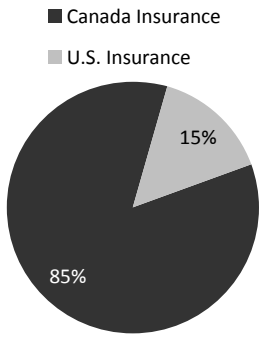
1.1 Building a world-class P&C insurer

- Largest provider of P&C insurance in Canada and a leading provider of specialty insurance in North America, with close to $10 billion in annual DPW[1].
- Over 13,000 full- and part-time employees who serve more than five million personal, business, public sector and institutional customers through offices in Canada and the U.S.
- In Canada, we distribute insurance under the Intact Insurance brand through a wide network of brokers, including our wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect. In the U.S., OneBeacon, a wholly-owned subsidiary, provides specialty insurance products through independent agencies, brokers, wholesalers and managing general agencies.
- We are a proven industry consolidator with a track record of 16 successful P&C acquisitions since 1988.

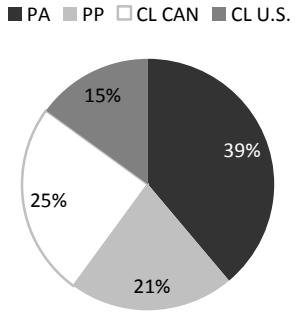
1.2 What we offer

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

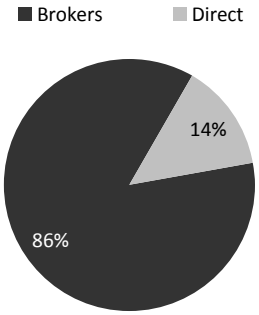
2017 DPW (pro forma)[1] by business segment



2017 DPW (pro forma)[1] by line of business



2017 DPW (pro forma)[1] by distribution channel



[1] DPW (pro forma) for 2017 are comprised of the DPW of P&C Canada and the DPW (pro forma) of P&C U.S., using an exchange rate of 1.30.
PA: Personal auto; PP: Personal property: CL: Commercial lines

1.3 Our business segments

Following the acquisition of OneBeacon on September 28, 2017, we now report our financial results under the following business segments. The composition of our segments is aligned with our management structure and internal financial reporting based on geography and the nature of our activities.

Intact Financial Corporation	

Canada Insurance (CAN)	**Comprised of the underwriting (P&C Canada) and distribution activities in Canada**
	• **Underwriting** of automobile, home and business insurance contracts to individual and businesses in Canada. Underwriting results in Canada are reported under three lines of business:
	  • Personal auto
	  • Personal property
	  • Commercial, which include Commercial auto and Commercial P&C
	• **Distribution operations**, including the operating results of our wholly-owned broker, BrokerLink, as well as our share of results of broker affiliates.

U.S. Insurance (U.S)	**Comprised of the underwriting activities in the U.S. (P&C U.S.)** • **Underwriting** of specialty contracts to small and midsize businesses in the U.S., which are reported under: • Commercial lines, which include the underwriting results of **OneBeacon** since September 28, 2017 *(see Sections 5 and 10.2).*
Corporate and Other (Corporate)	**Comprised of the following activities, which are managed at the Corporate level:** • **Investment management** • **Treasury and capital management** • **Other corporate activities** Operating results include net investment income, finance costs, as well as other income and expenses (including corporate expenses and ancillary income).

We measure our consolidated performance mainly based on NOIPS and business segment performance based on pre-tax operating income (PTOI). Comparative information has been reclassified accordingly.

Table 1 – Operating performance[1]

December 31,	CAN	U.S.	Corporate	2017 Total	CAN	U.S.	Corporate	2016 Total
DPW	**8,440**	**307**	**-**	**8,747**	8,293	-	-	8,293
Operating income								
Underwriting income	**478**	**8**	**-**	**486**	375	-	-	375
Net investment income	**-**	**-**	**432**	**432**	-	-	414	414
Finance costs	**-**	**-**	**(82)**	**(82)**	-	-	(72)	(72)
Net distribution income	**132**	**-**	**-**	**132**	111	-	-	111
Other income (expense)	**-**	**-**	**5**	**5**	-	-	10	10
PTOI	**610**	**8**	**355**	**973**	486	-	352	838
NOI				**771**				660
NOIPS (in dollars)				**5.60**				4.88

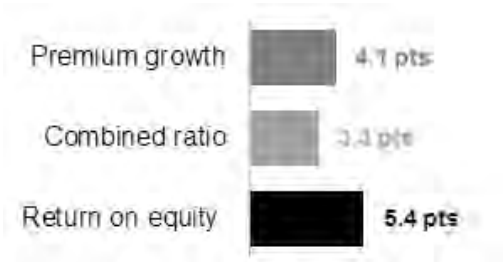
[1] *Refer to Section 27 – Non-IFRS financial measures.*

1.4 What we are aiming to achieve

	Our objectives for 2017	Selected 2017 achievements
Our customers are our advocates	• **Progress on goal of two million advocates by 2020**	• 1.1 million advocates, up 11% from last year. • Maintained #1 and #2 brand consideration nationally for Intact Insurance and belairdirect. • Launched **Client Centre**, which gives personal lines customers digital access to their policy documents, billing statements and real-time claims status updates. • Launched **Canada's first commercial online auto quick quote tool**. • Launched a **mobile telematics app**, allowing good drivers to save on car insurance without having to install any hardware in their vehicles. • Launched our fourth Service Centre in Canada with Intact **Service Centre in Montreal**, a one-stop shop for customers with auto insurance claims.
Our employees are engaged	• **Be one of Canada's best employers**	• Recognized as an **Aon Best Employer – Canada 2018, Platinum level,** for a 3rd year in a row.
Our company is one of the most respected	• **Exceed Canadian industry ROE by 500 bps** • **Grow NOIPS 10% yearly over time**	• Outperformed the P&C insurance industry's ROE by 590 bps in the first nine months of 2017. • NOIPS in 2017 was up 15% over 2016 on improved underwriting results and strong distribution performance. • Acquisition of OneBeacon in 2017 is expected to add mid-single digit accretion to NOIPS by the end of 2019.

1.5 Consistent outperformance driven by unique advantages

10-year outperformance vs the industry[1]



1. All market share and outperformance data as at December 31, 2016

See Section 11.3 for more information on industry outperformance.

Unique advantages

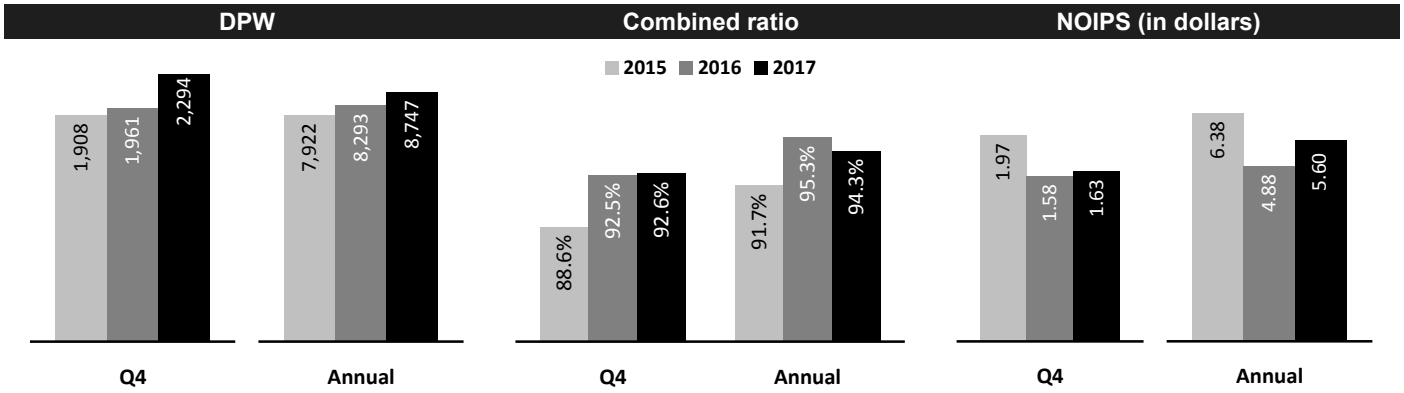
See Section 11 for discussion on our unique strategic advantages.

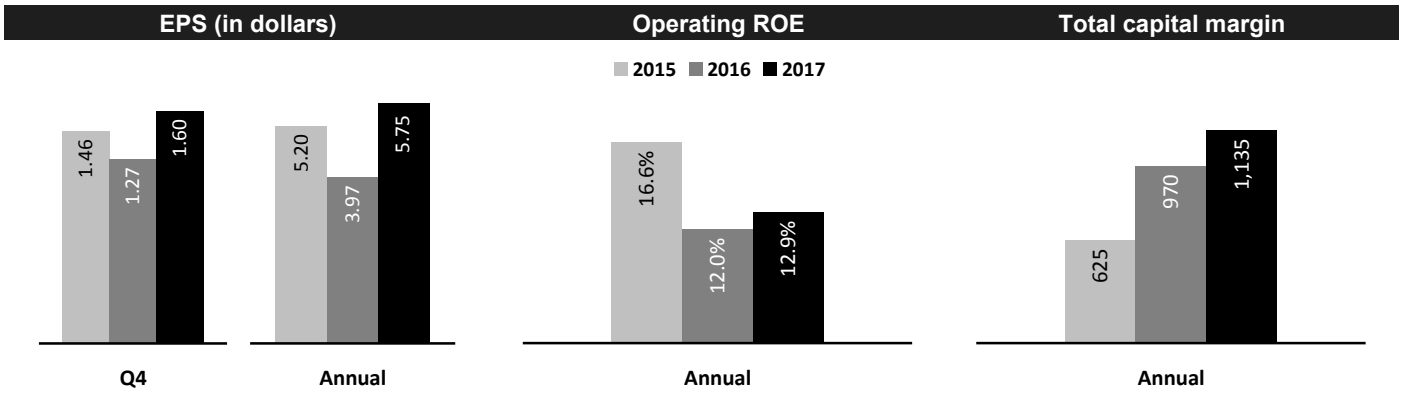
Section 2 – Our 2017 performance at a glance

2017 Highlights

DPW growth	NOIPS growth	OROE	Total capital margin	BVPS
+5%	+15%	12.9%	$1.1 billion	+12%

- **Net operating income per share up 3% to $1.63 in Q4-2017 and up 15% to $5.60 in the full year**
- **DPW grew 17%** in the quarter, bolstered by OneBeacon
- **Combined ratio of 92.6%** in the quarter reflected strong performance in Canadian property and commercial operations, and the inclusion of OneBeacon
- **Earnings per share up 45% to $5.75** in 2017, driving book value per share growth of 12%
- **Operating ROE of 13%,** with over $1.1 billion in total capital margin
- **Quarterly dividend increased** 9% to $0.70 per share





Section 3 – Consolidated performance

On September 28, 2017, we completed the acquisition of OneBeacon. Its results of operations and balance sheet are included in our consolidated results and financial position from that date.

Table 2 – Consolidated performance[1]

	Q4-2017	Q4-2016	Change	2017	2016	Change
DPW	**2,294**	1,961	17%	**8,747**	8,293	5%
NEP	**2,400**	2,043	17%	**8,530**	7,946	7%
Operating income						
Underwriting income	**178**	153	25	**486**	375	111
Net investment income	**121**	104	17	**432**	414	18
Net distribution income	**28**	24	4	**132**	111	21
Finance costs	**(25)**	(18)	(7)	**(82)**	(72)	(10)
Other income (expense)	**2**	13	(11)	**5**	10	(5)
PTOI	**304**	276	10%	**973**	838	16%
NOI	**236**	212	11%	**771**	660	17%
Non-operating gains (losses)	**(58)**	(52)	(6)	**(31)**	(152)	121
Effective income tax rate	**5.9%**	23.7%	(17.8) pts	**15.9%**	21.1%	(5.2) pts
Net income	**232**	171	36%	**792**	541	46%
Underwriting ratios						
Claims ratio	**63.5%**	62.9%	0.6 pts	**65.4%**	64.9%	0.5 pts
Expense ratio	**29.1%**	29.6%	(0.5) pts	**28.9%**	30.4%	(1.5) pts
Combined ratio	**92.6%**	92.5%	0.1 pts	**94.3%**	95.3%	(1.0) pts
Per share measures, basic and diluted (in dollars)						
NOIPS	**1.63**	1.58	3%	**5.60**	4.88	15%
EPS	**1.60**	1.27	26%	**5.75**	3.97	45%
AEPS	**1.55**	1.56	(1)%	**5.82**	4.53	28%
BVPS	**48.00**	42.72	12%			
Return on equity for the last 12 months						
OROE	**12.9%**	12.0%	0.9 pts			
ROE	**12.8%**	9.6%	3.2 pts			
AROE	**13.0%**	11.0%	2.0 pts			
Total capital margin	**1,135**	970	165			
Debt-to-total capital ratio	**23.1%**	18.6%	4.5 pts			

[1] *Refer to Section 27 – Non-IFRS financial measures.*

Table 3 – Performance by business segment[1]

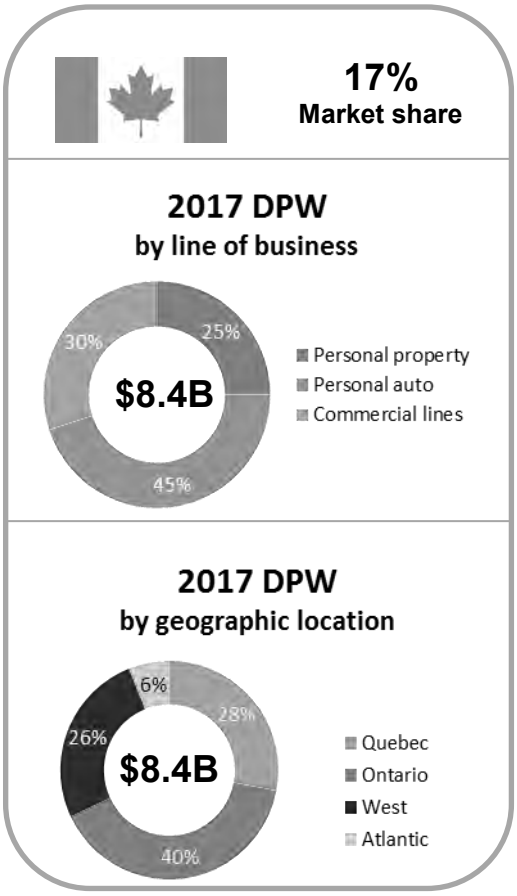
	Section	Q4-2017	Q4-2016	Change	2017	2016	Change
DPW growth							
Canada Insurance	*4.4*	**1,987**	1,961	1%	**8,440**	8,293	2%
U.S. Insurance	*5.3*	**307**	-	nm	**307**	-	nm
		2,294	1,961	17%	**8,747**	8,293	5%
Combined ratio							
Canada Insurance	*4.4*	**91.9%**	92.5%	(0.6) pts	**94.2%**	95.3%	(1.1) pts
U.S. Insurance	*5.3*	**97.4%**	-	nm	**97.4%**	-	nm
		92.6%	92.5%	0.1 pts	**94.3%**	95.3%	(1.0) pts
PTOI							
Canada Insurance	*4.4*	**198**	177	12%	**610**	486	26%
U.S. Insurance	*5.3*	**8**	-	nm	**8**	-	nm
Corporate and Other	*6.4*	**98**	99	(1)%	**355**	352	1%
		304	276	10%	**973**	838	16%

[1] *Refer to Section 27 – Non-IFRS financial measures.*

	Q4-2017 vs Q4-2016	2017 vs 2016
DPW growth	• **Our premium base has grown 17% in the quarter and 5% in the full year,** mainly from our U.S. acquisition of OneBeacon, which closed on September 28, 2017. • **Premium growth in Canada of 1% in the quarter and 2% in the full year** was tempered by the impact of robust profitability actions, including rate increases in all lines of business.	
Underwriting income	• **Combined ratio in Canada was solid at 91.9%,** reflecting strong underlying performance in personal property and commercial lines, rigorous expense management and challenging results in personal auto where profitability actions continue.	• **Combined ratio in Canada improved slightly to 94.2%** on lower CAT losses and rigorous expense management.
	• **Combined ratio in the U.S. (OneBeacon) was 97.4%**. In Q4-2017, we exited underperforming lines and began realizing synergies. We are executing on our profitability action plan and are on track to bring the U.S. combined ratio to a low 90s level within 24 to 36 months of closing.	
Net investment income	• **Net investment income was up $17 million in the quarter and $18 million in the full year** mainly due to the acquisition of OneBeacon. Excluding the impact of OneBeacon, net investment income was flat compared to 2016 as the low yield environment continued to impact our investment income in 2017.	
Net distribution income	• **Strong performance, up 17% in the quarter and 19% in the full year,** driven by continued growth and improved profitability of our broker network.	
PTOI	• **PTOI of $304 million was up 10%** on improved performance in Canada and the addition of OneBeacon.	• **PTOI of $973 million was up 16%**, on improved performance in Canada.
NOIPS	• **NOI of $236 million was up 11%** on higher results in Canada and the addition of OneBeacon. This translated to a NOIPS of $1.63 compared to $1.58 in Q4-2016.	• **NOI of $771 million was up 17% (15% on a per share basis)**, on lower CAT losses, strong distribution income and rigorous expense management.
OROE	• **OROE of 13%**, reflecting higher earnings and the issuance of common shares in connection with the acquisition of OneBeacon.	
Effective income tax rate	• **Effective income tax rate of 5.9% in the quarter and 15.9% in the full year** reflected a one-time income tax recovery of $27 million following the enactment of the U.S. Corporate Tax reform in December 2017. • Excluding this one-time impact, the effective income tax rate was 17.0% in Q4-2017 and 18.8% in 2017. The decrease versus last year was mainly driven by higher non-taxable gains in 2017.	
Net income	• **Net income of $232 million was up 36%** on improved operating performance in Canada, the addition of OneBeacon and a one-time positive impact from the U.S. Corporate Tax reform, partly offset by integration costs in connection with the acquisition of OneBeacon.	• **Net income of $792 million was up 46%** on improved operating performance in Canada, strong gains, as well as a one-time positive impact from the U.S. Corporate Tax reform.
Financial condition	• **BVPS increased 12%** from a year ago to $48.00. • **Our debt-to-total capital ratio** as at December 31, 2017 went down since the closing of OneBeacon, but remained higher than December 31, 2016 driven by the acquisition of OneBeacon. • **We ended the year in a strong capital position, with over $1.1 billion of total capital margin as at December 31, 2017.**	

SEGMENT PERFORMANCE

Section 4 – Canada Insurance



4.1 Canada's largest home, auto and business insurer

- Largest P&C insurer in Canada, with over $8 billion in annual DPW and an approximate market share of 17%.
- We distribute insurance in Canada under the Intact Insurance brand through a wide network of brokers, including our wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect.
- Largest private sector provider of P&C insurance in B.C., Alberta, Ontario, Québec, Nova Scotia and Newfoundland & Labrador.

4.2 We offer a comprehensive range of insurance products

Personal auto

- We offer various levels of coverage to our customers for their vehicles including accident benefits, third party property and physical damage. Our coverage is also available for motor homes, recreational vehicles, motorcycles, snowmobiles, and all terrain vehicles. While the rate approval process and timing varies by province, insurers must file for rate adjustments in Ontario and Alberta before they can be effected.

Personal property

- Our customers can get protection for their homes and contents from risks such as fire, theft, vandalism, water damage and other damages, as well as personal liability coverage. Property coverage is also available for tenants, condominium owners, non-owner occupied residences and seasonal residences.

Commercial lines (including specialty lines)

- We provide a broad range of coverages tailored to the needs of a diversified group of small and medium sized businesses including commercial landlords, manufacturers, contractors, wholesalers, retailers, transportation businesses, agriculture businesses and service providers.
- Commercial property coverages protect the physical assets of the business and include business interruption insurance. Liability coverages include commercial general liability, product liability, professional liability as well as cyber endorsement.
- Commercial vehicle coverages provide protection for commercial auto, fleets, garage operations, light trucks, public vehicles and the transportation needs of the sharing economy.

4.3 Operating performance

Strong performance on lower CAT losses, continued growth of our broker network and rigorous expense management.

Table 4 – Operating performance

	Section	Q4-2017	Q4-2016	Change	2017	2016	Change
Canada Insurance							
P&C Canada	*4.4*	**170**	153	11%	**478**	375	27%
Distribution	*4.8*	**28**	24	17%	**132**	111	19%
PTOI		**198**	177	12%	**610**	486	26%

4.4 P&C Canada

Table 5 – Underwriting results for P&C Canada[1]

	Section	Q4-2017	Q4-2016	Change	2017	2016	Change
DPW		**1,987**	1,961	1%	**8,440**	8,293	2%
Personal auto	*4.5*	**824**	829	(1)%	**3,818**	3,792	1%
Personal property	*4.6*	**505**	486	4%	**2,135**	2,030	5%
Commercial lines	*4.7*	**658**	646	2%	**2,487**	2,471	1%
NEP		**2,074**	2,043	2%	**8,204**	7,946	3%
Current year claims (excluding CAT claims)		**1,372**	1,313	59	**5,321**	5,165	156
Current year CAT claims		**31**	34	(3)	**313**	385	(72)
Unfavourable (favourable) PYD		**(77)**	(62)	(15)	**(253)**	(389)	136
Total net claims		**1,326**	1,285	41	**5,381**	5,161	220
Underwriting expenses		**578**	605	(27)	**2,345**	2,410	(65)
Underwriting income		**170**	153	17	**478**	375	103
Underwriting ratios							
Underlying current year loss ratio		**66.2%**	64.2%	2.0 pts	**64.9%**	64.8%	0.1 pts
CAT loss ratio (including reinst. premiums)		**1.5%**	1.8%	(0.3) pts	**3.8%**	5.0%	(1.2) pts
Unfavourable (favourable) PYD ratio		**(3.7)%**	(3.1)%	(0.6) pts	**(3.1)%**	(4.9)%	1.8 pts
Claims ratio		**64.0%**	62.9%	1.1 pts	**65.6%**	64.9%	0.7 pts
Commissions		**14.5%**	15.6%	(1.1) pts	**15.2%**	16.3%	(1.1) pts
General expenses		**9.7%**	10.3%	(0.6) pts	**9.7%**	10.5%	(0.8) pts
Premium taxes		**3.7%**	3.7%	- pts	**3.7%**	3.6%	0.1 pts
Expense ratio		**27.9%**	29.6%	(1.7) pts	**28.6%**	30.4%	(1.8) pts
Combined ratio		**91.9%**	92.5%	(0.6) pts	**94.2%**	95.3%	(1.1) pts
Personal auto	*4.5*	**101.2%**	100.9%	0.3 pts	**101.7%**	99.9%	1.8 pts
Personal property	*4.6*	**79.7%**	75.6%	4.1 pts	**89.1%**	90.9%	(1.8) pts
Commercial lines	*4.7*	**87.4%**	93.2%	(5.8) pts	**86.5%**	91.5%	(5.0) pts

[1] *Refer to Section 27 – Non-IFRS financial measures*.

Q4-2017 vs Q4-2016	2017 vs 2016
• **DPW growth of 1% in the quarter and 2% in the full year** reflected solid growth in personal property and specialty lines, tempered by the impact of robust profitability actions, including rate increases in all lines of business.	
• **Underlying current year loss ratio of 66.2%** reflected a strong underlying performance in personal property and commercial lines, and challenging results in personal auto where improvement initiatives continue.	• **Underlying current year loss ratio remained strong at 64.9%** and reflected the benefits of our profitability initiatives, and challenging results in personal auto despite our actions.
• **CAT losses of $31 milion** were in line with last year, while slightly above expectations.	• **CAT losses of $313 million** were above expectations, while lower than last year, which included the impact of the Fort McMurray wildfires and severe weather in Q3-2016.
• **Favourable PYD ratio of 3.7%** reflected positive prior year development in all lines of business.	• **Favourable PYD ratio** declined to 3.1%, in line with long-term averages.
• **Expense ratio** improved in all lines of business from lower variable costs and rigorous expense management.	
• **Combined ratio in Canada was solid at 91.9%,** reflecting strong underlying performance in personal property and commercial lines, lower expenses and challenging results in personal auto where profitability actions continue.	• **Combined ratio improved to 94.2%,** reflecting lower CAT losses and expense management.

4.5 Personal auto

Table 6 – Underwriting results for personal auto

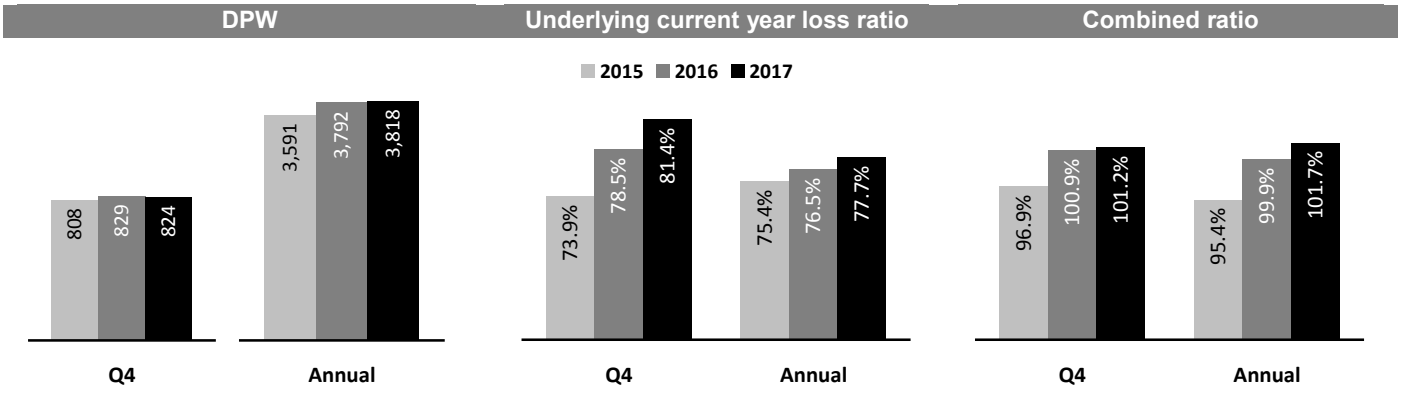
	Q4-2017	Q4-2016	Change	2017	2016	Change
DPW	**824**	829	(1)%	**3,818**	3,792	1%
Written insured risks (in thousands)	**917**	928	(1)%	**4,319**	4,358	(1)%
NEP	**952**	942	1%	**3,782**	3,704	2%
Underwriting income (loss)	**(11)**	(9)	nm	**(64)**	5	nm
Underlying current year loss ratio	**81.4%**	78.5%	2.9 pts	**77.7%**	76.5%	1.2 pts
CAT loss ratio (including reinst. premiums)	**0.2%**	0.4%	(0.2) pts	**0.7%**	2.0%	(1.3) pts
Unfavourable (favourable) PYD ratio	**(2.8)%**	(1.4)%	(1.4) pts	**0.3%**	(3.1)%	3.4 pts
Claims ratio	**78.8%**	77.5%	1.3 pts	**78.7%**	75.4%	3.3 pts
Expense ratio	**22.4%**	23.4%	(1.0) pts	**23.0%**	24.5%	(1.5) pts
Combined ratio	**101.2%**	**100.9%**	**0.3 pts**	**101.7%**	**99.9%**	**1.8 pts**

Q4-2017 vs Q4-2016

- **DPW growth was negative 1% in the quarter and positive 1% in the full year,** reflecting rate increases taken across the country ahead of our competitors and the impact of segmentation initiatives.
- **Underlying current year loss ratio of 81.4%** was elevated due to physical damage costs and weather-related claims.
- **Favourable PYD ratio of 2.8%** improved compared to recent quarters and was more in line with historical averages.
- **The combined ratio of 101.2% remained higher than expected** due to increasing physical damage costs and weather-related claims. While our actions to date have tempered increasing claims costs, further pricing, claims and segmentation actions are being implemented to address physical damage cost trends. With strengthened claims liabilities and additional profitability actions involving rate, underwriting and claims, we are committed to bring the combined ratio of this line back to the mid 90's.

2017 vs 2016

- **Underlying current year loss ratio of 77.7%** remained elevated, driven by higher than expected physical damage costs.
- **CAT loss ratio of 0.7%** was lower than last year from severe summer storms across Canada in 2016.
- **PYD ratio deteriorated from last year's favourable 3.1%** on adverse development on large losses and the impact from the actuarial review performed in Q3-2017.
- **Combined ratio deteriorated to 101.7%** mainly on unfavourable PYD.



4.6 Personal property

Table 7 – Underwriting results for personal property

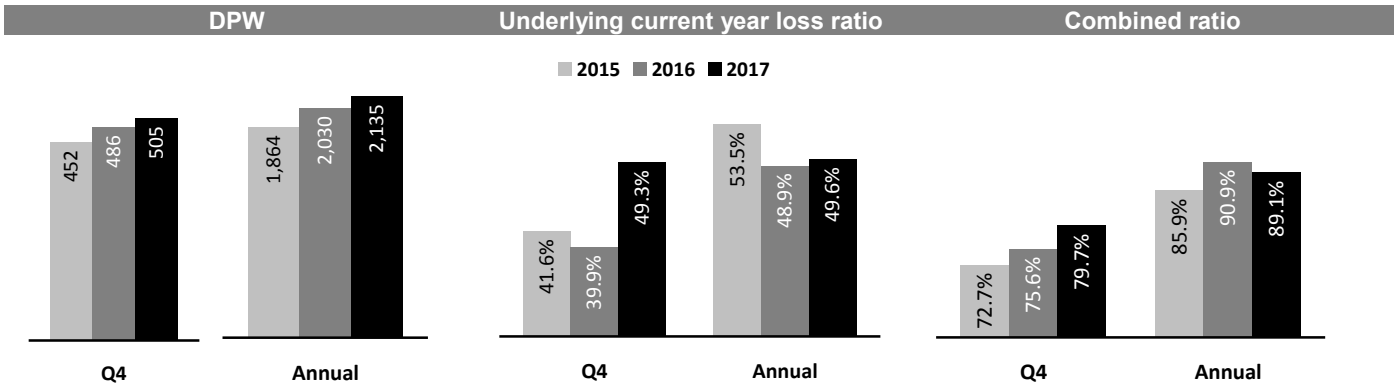
	Q4-2017	Q4-2016	Change	2017	2016	Change
DPW	**505**	486	4%	**2,135**	2,030	5%
Written insured risks (in thousands)	**562**	562	-%	**2,413**	2,393	1%
NEP	**522**	494	6%	**2,040**	1,880	9%
Underwriting income	**106**	120	(12)%	**222**	170	31%
Underlying current year loss ratio	**49.3%**	39.9%	9.4 pts	**49.6%**	48.9%	0.7 pts
CAT loss ratio (including reinst. premiums)	**1.9%**	2.6%	(0.7) pts	**10.2%**	11.6%	(1.4) pts
Unfavourable (favourable) PYD ratio	**(3.2)%**	(2.8)%	(0.4) pts	**(3.0)%**	(4.7)%	1.7 pts
Claims ratio	**48.0%**	39.7%	8.3 pts	**56.8%**	55.8%	1.0 pts
Expense ratio	**31.7%**	35.9%	(4.2) pts	**32.3%**	35.1%	(2.8) pts
Combined ratio	**79.7%**	**75.6%**	**4.1 pts**	**89.1%**	**90.9%**	**(1.8) pts**

Q4-2017 vs Q4-2016

- **DPW growth of 4% in the quarter and 5% in the full year,** driven by rate increases and growth initiatives in favourable market conditions.
- **Strong underlying current year loss ratio of 49.3%** deteriorated from last year's outstanding performance on higher level of weather-related claims.
- **CAT loss ratio of 1.9%** included losses from wind and rain storms.
- **Favourable PYD ratio remained healthy at 3.2%**.
- **Combined ratio of 79.7%** reflected the effectiveness of our profitability actions and expense management.

2017 vs 2016

- **Very strong underlying current year loss ratio of 49.6%** was driven by the effectiveness of our profitability actions.
- **CAT losses** were above expectations, driven by severe wind and water events in Central Canada.
- **Favourable PYD ratio of 3.0%,** remained healthy, though lower than last year.
- **Combined ratio of 89.1%** reflected a strong performance in an elevated CAT environment, meeting our target to operate at 95% or better even with adverse weather.



4.7 Commercial lines

Table 8 – Underwriting results for Commercial lines Canada, including Commercial P&C and Commercial auto

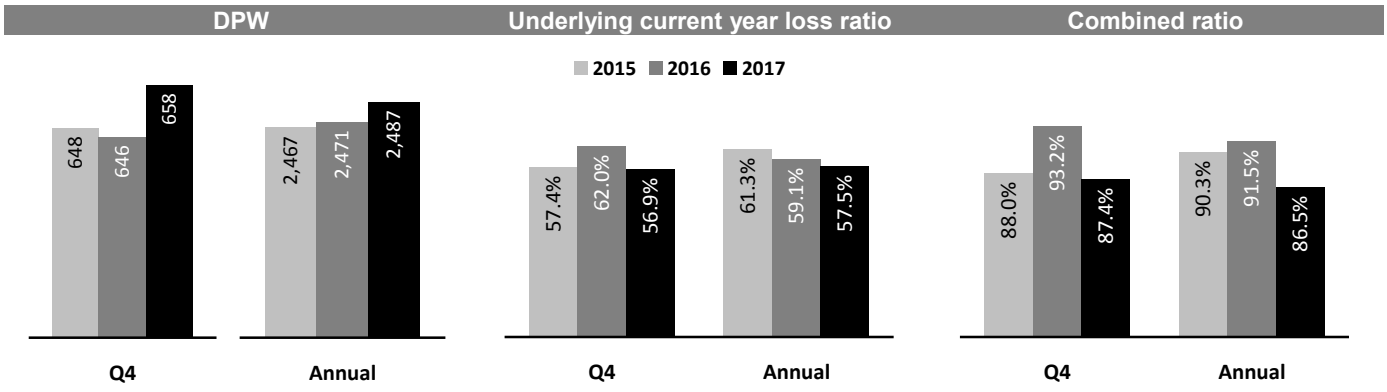
	Q4-2017	Q4-2016	Change	2017	2016	Change
DPW	**658**	646	2%	**2,487**	2,471	1%
Commercial P&C	**463**	466	(1)%	**1,733**	1,768	(2)%
Commercial auto	**195**	180	8%	**754**	703	7%
NEP	**600**	607	(1)%	**2,382**	2,362	1%
Underwriting income (loss)	**75**	42	79%	**320**	200	60%
Underlying current year loss ratio	**56.9%**	62.0%	(5.1) pts	**57.5%**	59.1%	(1.6) pts
CAT loss ratio (including reinst. premiums)	**2.9%**	2.9%	- pts	**3.1%**	4.6%	(1.5) pts
Unfavourable (favourable) PYD ratio	**(5.6)%**	(5.8)%	0.2 pts	**(8.4)%**	(7.9)%	(0.5) pts
Claims ratio	**54.2%**	59.1%	(4.9) pts	**52.2%**	55.8%	(3.6) pts
Expense ratio	**33.2%**	34.1%	(0.9) pts	**34.3%**	35.7%	(1.4) pts
Combined ratio	**87.4%**	**93.2%**	**(5.8) pts**	**86.5%**	**91.5%**	**(5.0) pts**

Q4-2017 vs Q4-2016

- **DPW growth of 2% in the quarter reflected improving growth momentum in commercial lines.** Strong growth in specialty lines was tempered by our ongoing pricing and segmentation actions in commercial P&C deployed in competitive markets. Profitability measures in commercial auto, including segmented rate increases, continued to be deployed in favourable market conditions.
- **Very strong underlying current year loss ratio improved to 56.9% in the quarter and 57.5% in the full year** driven by the effectiveness of our profitability actions and lower large losses.
- **CAT loss ratio remained above expectations** in the quarter and the full year.
- **Favourable PYD ratio of 5.6%** included unfavourable development on some large losses.

2017 vs 2016

- **Favourable PYD ratio of 8.4%** was higher than expected, mainly due to the impact of the Q3-2017 net reserve change. ***Refer to Section 15.2 – Q3-2017 net reserve change.***
- **Combined ratio of 87.4% in the quarter and 86.5% in the full year** reflected a very strong underlying performance, exceeding our target of a low 90s combined ratio.



4.8 Distribution

Net distribution income represents the operating results from our wholly owned broker, BrokerLink, as well as our share of results from broker affiliates.

In Table 9 below, we have also presented distribution EBITA (earnings before interest, taxes, amortization and integration costs).

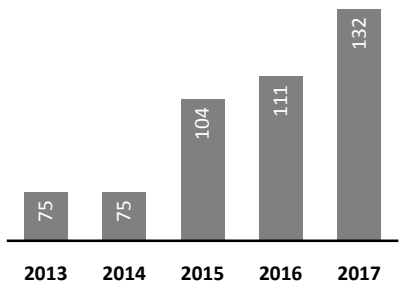
Table 9 – Reconciliation of net distribution income to distribution EBITA

	Q4-2017	Q4-2016	Change	2017	2016	Change
Net distribution income, as currently reported	**28**	24	17%	**132**	111	19%
Adjustments to EBITA basis						
Add: interest expense	**3**	3	-	**9**	13	(31)%
Add: income taxes	**3**	2	50%	**17**	10	70%
Distribution EBITA	**34**	29	17%	**158**	134	18%

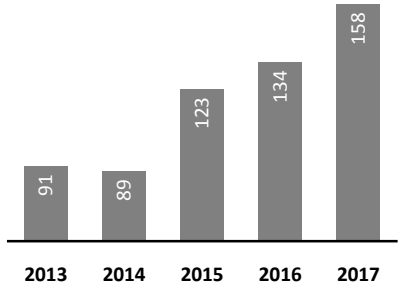
2017 vs 2016

- **Strong performance** driven by the expansion and improved profitability of our broker network. In 2017, our brokers generated an operating margin close to 30%. We expect net distribution income to continue to grow in the future.
- In addition, our broker loans generated $17 million of interest income, which is included in Net investment income.

Net distribution income

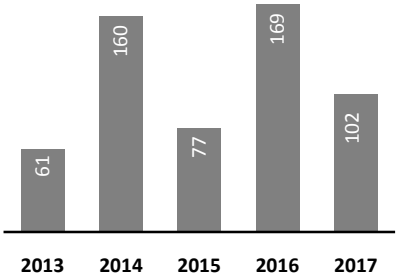


Distribution EBITA



Since 2013, net distribution income and distribution EBITA have grown at a CAGR of 15% from continued growth and improved profitability.

Net distribution investments



Continued growth in our network, thanks to close to $570 million of net distribution investments made in the last 5 years.

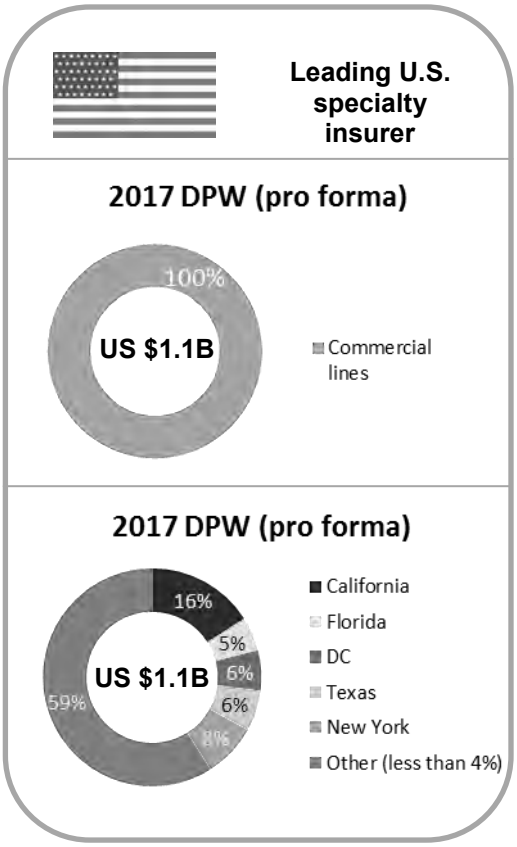
Refer to Section 11.1 – Canadian distribution strategy for more details.

Section 5 – U.S. Insurance

On September 28, 2017, we completed our US$1.7 billion ($2.3 billion) acquisition of OneBeacon.

5.1 OneBeacon, a pure-play specialty lines insurer

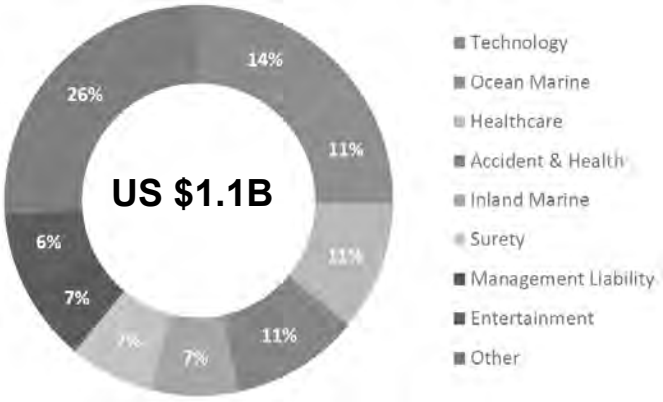
- Leading U.S. specialty insurer focused on small to midsized businesses, with over US$1 billion in annual DPW.
- Distributes insurance products and services in the U.S. under the OneBeacon brand through independent agencies, regional and national brokers, wholesalers and managing general agencies.
- OneBeacon operates through five underwriting companies: Atlantic Specialty Insurance Company, Homeland Insurance Company of Delaware, Homeland Insurance Company of New York, OBI America Insurance Company and OBI National Insurance Company.



5.2 What we offer

- Specialty products that solve the unique needs of particular customers or industry groups including accident and health, technology, ocean and inland marine, public entities, and entertainment.
- Additionally provide distinct products and tailored coverages to a broad customer base across the U.S. such as healthcare, tuition reimbursement, surety, management liability, financial services, specialty property, environmental and financial institutions.
- Each OneBeacon business is managed by an experienced team of specialty insurance professionals focused on a specific customer group or industry segment. Competitive factors for most of our insurance products are price, product terms and conditions, agency and broker relationships, claims service, company scale and financial stability.

Pro forma DPW by business unit



5.3 P&C U.S.

Results reflect the first full quarter within IFC following the close of the OneBeacon acquisition in Q3-2017. All figures in the table below are shown in CAD, using an average exchange rate of 1.2709.

The underwriting results for P&C U.S. excluded the results of exited lines (mainly Programs, and Architects & Engineers) in Q4-2017, which are reported in Non-operating results *(see Section 26 – Non-operating results).*

At the date of acquisition of OneBeacon, we purchased an adverse development coverage ("ADC") on claims liabilities for 2016 and prior accident years to mitigate the risk of adverse development on the acquired book of claims liabilities *(see Section 15.2 – Reinsurance).*

Table 10 – Underwriting results for P&C U.S. [1]

	Q4-2017	Q4-2016	Change	2017	2016	Change
DPW	**307**	-	nm	**307**	-	nm
NEP	**326**	-	nm	**326**	-	nm
Current year claims	**183**	-	nm	**183**	-	nm
Unfavourable (favourable) PYD	**15**	-	nm	**15**	-	nm
Net claims incurred	**198**	-	nm	**198**	-	nm
Underwriting expenses	**120**	-	nm	**120**	-	nm
Underwriting income	**8**	-	nm	**8**	-	nm
Underwriting ratios						
Underlying current year loss ratio	**55.9%**	-	nm	**55.9%**	-	nm
Unfavourable (favourable) PYD ratio	**4.6%**	-	nm	**4.6%**	-	nm
Claims ratio	**60.5%**	-	nm	**60.5%**	-	nm
Commissions	**16.8%**	-	nm	**16.8%**	-	nm
General expenses	**18.2%**	-	nm	**18.2%**	-	nm
Premium taxes	**1.9%**	-	nm	**1.9%**	-	nm
Expense ratio	**36.9%**	-	nm	**36.9%**	-	nm
Combined ratio	**97.4%**	-	nm	**97.4%**	-	nm

[1] Excluding the results of exited lines *(see Section 27 – Non-IFRS financial measures).*

Commercial lines

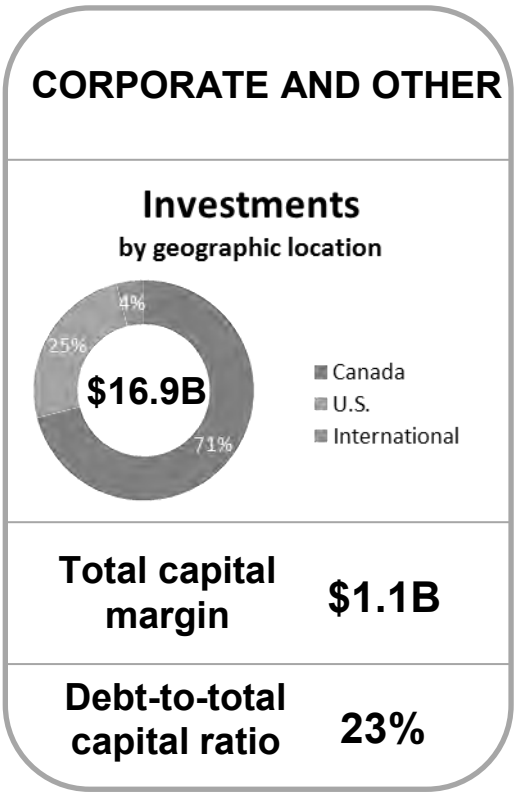
- **Premiums of $307 million**, supported by profitability actions, including underwriting and rate actions in selected lines. Actions are well underway to grow the business through existing broker relationships and new growth pipelines.
- On a pro forma basis, Q4-2017 premiums represented a growth of 1.9% compared to Q4-2016.
- **Underlying current year loss ratio was healthy at 55.9%**.
- **Unfavourable PYD ratio of 4.6%** included our net share of prior year losses and the impact of discounting on the amount recoverable from the ADC.
- **Expense ratio of 36.9%** reflected expense management initiatives and lower variable compensation. As at December 31, 2017, we estimate our synergy run-rate at close to $9 million in annual savings.
- **Combined ratio was 97.4% from continuing operations.** We are executing on our profitability action plan and are on track to bring the U.S. combined ratio to a low 90s level within 24 to 36 months of closing.

Section 6 – Corporate and Other

Comprised of the following activities, which are managed at the Corporate level:

- Investing related to P&C insurance
- Treasury and capital management
- Other corporate activities

Results include net investment income, financing costs, corporate expenses, as well as other income and expenses, as shown in Table 11 below.



6.1 $17 billion of high-quality investments strategically managed

Following the acquisition of OneBeacon, our investments totalled $16.9 billion as at December 31, 2017, up $2.5 billion from December 31, 2016. Our approach to investment management continues to reflect our objective of maximizing after-tax returns and outperforming our peers' investment returns over the long-term, while ensuring policyholder protection and maintaining strong regulatory capital levels.

We continue to manage our investment portfolio to achieve these objectives via appropriate asset allocation and active management investment strategies, while minimizing the potential for large investment losses with diversification and limits on our investment exposures. Such limits are specified in our investment policies and are designed to be consistent with our overall risk tolerance. Management monitors and ensures compliance with our investment policies.

6.2 Maximizing long-term shareholder value by optimizing capital

Our objectives when managing capital consist of:

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

6.3 Treasury management: evolving in an international context

We have a centralized best-in-class treasury management approach that ensures access to funds in multiple currencies and control of global market variable fluctuations on shareholders' equity.

6.4 Performance

Table 11 – Operating performance[1]

	Section	Q4-2017	Q4-2016	Change	2017	2016	Change
Operating performance							
Net investment income	*6.5*	**121**	104	17	**432**	414	18
Finance costs		**(25)**	(18)	(7)	**(82)**	(72)	(10)
Other revenues (expenses)		**2**	13	(11)	**5**	10	(5)
PTOI		**98**	99	(1)	**355**	352	3
Selected non-operating gains (losses) [1]							
Currency and other net gains (losses)	*6.6*	**18**	(6)	24	**105**	(1)	106
Net investment gains (losses)	*6.7*	**(24)**	(91)	67	**(36)**	(71)	35
Net gains (losses)		**(6)**	(97)	91	**69**	(72)	141

[1] *Refer to Section 26 – Non-operating results for more details.*

6.5 Net investment income

Table 12 – Net investment income

	Q4-2017	Q4-2016	Change	2017	2016	Change
Interest income	**81**	66	15	**275**	265	10
Dividend income	**50**	47	3	**194**	184	10
Investment income, before expenses	**131**	113	18	**469**	449	20
Expenses	**(10)**	(9)	(1)	**(37)**	(35)	(2)
Net investment income	**121**	104	17	**432**	414	18
Average net investments[1]	**16,644**	13,819	20%	**14,663**	13,396	9%
Market-based yield[2]	**3.11%**	3.27%	(16) bps	**3.20%**	3.36%	(16) bps

[1] Defined as the mid-month average fair value of net equity and fixed-income securities held during the reporting period.
[2] *Refer to Section 27 – Non-IFRS financial measures.*

2017 vs 2016

- **Net investment income** increased due to the acquisition of OneBeacon on September 28, 2017. Excluding the impact of OneBeacon, net investment income was flat compared to 2016.
- **Average net investments** increased, mainly reflecting the acquisition of OneBeacon.
- **The lower market-based yield** reflected the addition of the OneBeacon portfolio (recorded at fair value at closing), as well as the increase in equity markets throughout the year *(see Section 6.8 – Capital markets).*

6.6 Currency and other net gains (losses)

Currency and other net gains (losses) are reported in Non-operating results and included the following items.

Table 13 – Currency and other net gains (losses)

	Q4-2017	Q4-2016	Change	2017	2016	Change
Foreign currency	**1**	-	1	**65**	-	65
Distribution transactions and other[1]	**17**	(6)	23	**40**	(1)	41
Currency and other net gains (losses)	**18**	(6)	24	**105**	(1)	106

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

Q4-2017 vs Q4-2016

- **Net gains of $18 million in Q4-2017** were driven by a realized gain on the sale of a small non-core subsidiary.

2017 vs 2016

Net gains of $105 million in 2017 were mainly driven by:

- pre-acquisition gains on book value hedges related to OneBeacon. Prior to closing, these derivatives, which lower our book value exposure to the USD, were marked-to-market through P&L *(see Section 17.4 – Currency management);*
- net gains on distribution transactions; and
- a realized gain on the sale of a small non-core subsidiary.

6.7 Net investment gains (losses)

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

Table 14 – Net investment gains (losses)

	Q4-2017	Q4-2016	Change	2017	2016	Change
Fixed-income strategies[1]						
Realized and unrealized gains (losses) on FVTPL bonds	**(20)**	(118)	98	**(127)**	(103)	(24)
Other gains (losses)	**(3)**	(2)	(1)	**5**	(1)	6
	(23)	(120)	97	**(122)**	(104)	(18)
Equity strategies						
Realized and unrealized gains (losses):[2]						
equity securities, net of derivatives	**25**	37	(12)	**123**	66	57
embedded derivatives	**(15)**	(8)	(7)	**(50)**	(13)	(37)
Net foreign currency gains on investments	**1**	4	(3)	**33**	21	12
Impairment losses on common shares	**(12)**	(4)	(8)	**(20)**	(41)	21
	(1)	29	(30)	**86**	33	53
Net investment gains (losses)	**(24)**	(91)	67	**(36)**	(71)	35
FVTPL bonds	**(20)**	(118)	98	**(127)**	(103)	(24)
Other strategies	**(4)**	27	(31)	**91**	32	59
	(24)	(91)	67	**(36)**	(71)	35

[1] Our U.S. fixed-income portfolio held in our Canadian P&C entities is hedged using foreign-currency forward contracts, resulting in minimal currency gains or losses.

[2] Excluding foreign currency impact on equity securities, which are reported in Net foreign currency gains on investments.

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

Q4-2017 vs Q4-2016	2017 vs 2016
Unrealized losses on our FVTPL bonds in 2017 and 2016 were driven by rising interest rates. Losses on our FVTPL bonds were partially offset by gains arising from the changes in the discount rate for our claims liabilities (referred to as MYA).	
Other net investment losses of $4 million in Q4-2017 reflected: • mark-to-market losses on our embedded derivatives related to preferred shares, and impairment losses, mostly offset by: • gains on our common share strategies, reflecting the continued strength in common share markets *(see Section 6.8 – Capital markets).*	**Other net investment gains of $91 million in 2017** were driven by: • gains on our equity strategies, reflecting the appreciation in equity markets, mitigated by: • mark-to-market losses on our embedded derivatives related to the rise in value of preferred shares.
Other net investment gains of $27 million in Q4-2016 were driven by realized gains on our equity strategies, reflecting the significant appreciation in equity markets.	**Other net investment gains of $32 million in 2016** were driven by: • realized gains on our equity securities and currency gains arising on the sale of U.S. equities, partly offset by: • impairment losses of $41 million, principally on energy stocks.

6.8 Capital markets

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

Table 15 – Selected market indicators

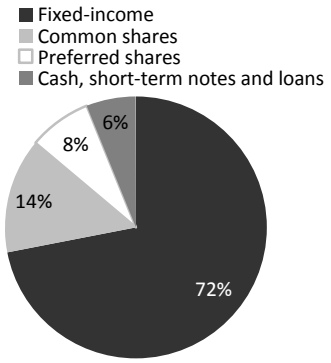
Selected market Indicators	Q4-2017	Q4-2016	2017	2016
S&P/TSX Composite	**4%**	4%	**6%**	18%
S&P/TSX Financials	**5%**	11%	**9%**	19%
S&P/TSX Preferred Share Index	**1%**	4%	**8%**	1%
5Y Canada Sovereign Index (estimated variance in bps)	**13 bps**	44 bps	**78 bps**	37 bps
5Y AA Corporate spread (estimated variance in bps)	**(5) bps**	(3) bps	**(21) bps**	(27) bps
DJ Dividend 100 Composite (U.S.)	**9%**	5%	**17%**	9%
5Y U.S. Sovereign Index (estimated variance in bps)	**27 bps**	78 bps	**28 bps**	17 bps
Strengthening (weakening) of CAD vs USD	**(1)%**	(2)%	**6%**	3%

Comments on capital markets performance

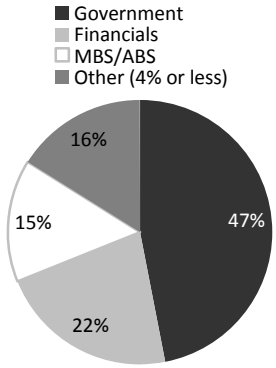
- North American equity markets rose significantly throughout 2017. The **S&P/TSX Composite Index** increased by 4% in Q4-2017 (6% in 2017), while our **benchmark DJ Dividend 100 Composite (U.S.) Index** increased 9% in Q4-2017 (17% in 2017). This resulted in an increase in the fair value of our common share portfolios and gains on our AFS equity strategies. Our total comprehensive return on common equities was strong in 2017.
- **The S&P/TSX Preferred Share Index** increased by 1% in Q4-2017 (8% in the full year) buoyed up by strong equity markets and the positive impact of higher interest rates on the prices of rate-reset preferred shares, leading to an increase in the fair value of our AFS preferred shares (and a loss on the related embedded derivatives).
- **Five-year Canadian Sovereign yields** increased by approximately 13 bps in Q4-2017 (78 bps in 2017), leading to lower bond valuations and mark-to-market losses during the quarter.

Our net exposure, after reflecting the impact of hedging strategies related to investments and OneBeacon, is outlined below as at December 31, 2017.

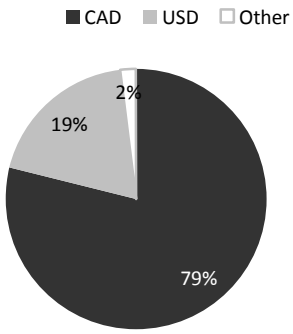
Investment mix (net exposure)



Sector mix (net exposure)



Currency (net exposure)



ENVIRONMENT & OUTLOOK

Section 7 – Insurance industry at a glance

7.1 P&C insurance in Canada

Large and highly fragmented	• A $48 billion market representing approximately 3% of gross domestic product (GDP), according to MSA data for 2016. • The top five insurers represent 49% of the market, and the top 20 have a combined market share of 85%. Intact is the largest player with approximately 17% market share. • There has been consolidation in recent years and we expect more to come.
Evolving and growing over time	• Over the last 30 years, the industry has grown at a 5.1% CAGR and delivered a ROE of approximately 10%. • Brokers distribute approximately 60% of insurance policies, while direct writers distribute 40%. • Emerging technologies and innovations are beginning to transform the insurance landscape as they enable new ways to measure, control and price risk, engage with customers, reduce cost, improve efficiency, and expand insurability. This will likely fuel further innovation, transformation and consolidation within the industry.
Regulated	• Insurance companies are licensed under insurance legislation in each of the provinces and territories in which they conduct business. • Home and commercial insurance rates are unregulated, while personal auto rates are regulated in most provinces. • Capital for federal insurance companies is regulated by OSFI and by provincial authorities in the case of provincial insurance companies *(see Section 18 – Capital management)*

7.2 U.S. specialty insurance

Highly fragmented with no clear leader	• U.S. commercial P&C insurance is a $288 billion market, with specialty insurance accounting for more than 40% in 2016. • U.S. commercial specialty industry is a fragmented industry. The top 10 players represent just over 40% of the market, with the largest player capturing roughly 7% in 2016. Outside of the top six players, no single insurer contributes more than 3% of the total estimated market. The majority of the top 25 players have a market share between 1% and 2.5%.
Niche market with lucrative potential	• The specialty insurance market offers niche and unique products and services that are not written by most P&C insurance companies. These products generally require specialized underwriting knowledge compared with more traditional insurance products. • The combined ratio (and in turn the ROE) of many specialty products have outperformed those typically offered in the standard market due to more pricing and policy form flexibility. • This unique risk and specialty focus can also come with above-average earnings volatility.
Evolving and growing over time	• Over the last 20 years, the specialty insurance market has grown at a 4.1% CAGR. • Market has experienced elevated merger and acquisition activity in recent years and this trend is likely to continue. • The agency channel (independent agencies, brokers, wholesalers and managing general agencies) is the primary distribution channel for specialty insurance products. • Trends in litigation, regulation, economic maturity, social and workforce issues, and technology will continue to support growth and drive product innovation.

Section 8 – Operating environment

8.1 Auto insurance in Canada

In April 2017, the Ontario Government released a report on auto insurance by David Marshall, Ontario's advisor on auto insurance. His report contained 35 recommendations to get customers back on track faster and reach maximum medical recovery, all while moving to a care, not cash, environment.

In August 2017, the Government of Ontario launched public consultations on the Marshall Report on Auto Insurance. Intact took part in public roundtables and also submitted a formal written submission.

On December 5, 2017, the Government of Ontario released their ***Fair Auto Insurance Plan ("FAIP")*** based on recommendations made by David Marshall and feedback from public consultations. Implementation dates for the measures remain to be determined, but are expected to be staggered throughout 2018. Key initiatives include:

Standard Treatment Plans	• Making sure people with the most common collision injuries receive timely, appropriate and effective treatment by developing and implementing standard treatment plans that focus on recovery, monitoring health outcomes and increasing awareness of the best treatment practices. • This is expected to reduce costs in the system by changing the emphasis from cash payouts to ensuring appropriate care for victims.
Independent Examination Centres	• Creating independent examination centres to provide assessments of more serious auto collision injuries, to help resolve and reduce diagnosis disputes, and to reduce system costs and inefficiencies stemming from disputes. This will include developing standards for assessors and ensuring that the opinions of neutral assessments are respected.
Serious Fraud Office	• Establishing an integrated and dedicated office that will combat systemic fraud in Ontario and support activities to address auto insurance fraud

The FAIP represents an opportunity to re-design the entire Ontario auto insurance product, which could lead to more sustainable consumer costs. We believe that these initiatives, if implemented, should benefit both consumers and the industry over time.

8.2 U.S. Corporate Tax reform

Following enactment of the U.S. Tax Cuts and Jobs Act ("U.S. Corporate Tax reform") we recorded a net non-operating income tax recovery of $27 million in Q4-2017, primarily associated with the remeasurement of deferred tax liabilities related to the acquisition of OneBeacon. This accounting adjustment has no impact on our underlying performance, measured using operating and adjusted financial measures ***(see Section 27 – Non-IFRS financial measures).***

Overall the tax reform provisions are expected to have a negligible impact on NOIPS and EPS in 2018 and beyond.

8.3 Weather conditions at a glance

CANADA

2017	2016
• From a **Q4 perspective**, in Eastern Canada, precipitations were below average overall. However, single important snowfall events caused disruption in transportation and lead to water damages. The end of the year was also impacted by lower than average temperatures. In Western Canada, early winter conditions combined with strong winds caused property damages.	• Q4-2016 was impacted by the remnants of Hurricane Matthew in the Maritimes. In addition, an early start to winter brought difficult road conditions which caused an elevated claims count in most regions.
• From an **annual perspective,** the first half of the year was marked by higher than normal precipitation combined with late season snow melt leading to the overflowing of rivers in several regions. • During summer, drier and warmer temperatures in Western Canada led to the wildfire in Southern British Columbia. Conversely, Québec and Ontario received higher than normal precipitation and several thunderstorms causing, flooding in many areas.	• Our 2016 financial results were impacted, with CAT losses exceeding our expectations and historical averages ***(see Section 8.4 - CAT losses)*** as severe weather and natural disasters including the Fort McMurray wildfires, severe hail and thunderstorms, as well as Hurricane Matthew, caused record-breaking industry losses.

U.S.

Q4-2017
• In October 2017, wildfires started to burn in California causing damage to many properties and spreading rapidly every day. As numerous fires continued to spread, a second wave of wildfires commenced in December thereby strengthening the severity of California's weather conditions in Q4-2017. The fires have forced many people to be evacuated from their homes and neighbourhoods and have continued to burn in the early weeks of 2018. • We reported no CAT losses in Q4-2017. Given the nature of our operations in the U.S., we are less impacted by CAT losses from wildfires and severe weather conditions.

See Section 12 – Social responsibility for details on climate change adaptation.

8.4 CAT losses

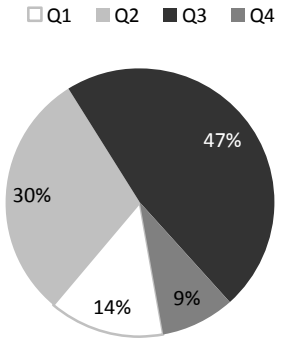
CAT losses can be caused by a variety of events, including weather (such as wildfires, hailstorms and floodings) and non-weather events (such as industrial fires, surety and liability claims). The incidence and severity of CAT losses, while inherently unpredictable, can have a significant impact on our underwriting performance by quarter and by line of business. We generally seek to manage our exposure to CAT losses through individual risk selection and the purchase of CAT reinsurance ***(see Section 15.2 – Reinsurance hereafter for more details).***

Table 16 – Net current year CAT losses

	2017	2016	2015	2014	2013	5-year average P&C Canada In $	5-year average P&C Canada % NEP
Net CAT losses	**313**	385	116	243	486	309	4.1%
By line of business							
Personal auto	**27**	73	37	41	44	44	0.6%
Personal property	**210**	210	42	140	271	175	2.3%
Commercial lines - Canada	**76**	102	37	62	171	90	1.2%
Commercial lines - U.S.	**-**	n/a	n/a	n/a	n/a	-	-
By quarter							
Q1	**88**	21	11	75	18	43	0.6%
Q2	**105**	164	22	33	143	94	1.2%
Q3	**89**	166	81	125	270	146	1.9%
Q4	**31**	34	2	10	55	26	0.4%

During the 2013-17 period, average net CAT losses of $309 million included net losses from some of the costliest insured natural disasters in Canadian history: the Fort MacMurray wildfires in 2016, as well as the Alberta and Toronto floods in 2013. During the 2008-17 period, net CAT losses were closer to $230 million on average.

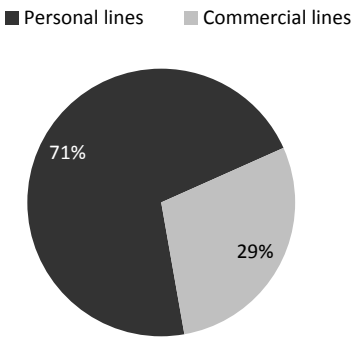
Net CAT losses 5-year average (by quarter)



*Historically, the third quarter has experienced roughly **half** of the CAT losses for the year*

Given claim cost inflation trends and the acquisition of OneBeacon, we have raised our current CAT expectations (net of reinsurance) from $250 million to **$275 million per year**.

Net CAT losses 5-year average (by line of business)



*Historically, roughly **three-quarters** of CAT losses impacted the personal lines of business.*

Section 9 – Outlook

	P&C insurance industry 12-month outlook	Our response
Personal auto	• Industry profitability remains challenged with average loss ratios in the mid-to-upper 70s for the first nine months of the year. • Claims inflation remains a headwind which is leading to rate increases in all markets. • Continued increases in the volume ceded to risk sharing pools and non-standard auto markets together with the rate action we see across the country support our view of a firming market. • We expect growth at a mid single-digit level for the industry.	• Our actions continue on pricing, underwriting and claims to tackle trends, which should lead to meaningful profitability improvements in the coming year, with some near term pressure on growth. • Our brand investments and further digital enhancements in this line of business will continue to help selectively grow our market position. • We have been investing in telematics, big data, and artificial intelligence to maintain our advantage in data and segmentation.
Personal property	• As companies are adjusting to changing weather patterns, we expect the current firm market conditions to continue. • As a result, we expect growth at a mid single-digit level.	• We expect to continue to capitalize on market conditions with rate increases to ensure our results are sustainable even in severe weather conditions.
Commercial lines Canada	• These lines of business remain competitive, mainly in the larger risks. • We expect growth at a low-to-mid single-digit rate.	• We continue to develop innovative products to address customer needs (e.g. cyber risk coverage and sharing economy). At the same time, our focus on training and service excellence remains. • Following the acquisition of OneBeacon we have strengthened our capabilities in specialty lines. We are now leveraging OneBeacon's tailored specialty products and services in Canada with the launch of products for technology and entertainment sectors. Growth initiatives are underway with underwriting desks now serving our cross-border customers.
Overall P&C Canada	• Given the growth trends through 2017, we expect growth at a mid single-digit rate in 2018. • Overall, we expect the Canadian industry's ROE to improve but remain below its long-term average of 10% over the next 12 months.	• We continue to invest in brand, digital strategies, customer experience and distribution networks to meet our objectives. • We expect that with our pricing and underwriting discipline, and our claims management capabilities, we will continue to outperform the industry.
Distribution	• The Canadian P&C broker industry remains fragmented with continuing opportunities for consolidation.	• We will continue to support our brokers as they expand and grow their businesses, while also actively participating in broker consolidation via BrokerLink.

	P&C insurance industry 12-month outlook	Our response
U.S. Commercial lines	• The U.S. Commercial specialty industry is highly fragmented with the top 10 players capturing just over 40% of the market share in 2016. • While the pricing environment is competitive, there are early signs of upward trends in certain specialty lines with low single-digit growth expected in 2018.	• Our objective is to grow the U.S. specialty business and operate at a combined ratio in the low 90s within 24-36 months. • Actions have begun on our performance improvement plan; we have exited underperforming lines, launched risk selection and claims initiatives and are moving fast to realize synergies.
Investments	• While there is upward momentum on interest rates, investment yields remain low by historical standards.	• The addition of the OneBeacon investment portfolio will generate growth in our Net investment income over the next 12 months. • Our investment management team continues to optimize the mix of our consolidated investment portfolio, taking into account factors such as risk, return, capital, regulation and the recent tax legislation changes in the United States.
Financial strength	• Global capital requirements are continuing to influence the asset allocation decisions of many companies.	• We expect to continue to maintain our strong financial position, allowing IFC to capture growth opportunities as they arise and withstand any headwinds from volatile markets or natural disasters.

STRATEGY

Section 10 – Strategy update

10.1 What we are aiming to achieve

The pace of change in our industry, and indeed around the world, continues to accelerate. Consumer and customer needs and expectations are also changing. They expect fast, simple, effortless and empathetic experiences. We have been building our company to be customer driven and will continue to enhance our efforts to be easy to do business with and go beyond expectations to deliver second to none experiences as well as provide best-in-class service to our brokers.

We have a company of talented and diverse employees who are very committed to our customer driven value. We are committed to ensuring they have the tools and training to do their best work.

We will continue to earn the right to be one of the most respected companies, a company where we are true to our values, where our people are engaged because they know their work matters, and where our customers are our advocates because they know what matters to them, matters to us.

Objectives by 2020

Our customers are our advocates	• 3 out of 4 customers are our advocates • 3 out of 4 customers actively engage with us digitally

Our strategy

- Be easy to deal with and go beyond expectations to deliver a customer experience that is second to none.
- Be the recognized leader in small and mid-sized businesses and specialty lines through service, expertise and product.
- Build core brands to become trusted, household names.
- Leverage best-in-class digital distribution and service platforms for customers and brokers.
- Contribute to the resiliency and prosperity of communities by leading in climate adaptation initiatives.

Our employees are engaged	• Be a best employer • Be a destination for top talent and experts

Our strategy

- Build the best team to succeed now and in the future.
- Create a workplace where we are engaged and can contribute our best every day by delivering on our promise.
- Live our values and leadership success factors.

Our specialty solutions business is a leader in North America	• Achieve combined ratio in the low 90s • Generate $3 billion in annual DPW

Our strategy
- Deliver targeted synergies in back office and claims.
- Introduce new products to Canada and export Canadian lines to U.S.
- Grow cross-border business.
- Retain key talent and management.

See Section 10.2 below for additional details on our transition plan.

Our company is one of the most respected	• Exceed industry ROE by 5 points in Canada and the U.S. • Grow NOIPS 10% yearly over time

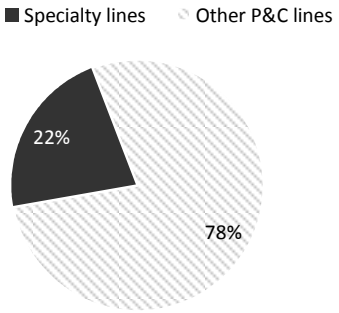
Our strategy
- Deepen our strengths in pricing, risk selection, claims and investments.
- Simplify processes to become the most efficient operator.
- Lead in data, artificial intelligence (AI), and behavioural analytics.
- Leverage our size in claims through efficiencies in the supply chain.
- Manage capital opportunistically.
- Consolidate Canadian industry in manufacturing and distribution.

10.2 Creating a leading provider of specialty insurance in North America

On September 28, 2017, we completed our US$1.7 billion ($2.3 billion) acquisition of OneBeacon. OneBeacon is a specialty P&C insurance provider that offers a wide range of insurance products in the U.S. primarily through independent agencies, regional and national brokers, wholesalers and managing general agencies.

- With the acquisition of OneBeacon, we have created a leading provider of specialty insurance in North America, with over $2 billion in combined annual premiums. It combines Intact's leading commercial lines track record and deep data, claims and digital expertise with OneBeacon's high calibre team and specialty lines capabilities.
- The acquisition bolsters our Canadian business with new products and cross-border capabilities, and better positions us to compete with international insurers.
- Furthermore, it provides an additional growth pipeline in the U.S. and enables IFC to leverage our consolidation expertise in a fragmented specialty lines market.

2017 DPW (pro forma)[1]



[1] DPW (pro forma) for 2017 are comprised of the DPW of P&C Canada and the DPW (pro forma) of P&C U.S.

Value creation

- With the addition of the OneBeacon team we have created a leading North American specialty lines insurer focused on small to medium sized enterprises.
- We expect the acquisition to deliver mid-single digit accretion to NOIPS by the end of 2019.

Profitable growth

- Actions are in progress to grow the many profitable OneBeacon specialty lines by harnessing existing broker relationships and the momentum created by the stability of our ownership.
- Additional growth pipelines have been opened with commercial lines underwriting desks on each side of the border to support customers with businesses in both countries.
- In Q4-2017, we started offering OneBeacon's tailored specialty products and services in Canada, beginning with the launch of tailored products for technology and entertainment risks.

Profitability improvement

- The profitability action plan for OneBeacon is on track to achieve a low-90s combined ratio within 24-36 months of closing and mid-single digit accretion to NOIPS by the end of 2019.

  The profitability action plan is composed of:

  - **Underwriting:** We have exited Programs and Architects & Engineers lines of business and are leveraging Intact's analytics and segmentation expertise to take underwriting actions in select other lines. Results of exited lines are reported in Non-operating results (Underwriting results of exited lines) ***(see Section 26 – Non-operating results for details).***
  - **Claims:** We are increasing internalization of claims handling and implementing further indemnity control procedures.
  - **Expense synergies:** We expect US$25 million in expense synergies over three years. These comprise internalizing investment management, combining reinsurance programs, de-listing and eliminating U.S. public company reporting, as well as shared services and technology savings. On a run-rate basis, we have realized approximately one-third of these expense synergies at the end of 2017.

Risk management

- At the date of acquisition of OneBeacon, we purchased an adverse development coverage (ADC) on claims liabilities for 2016 and prior accident years to mitigate the risk of adverse development on the acquired book of claims liabilities. The cost of this coverage was recorded as a non-operating expense. ***Refer to Section 15.2 – Reinsurance for more details.***
- The acquisition also brings important diversification benefits to all our operations, including earnings stability and reduced tail risk.

10.3 Other developments at a glance

Innovation

In line with our strategy to deliver a customer experience that is second to none and build a best in class digital distribution and service platform:

- in December, Intact Insurance launched **Canada's first commercial auto quick quote tool**. The online tool is currently available in Québec and will be rolled out across Canada over the next year;
- in August, Belairdirect launched a **mobile app** which gives customers digital access to proof of insurance, insurance documents, belairdirect roadside assistance (Québec only) and billing information;
- in April, we launched our Intact **Service Centre in Montreal**, our fourth Service Centre in Canada, a one-stop shop for customers with auto insurance claims;
- Intact Insurance in Québec launched **Client Centre**, which gives personal lines customers digital access to their policy documents, billing statements and real-time claims status updates; and
- we improved our **telematics offering** for Intact Insurance customers in Alberta, Québec and parts of Ontario by launching a mobile app, allowing good drivers to save on car insurance without having to install any hardware in their vehicles.

In line with our long-term strategy to invest and partner with emerging and innovative businesses ***(Section 11.2 – Innovation)***:

- we invested in **Hangar Technology Inc.**, the world's first drone logistics platform, helping firms increase efficiency, showcase content and integrate more actionable insights into their workflows. Hangar's clients use its premium aerial data software products (drones), all without having to handle any of the logistics of owning, acquiring, flying or editing the data from them.
- we invested in **Humatics Corporation ("Humatics")**. Humatics is reinventing the relationships between people, robots, and infrastructure in the connected world. Humatics' breakthrough technologies for ultra-low-cost millimeter scale positioning create a new category "microlocation"; enabling a world of precise, collaborative relationships between people, places and things.
- we announced a $2.5 million commitment to the **Vector Institute**, a new independent artificial intelligence research facility.

Acquisitions and financing activities

- On September 28, 2017, we completed our US$1.7 billion ($2.3 billion) acquisition of OneBeacon. ***Please refer to Section 10.2 – Creating a leading provider of specialty insurance in North America and Section 17 – Treasury management.***
- During 2017, **BrokerLink** acquired brokers in the Greater Toronto, Ottawa and Southern areas of Ontario, Edmonton, Calgary, Alberta, and in Newfoundland & Labrador. This increased its presence in personal, commercial, and farm insurance.

Awards and recognition

We were recognized:

- as an **Aon Best Employer – Canada 2018, Platinum level,** recognizing IFC for its strong level of employee engagement, leadership, performance culture and employment brand;
- by **The Globe and Mail's Report on Business Board Games** corporate governance index in 2017, placing **second** among 242 companies and trusts in the S&P/TSX Composite Index; and
- as an **Iconic Canadian Brand** by Interbrand Canada Inc. ("Interbrand") for Canada150, recognizing the 150 companies, organizations and institutions that are authentically Canadian. Interbrand considered 10 factors that constitute a strong brand, and focused on clarity, authenticity and engagement as the most differentiating factors.

We were honoured by **La Gouvernance au Feminin**, a Québec-based not-for-profit organization that supports women in their leadership development, career enhancement and access to board seats, with the Certification of Parity for our actions towards the advancement of women in business. Intact was also one of the three companies that achieved platinum level certification in recognition of our commitment to advancing the cause of women.

Section 11 – Unique advantages

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

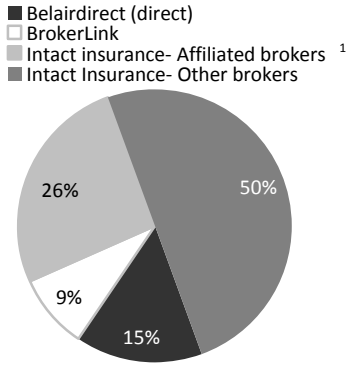
Leading North American P&C Operator	
Seamless distribution strategy	• Our multi-channel distribution strategy includes the most recognized broker and direct-to-consumer brands. This strategy maximizes growth in the market and enables us to appeal to different customer preferences while being more responsive to consumer trends and needs. • We have more than 2,000 relationships across Canada and the U.S. for customers that prefer the highly-personalized and community-based service that an insurance broker provides. • We provide our brokers with a variety of digital distribution service platforms, alongside sales training and financing to enable them to continue to grow and develop their businesses.
Digital first experiences	• Our industry leading mobile and digital experiences separate us from our peers. Our ability to design, deliver and iterate on new experiences for brokers and customers makes us a preferred company to deal with. Speed, simplicity and transparency are core tenets of our focus.
Engaged & talented teams	• Our people are the cornerstone to the execution of our strategy. We benefit from attracting, retaining and engaging some of the best talent both within and outside our industry. How we organize and behave provides a sustainable and replicable approach to continuous operational improvement.
Scaled & diversified core operations	• Our large database of customer and claims information enables us to identify trends in claims and more accurately model the risk of each policy. • We can negotiate preferred terms with suppliers, including service and quality guarantees for repairs and workmanship, and lower material costs. • Our business is well diversified across geographic regions and business lines which provides significant financial flexibility.
Sophisticated data & analytics capabilities	• Our superior data expertise and proprietary segmentation and machine learning models are used to price and manage risk which allows us to identify certain segments of the market that are more profitable than others and in turn establish a model that will both attract and maintain clients with profitable profiles.
Deep claims expertise & network	• Substantially all of our claims are handled in house with our preferred network, which translates into a data advantage helping claims settle faster and at a lower cost, with a more consistent service experience for the customer.
Proven consolidator & integrator	• We are a proven industry consolidator with 16 successful acquisitions since 1988. • Our primary strategy is to pursue consolidation in the Canadian market and expansion in foreign markets where we can deploy our expertise in pricing, risk selection, claims, distribution and digital expertise. With these acquisitions, we look to expand our product offering and improve customer experience. • Our outperformance is driven by three key factors: thorough due diligence to assess all the risks and opportunities; swift and effective integration with seamless impact to our customers; and financial benefit from significant synergies due to our scale.
Tailored investment management	• In-house investment management provides greater flexibility in support of our insurance operations at competitive costs. In establishing our asset allocation, we consider a variety of factors including prospective risk and return of various asset classes, the duration of claim obligations, the risk of underwriting activities and the capital supporting our business. • Our primary investment objective is to maximize after-tax total return via appropriate asset allocation and active management of investment strategies.

11.1 Canadian distribution strategy

Our multi-channel distribution strategy includes broker and direct-to-consumer brands.

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

DPW by distribution channel



[1]**Affiliated brokers** are those in which we provide equity or debt financing.

Our broker channel

- Our scale and financial strength make us a strong supporter of our broker partners in terms of brand, technology, products and expertise, business opportunities, as well as financial solutions.
- To further develop broker relationships, we continue to invest in our broker network with equity and debt financing. Through these relationships, we are able to foster growth in their organizations, participate in the consolidation of the broker network, and enhance our product distribution.

Our direct channel

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

11.2 Innovation

Shaping our future in the age of big data

Artificial Intelligence (AI) and machine learning have transformational potential for the insurance industry, the economy and consumers. Our strategic partnerships with academia (such as Montreal's IVADO, Laval University and the Vector Institute) and the recent creation of the Data Lab position us to harness the potential of these emerging technologies now and into the future. While data has always been integral to assessing risk and determining pricing, these technologies can expand our data advantage to innovate and improve product offerings so we can better serve customers. We are also using them to help increase our understanding of risk (including climate risk), and help reduce and prevent risk for customers.

Intact ventures continues to help us accelerate

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

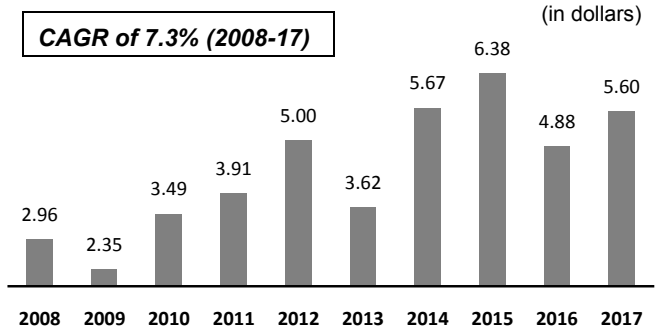
In return, we will support the growth of these companies by providing them with access to our expertise and talent. We want to ensure that we continue to be a leader in a fast paced industry to serve the best interests of our customers, as well as our portfolio of companies and partners.

Our goal is to connect with companies that are defining:

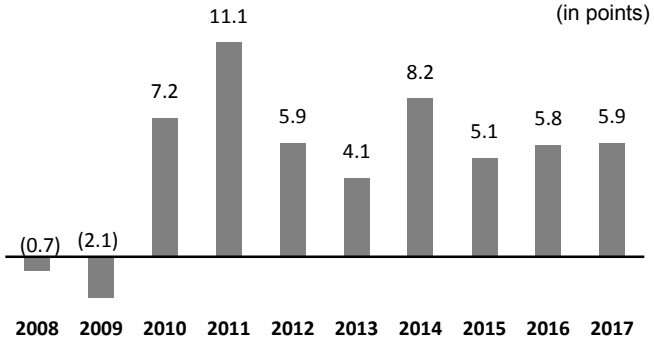
- the future of transportation;
- how we leverage big data;
- how people interact with their homes, cars and their surroundings;
- collaborative consumption within the sharing economy; and
- insurance technology, digital tools and alternative distribution models.

11.3 Delivering on our key financial objectives

NOIPS performance over time	*ROE outperformance over time*
• Our objective is to grow NOIPS at a yearly rate of 10% over time. • Our NOIPS in 2017 was up 15% over 2016 on lower CAT losses, strong distribution performance and rigorous expense management. • Since 2008, our NOIPS has grown at a CAGR of 7.3%. Over the past 10 years, we have absorbed over $230 million of current year CAT losses (net of reinsurance) on average.	• Our objective is to outperform industry ROE by at least 500 basis points every year. • Since 2009, we have regularly exceeded our 500 basis points ROE outperformance target versus the industry. • Our superior underwriting results, investment performance and capital management have led to ROE outperformance compared to the industry.



2009: Intact became a widely held Canadian company.



2017 latest industry data: YTD Q3-2017

IFC's industry outperformance over time

Industry data below represents an IFC estimate based on MSA. Industry benchmark consists of the 20 largest comparable companies in the P&C industry based on industry data. ***Please refer to Important notes on page 3 of this MD&A for further details.***

Table 17 – Canadian P&C Industry – IFC outperformance (underperformance)

	YTD Q3-2017	Full year 2016	Full year 2015	Full year 2014	Full year 2013
ROE (annualized)[1]					
P&C Industry	5.9 pts	5.8 pts	5.1 pts	8.2 pts	4.1 pts
DPW growth (including industry pools)					
Industry benchmark	(2.3) pts	2.4 pts	3.4 pts	(1.5) pts	3.7 pts
Combined ratio (including MYA)					
Industry benchmark	6.0 pts	4.7 pts	5.2 pts	6.5 pts	4.5 pts

AMF (Québec) chartered insurance companies are not required to report on Q1 and Q3 results. As such, we have included estimates for non-reporters in our Industry benchmark group, based on publicly available information. Actual results may vary.

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

- Our ROE outperformance of 5.9 points versus the P&C insurance industry is above our objective of 5 points.
- Our growth underperformance against our industry benchmark was 2.3 points, reflecting robust profitability actions, including rate increases taken across the country ahead of competitors.
- Our combined ratio outperformance against our industry benchmark was 6.0 points, mainly attributable to the effectiveness of our profitability actions.

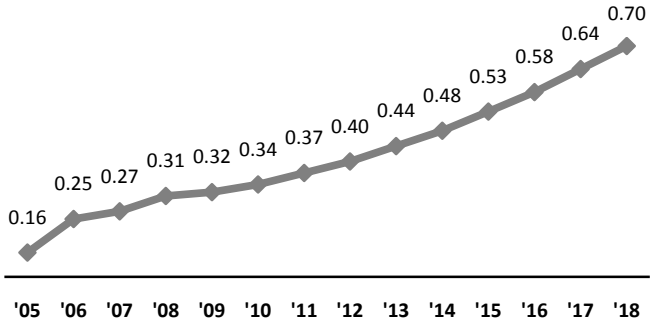
11.4 Delivering value to our shareholders

2018: our 13th consecutive annual dividend increase

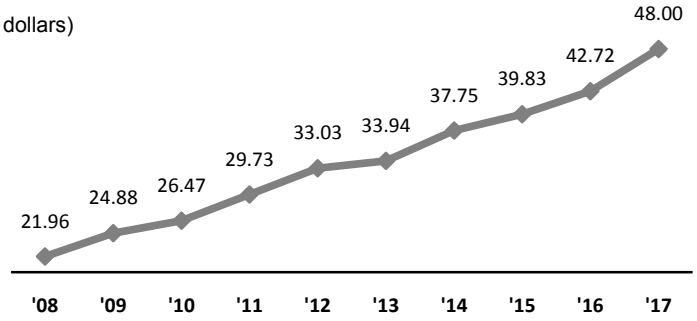
- We strive to maintain our dividend track record through sustainable annual dividend increases. We have increased our common share dividends each year since going public, with a 10% increase in 2017.
- Our decision to increase common share dividends by 9% to $0.70 in 2018 reflects the strength of our financial position and confidence in our ongoing operating earnings and capital generation.

Book value per share increase over time

- Our operating performance and financial strength have translated into close to $1.6 billion in capital returned to common shareholders through dividends and share repurchases over the past five years.
- Our BVPS was up 12% to $48.00 in 2017, driven by EPS increase of 45%.
- We remained committed to our financial objectives in terms of ROE and NOIPS to enhance value to shareholders.



(in dollars)



2004: Initial public offering on TSX (ING Group retained 70%).

BVPS

Table 18 – Evolution of BVPS (in dollars)

As at December 31,	Q4-2017	2017	2016	2015
BVPS, beginning of period	**46.56**	**42.72**	39.83	37.75
EPS	**1.60**	**5.75**	3.97	5.20
Dividends on common shares	**(0.64)**	**(2.56)**	(2.32)	(2.12)
Impact of market movements on AFS securities[1]	**0.65**	**0.22**	1.62	(1.26)
Net actuarial gains (losses) on employee future benefits[1]	**(0.20)**	**(0.49)**	(0.20)	0.27
NCIB and other	**0.03**	**(0.23)**	(0.18)	(0.01)
Impact from issuance of common shares	**-**	**2.59**	-	-
BVPS, end of period	**48.00**	**48.00**	42.72	39.83
Period-over-period increase	**3%**	**12%**	7%	6%

[1] Reported in AOCI.

Section 12 – Social responsibility

We strive to create an environment where our employees live our values every day. Our values are organized according to five core themes, one being **Social responsibility.**

We respect the environment and its finite resources. We believe in making the communities where we live and work safer, healthier and happier. We encourage the involvement and citizenship of all our employees. Our commitment to social responsibility also serves as the mandate of the Intact Foundation, which principally donates to organizations that are committed to climate change adaptation and breaking the cycle of poverty for children in Canada.

Some of our 2017 programs and initiatives are outlined below.

12.1 Climate change adaptation

✓ *Intact Centre on Climate Adaptation*

The frequency and intensity of natural disasters has increased in recent years. At IFC, we remain committed to helping people protect themselves from extreme weather caused by climate change. Our investment in the Intact Centre on Climate Adaptation™ ("Intact Centre") continues to foster innovative solutions to help reduce the physical, financial and social impacts of extreme weather on Canadian communities.

We have committed $4.25 million over five years to establish the Intact Centre at the University of Waterloo, IFC's most significant investment in addressing the impacts of climate change. Established in 2015, the Intact Centre is an applied research and climate resilience incubator with a national focus working with homeowners, communities, governments, and businesses to identify and reduce the impacts of extreme weather and climate change.

The Intact Centre has worked to establish a leading position on the climate change adaptation file in Canada.

2017 milestones include:

- Releasing two significant applied research reports to the Canadian public.
  - ***When big storms hit – the role of wetlands to limit urban and rural flood damage***: Developed in partnership with the Federal Ministry of Natural Resources and Forestry and charitable organization Ducks Unlimited, this research demonstrates that wetlands can reduce flood damages by up to 40%.
  - ***Preventing disaster before it strikes – developing a Canadian standard for new flood-resilient residential communities***: Developed in partnership with The Standards Council of Canada, this report identifies 20 best practices for designing new communities in Canada that are more flood-resilient. The development of a national standard for new flood-resilient residential communities is being developed based on this research.
- Members of the Intact Centre team either chair or are members of seven different domestic and international standards-setting committees to advance climate change adaptation. Most notably, Intact Centre head Dr. Blair Feltmate was appointed chair of the Government of Canada expert panel on climate change adaptation and resilience. The expert panel advises the Government of Canada on progress measurement on national climate adaptation and resilience initiatives, including supporting climate-smart infrastructure and updating building codes.
- In August 2017, the Intact Centre launched the pilot Home Flood Protection Program ("HFPP") in the Greater Toronto Area in Ontario. The HFPP is an on-site flood-risk evaluation service for homeowners. A trained assessor and the homeowner review 50 points of potential water entry into the home.

Read more on the following websites:
http://www.intactcentreclimateadaptation.ca/programs/
http://www.intactcentreclimateadaptation.ca/about/climate-change-adaptation-project-canada/

✓ *Managing the impacts of climate change*

Climate change in Canada has resulted in a higher frequency of severe weather events and unpredictable weather patterns. In particular, our property insurance business has been impacted and increased in the cost of claims associated with severe storms: water damage alone accounts for 40% of total claims. As a result, we have launched several initiatives in home insurance to adapt the nature of the product offered and its pricing. We are also reinforcing our claims capabilities, increasing our education awareness efforts towards distribution partners and customers and offering prevention discounts.

There are five areas where managing the impacts of climate change is integrated into IFC's business:

- ***Underwriting:*** determine the risk drivers related to our new climate realities.
- ***Pricing:*** reflects the scope of risks related to climate change impacts.
- ***Claims Management:*** ensure claims can be managed efficiently and effectively across Canada. For example, IFC has designated teams in place across the country that deal efficiently with catastrophic events and ensure service reliability for customers.
- ***Reinsurance:*** we re-insure certain risks to limit our losses in the event of catastrophic events or other significant losses. ***See Section 15.2 – Reinsurance for more details.***
- ***Outreach & Education:*** we believe it is essential that Canadians adapt to climate change. As a result, we have launched many home insurance initiatives to help customers understand how to adapt. We continue to work with partners, such as the Intact Centre and the Insurance Bureau of Canada, to promote climate change adaptation initiatives to governments, including the development of tools for communities to assess the vulnerabilities of their infrastructure to climate change and prioritize investments in their modernization. By intensifying our education efforts and creating greater awareness of the risks our country faces and the preventative measures that we can adopt, we help Canadians adapt to severe weather caused by climate change.

Climate change risk management is part of the mandate of the risk management committee, which includes:

- reviewing the reports of the Chief Risk Officer on risk management, reinsurance programs, implementation plans, actuary and progress reports;
- the risk matrix identifying the top 10 enterprise risks (including the occurrence and severity of natural disasters that may be affected by climate change) and the emerging risks;
- reviewing catastrophe programs, exposure management tests and action plans;
- reviewing and approving the reinsurance risk management policy; and
- remaining informed of climate change adaptation and risk mitigation measures for the Canadian marketplace.

✓ *Intact Foundation climate change grants*

In 2017, the Intact Foundation introduced a new granting program, focused on funding climate change adaptation projects in communities across Canada in three arenas: developing community action plans, implementing resiliency projects, and finding new innovations to advance climate change resilience in Canada. Eight projects were selected for funding, receiving a collective $1 million investment in climate change adaptation across the country. Selected partners include the University of Alberta, Ducks Unlimited, and Bluenose Coastal Action Committee.

12.2 Social responsibility

✓ *Making our communities safer, healthier, and happier*

- IFC and the Intact Foundation contributed over $3.7 million to charitable initiatives across Canada.
- Employees across Canada have donated over 6,500 hours through team volunteering initiatives and personal volunteer hours throughout the year.
- The Intact Foundation introduced a new "skills for impact" program, matching employee professional skills to help with projects of Intact Foundation charitable partners in 2017.
- Intact employees generously donated over $1.3 million towards United Way/Centraide organizations nationally, supporting initiatives which help children living in poverty in our communities across the country.

✓ *Supporting women in their leadership development*

We were honoured by La Gouvernance au Feminin, a Québec-based not-for-profit organization that supports women in their leadership development, career enhancement and access to board seats, with the Certification of Parity for our actions towards the advancement of women in business. Intact was also one of the three companies that achieved platinum level certification in recognition of our commitment to advancing the cause of women.

12.3 Good governance

✓ *Intact receives top marks for good governance in Canada*

Along with being a best employer and having customers as advocates, we also strive to be recognized as one of the most respected companies in Canada. In the Globe and Mail's 2017 Board Games, we continue to advance this objective with top marks for corporate governance. Board Games looks at over 50 different corporate governance practices in four broad subcategories related to board composition, compensation, shareholder rights and disclosure. Out of 242 companies, Intact ranked second. We improved from the previous year and ranked among top Canadian companies in the annual Board Games results. This goes a long way in validating that Intact is consistently striving for excellence, one of our core values. The Board Games report measures the quality of governance practices of all S&P/TSX composite index companies.

Well-governed companies usually outperform other companies, and are able to attract investors whose support can help finance further growth.

More ESG information can be found in our 2017 Social Impact Report.

FINANCIAL CONDITION

Section 13 – Financial position

2017 Highlights

Investment portfolio	BVPS for the last 12 months	Debt-to-total capital ratio	Total capital margin[1]
$16.9 billion	+12%	23.1%	$1.1 billion

13.1 Balance sheets

On September 28, 2017 we acquired all of the outstanding shares of OneBeacon for US$1.7 billion ($2.3 billion). The amounts recognized for the assets acquired and liabilities assumed at the acquisition date are presented below in Canadian dollars.

Table 19 – Balance sheets

As at	Section	OneBeacon Sept. 28, 2017 (closing date)	Total IFC Dec. 31, 2017	Total IFC Dec. 31, 2016
Assets				
Investments	*14*	**3,383**	**16,853**	14,386
Premium receivables		**343**	**3,351**	3,057
Reinsurance assets	*15*	**358**	**822**	482
Deferred acquisition costs		**108**	**881**	747
Other assets		**366**	**1,618**	1,489
Intangible assets and goodwill		**1,560**	**4,403**	2,705
Total assets		**6,118**	**27,928**	22,866
Liabilities				
Claims liabilities	*15*	**2,038**	**10,475**	8,536
Unearned premiums		**813**	**5,365**	4,573
Financial liabilities related to investments		**18**	**246**	529
Other liabilities		**557**	**2,138**	1,747
Debt outstanding	*17*	**364**	**2,241**	1,393
Total liabilities		**3,790**	**20,465**	16,778
Shareholders' equity	*17*			
Common shares			**2,816**	2,082
Preferred shares			**783**	489
Contributed surplus			**128**	129
Retained earnings			**3,520**	3,197
AOCI			**216**	191
Shareholders' equity			**7,463**	6,088
Book value per share (in dollars)	*11.4*		**48.00**	42.72

[1] Aggregate of capital in excess of CALs in regulated entities plus available cash in unregulated entities *(see Section 18.2 – Capital position).*

Section 14 – Investments

Our investment portfolio is mainly comprised of Canadian and U.S. securities. Our invested assets increased to $16.9 billion as at December 31, 2017 largely due to the OneBeacon acquisition.

- Our Canadian investment portfolio comprises principally Canadian securities and includes a mix of cash and short-term notes, fixed-income securities, preferred shares, common shares and loans.
- Our U.S. investment portfolio is comprised of fixed-income securities (mainly asset-backed securities and corporate bonds) and U.S. common shares.

Table 20 – Investments by asset class

As at December 31,	2017	2016
Cash, cash equivalents and short-term notes	**380**	273
Fixed-income securities	**11,012**	8,696
Preferred shares	**1,409**	1,377
Common shares	**3,659**	3,635
Loans	**393**	405
	16,853	14,386

The following tables show the economic exposure of our investment portfolio after reflecting the impact of hedging strategies related to investments.

Net exposure by asset class

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

On a consolidated basis, the acquisition of OneBeacon does not significantly change our net investment mix by asset class, although OneBeacon's product mix within asset classes, especially fixed-income, differed from Intact's (Canada) as at December 31, 2017. The OneBeacon portfolio is mainly comprised of fixed-income securities (including highly rated asset- and mortgage-backed securities and BBB Corporate bonds) and U.S. equities.

Table 21 – Investment mix by asset class (net exposure)

As at December 31,	2017	2016
Cash, cash equivalents, and short-term notes	**4%**	3%
Fixed-income	**72%**	70%
Preferred shares	**8%**	10%
Common equities	**14%**	14%
	98%	97%
Loans	**2%**	3%
	100%	100%

Net currency exposure

Table 22 – Investment portfolio – currency (net exposure)

As at December 31,	2017	2016
CAD	**79%**	95%
USD	**19%**	5%
Other	**2%**	-%
	100%	100%

Our U.S. fixed-income portfolio held in our Canadian P&C entities ($1,284 million) is hedged using foreign-currency forward contracts, resulting in minimal currency gains or losses on this portfolio.

Net sectoral exposure

Table 23 – Sector mix by asset class, excluding cash, short-term notes and loans (net exposure)

As at December 31,	Fixed-income securities	Preferred shares	Common shares	Total 2017	Total 2016
Government	**47%**	**-**	**-**	**33%**	41%
Financials	**22%**	**77%**	**29%**	**33%**	36%
ABS and MBS	**15%**	**-**	**-**	**11%**	1%
Energy	**1%**	**12%**	**15%**	**4%**	5%
Industrials	**3%**	**-**	**11%**	**4%**	3%
Consumer staples	**3%**	**-**	**8%**	**3%**	3%
Telecommunication	**1%**	**-**	**6%**	**1%**	1%
Utilities	**1%**	**11%**	**7%**	**3%**	2%
Consumer discretionary	**2%**	**-**	**8%**	**3%**	2%
Materials	**1%**	**-**	**6%**	**1%**	1%
Information technology	**2%**	**-**	**6%**	**2%**	3%
Health care	**2%**	**-**	**4%**	**2%**	2%
	100%	**100%**	**100%**	**100%**	100%

Our fixed-income portfolio remains concentrated in the government and financial sectors providing liquidity and stability to our balance sheet.

Our fixed-income portfolio has more structured debt securities, following the OneBeacon acquisition. As at December 31, 2017, these securities comprised $987 million of asset-backed securities ("ABS") and $715 million of mortgage-backed securities ("MBS"). Residential MBS ("RMBS") and Commercial MBS ("CMBS") make up respectively 53% and 47% of our MBS portfolio. Approximately 95% of these securities are rated A or better.

We continue to have no exposure to leveraged securities.

High-quality investment portfolio

Fixed income

Our fixed-income portfolio includes high quality government and corporate bonds. Approximately 90% of our fixed-income portfolio was rated 'A-' or better as at December 31, 2017 (98% as at December 31, 2016).

On a consolidated basis, the weighted-average rating of our fixed-income portfolio was 'AA', ('AA+' at December 31, 2016). The decrease in the rating of the fixed-income securities reflected the impact of the OneBeacon investment portfolio. The average duration of our fixed-income portfolio was 3.53 years (4.02 years as at December 31, 2016), reflecting the acquisition of OneBeacon.

Table 24 – Credit quality of fixed-income securities[1]

As at December 31,	2017	2016
Fixed-income securities		
AAA	**41%**	46%
AA	**28%**	36%
A	**21%**	16%
BBB	**8%**	2%
BB and not rated	**2%**	-
	100%	100%

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

Preferred shares

Table 25 – Credit quality of preferred shares[1]

As at December 31,	2017	2016
P1	**-**	-
P2	**79%**	79%
P3	**21%**	21%
	100%	100%

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

Our preferred share portfolio is made up of high-quality Canadian issuers. The weighted-average rating of our preferred share portfolio was 'P2' as at December 31, 2017 and 2016.

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

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

Table 26 – Net pre-tax unrealized gain (loss) on AFS securities

As at	December 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Fixed-income securities	**22**	25	69	93	83
Preferred shares	**79**	40	33	26	(67)
Common shares	**212**	124	114	194	253
Net pre-tax unrealized gain position	**313**	189	216	313	269

Dec. 31, 2017 vs Sept. 30, 2017	Dec. 31, 2017 vs 2016
Our pre-tax unrealized gain position increased by $124 million due to: • mark-to-market gains on common shares and preferred shares, reflecting strong North American equity markets. *See Section 6.8 – Capital markets for more details.*	**Our pre-tax unrealized gain position rose by $44 million** due to: • an increase in preferred share prices, reflecting strong equity markets and the impact of higher interest rates on the price of rate-reset preferred shares; • lower bond prices, reflecting higher interest rates; and • realized gains on our AFS common share portfolio. Realized and unrealized gains (total comprehensive return) on AFS equities in 2017 reflected strong equity markets.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions.

Impairment recognition on AFS common shares

Table 27 – Aging of unrealized losses on AFS common shares

As at	Dec 31, 2017	Sept 30, 2017	June 30, 2017	March 31, 2017	Dec 31, 2016
Less than 25% below book value	**34**	48	41	23	14
More than 25% below book value for less than 6 consecutive months	**4**	2	27	6	2
More than 25% below book value for 6 consecutive months or more, but less than 9 consecutive months	**13**	24	7	4	4
Unrealized losses on AFS common shares	**51**	74	75	33	20

Impairment losses on AFS common shares amounted to $20 million in 2017, compared to $41 million in 2016. Assuming no change in equity markets from December 31, 2017, impairment losses of $17 million would be recognized in 2018. Since common shares are measured at fair value on the Company's balance sheet, impairment losses would have no impact on our BVPS. *Refer to Note 2 – Summary of significant accounting policies of the accompanying Consolidated financial statements for additional details on our accounting policy regarding the impairment of financial assets.*

Section 15 – Claims liabilities and reinsurance

15.1 Claims liabilities

Assumptions

Claims liabilities increased to $10.5 billion as at December 31, 2017, mainly due to the impact of the acquisition of OneBeacon.

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

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

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

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

IBNR reserves supplement the case reserves by taking into account:

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

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

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

See Section 26 – Non-operating results for more details on the impact of MYA on underwriting.

Q3-2017 net reserve change

As a result of the acquisition of OneBeacon on September 28, 2017, we harmonized our accounting and actuarial practices as required under IFRS. With operations in Canada and the U.S., we reviewed our approach to determine the risk margin at the consolidated level to align the methodology applied to both countries using results from our economic capital model. The model reflects the benefit of risk diversification between lines of business and geographies. Diversification reduces the uncertainty associated with the unfavourable development of claims liabilities for both our Canadian and U.S. operations. This refinement in estimate recognized in Q3-2017 resulted in a decrease in net claims of $196 million for our Canadian operations. ***See Note 3 and Note 10 to the accompanying Consolidated Financial Statements for details.***

During Q3-2017, following an extensive file-by-file and actuarial reviews at the portfolio level, we took a more cautious reserve position reflecting uncertainty, mainly in personal auto, leading to an increase in claims liabilities.

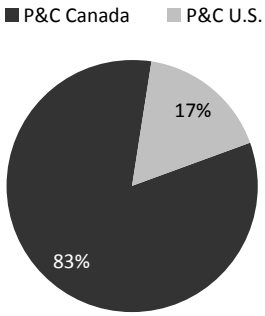
Overall, the above-mentioned reserve changes (referred to as "**Q3-2017 net reserve change**") had a favourable impact of 0.7 points on the combined ratio for YTD Q3-2017. The net estimated impact on the combined ratio by line of business was as follows:

Table 28 – Net estimated impact by line of business

	YTD Q3-2017
P&C Canada	
Personal auto	**0.8 pts**
Personal property	**(0.7) pts**
Commercial lines	**(2.8) pts**
Total unfavourable (favourable) impact	**(0.7) pts**

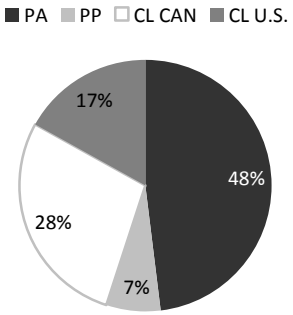
OneBeacon claims liabilities have been recorded at fair value at closing and reflected the impact of the conversion to IFRS, including discounting and risk margin. Risks associated with these claims liabilities have been mitigated by the purchase of an adverse development coverage (ADC) from a major reinsurer. The determination of the risk margin also takes into account the reduced volatility resulting from this coverage ***(see Section 15.4 – Reinsurance).***

Net claims liabilities by business segment



Diversification reduces the uncertainty associated with the unfavourable development of claims liabilities for both our Canadian and U.S. operations.

Net claims liabilities by line of business



PA: Personal auto; PP: Personal property: CL: Commercial lines

Prior year developments

PYD can fluctuate from quarter to quarter and year to year and, therefore, should be evaluated over longer periods of time.

In the past five years, favourable PYD as a percentage of opening reserves ranged between 3% to 6% per year for our Canadian operations, higher than our long-term historical averages.

We expect the average favourable PYD as a percentage of opening reserves to be in the 2%-4% range over the long term. Higher interest rates will trend PYD around the lower end of this range, with an offset in the CAY loss ratio.

Annualized rate of favourable PYD – P&C Canada
(as a % of opening reserves)

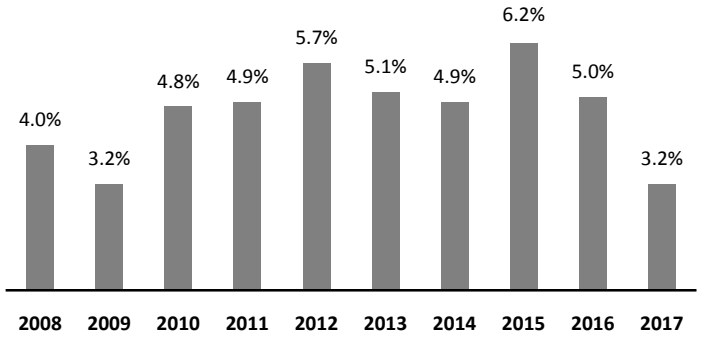


Table 29 – Unfavourable (favourable) PYD

	2017	2016	2015	2014	2013	5-year average P&C Canada In $	5-year average P&C Canada % NEP
PYD	**(238)**	(389)	(477)	(364)	(374)		
P&C Canada	**(253)**	(389)	(477)	(364)	(374)	(371)	(4.9)%
By line of business							
Personal auto	**10**	(115)	(212)	(141)	(188)	(129)	(1.7)%
Personal property	**(62)**	(88)	(70)	(71)	(65)	(71)	(0.9)%
Commercial lines – Canada	**(201)**	(186)	(195)	(152)	(121)	(171)	(2.3)%
Commercial lines – U.S.	**15**	n/a	n/a	n/a	n/a	n/a	n/a
By quarter							
Q1	**(82)**	(163)	(189)	(141)	(110)	(137)	(1.8)%
Q2	**(41)**	(93)	(106)	(65)	(95)	(80)	(1.1)%
Q3	**(53)**	(71)	(107)	(80)	(103)	(83)	(1.1)%
Q4	**(62)**	(62)	(75)	(78)	(66)	(71)	(0.9)%

Table 30 – PYD by line of business

	Q4-2017	Q4-2016	Change	2017	2016	Change
By line of business						
Personal auto	**(27)**	(13)	(14)	**10**	(115)	125
Personal property	**(17)**	(13)	(4)	**(62)**	(88)	26
Commercial lines – Canada	**(33)**	(36)	3	**(201)**	(186)	(15)
Commercial lines – U.S.	**15**	-	15	**15**	-	15
Total unfavourable (favourable) development	**(62)**	(62)	-	**(238)**	(389)	151
Unfavourable (favourable) annualized rate of PYD[1]						
P&C Canada	**(3.8)%**	(3.2)%	(0.6) pts	**(3.2)%**	(5.0)%	1.8 pts
P&C U.S.	**3.0%**	-	nm	**3.0%**	-	nm
Consolidated	**(2.5)%**	(3.2)%	0.7 pts	**(1.9)%**	(5.0)%	3.1 pts

[1] As a % of opening reserves for P&C Canada and as at the closing date for P&C U.S. (OneBeacon).

Q4-2017 vs Q4-2016	2017 vs 2016
• Favourable PYD of $62 million reflected positive development in all lines of business in Canada and unfavourable development in the U.S.	• Favourable PYD of $238 million was below last year, mainly on unfavourable development in personal auto.
• Unfavourable PYD in the U.S. included our share of prior year losses and the impact of discounting on the amount recoverable from the ADC.	

15.2 Reinsurance

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

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

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

Canadian operations

Table 31 – Reinsurance net retention and coverage limits by nature of risk

As at December 31	2017	2016
Single risk events		
Retentions:		
on property policies	**7.5**	7.5
on liability policies	**3 - 10**	3 - 10
Multi-risk events and catastrophes		
Retention	**100**	100
Coverage limits	**3,600**	3,575

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. For multi-risk events and catastrophes, we retain participations averaging 5.1% as at December 31, 2017 (December 31, 2016 – 5.3%) on reinsurance layers between the retention and coverage limit. The coverage limit prudently exceeds our risk assessment of an earthquake in Western Canada at a 1-in-500 year return period.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers ($227 million as at December 31, 2017, $388 million as at December 31, 2016) are generally unsecured as Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claims liabilities take priority over the reinsurer's subordinated creditors. We have collateral in place to support amounts receivable and recoverable from unregistered reinsurers.

U.S. operations

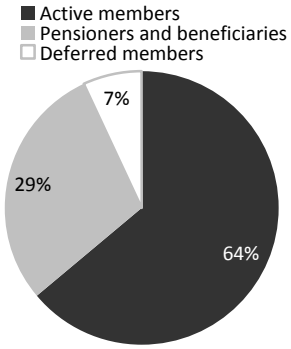
As at December 31, 2017, our newly acquired U.S. operations are covered by its own reinsurance program for single risk events but also for multi-risk events and catastrophes. Under the property catastrophe reinsurance program, the first US$20 million of losses resulting from any single catastrophe are retained, with the coverage limit for the next US$110 million of losses being entirely reinsured. In addition to the corporate catastrophe reinsurance protection, we also have dedicated reinsurance protection for certain lines of business. Among these, the retention for single risk events is US$3 million on property policies and main liability policies.

In connection with the acquisition of OneBeacon, we entered into a reinsurance contract pursuant to which a major reinsurer will assume 80% of negative reserve development with respect to OneBeacon's claims liabilities for accident years 2016 and prior. The purchase of this adverse development coverage ("ADC") has reduced the potential volatility in our prior years claims liabilities and resulted in a release of risk margin in 2017. The maximum amount recoverable under the ADC is US$200 million and is subject to some exclusions and limitations.

Section 16 – Employee future benefit programs

We sponsor a number of funded and unfunded defined benefit pension plans in Canada that provide benefits to members in the form of a guaranteed level of pension payable for life based on final average earnings and contingent upon certain age and service requirements. We provide active employees in Canada a choice between a defined benefit and a defined contribution pension plan. We offer employees in the U.S. a 401(k) plan.

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



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

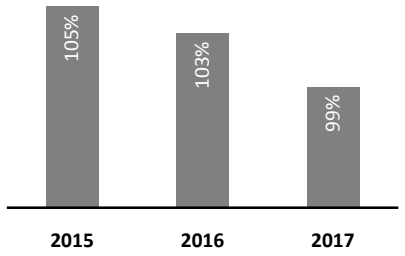
Because of the long-term nature of our pension obligations, movements in discount rates and investment returns could bring volatility in our balance sheet. In the past few years, we have taken a multi-faceted approach to ensure the sustainability of our pension plans and gradually reduced the risk and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

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

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

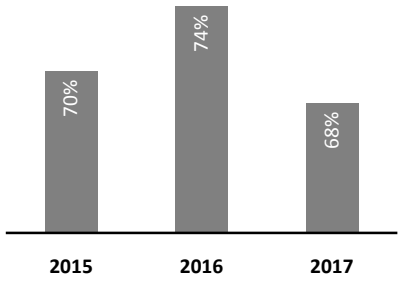
Refer to Note 26 – Employee future benefits of the accompanying Consolidated financial statements for details on actuarial gains and losses recognized in OCI, assumptions used and sensitivity analysis, as well as risk management and investment strategy.

Funding ratio



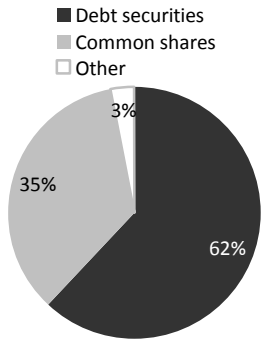
Our pension plans remained well funded as at December 31, 2017. The lower funding ratio was driven by a decrease in discount rates.

Interest rate hedge ratio



Hedge ratio down to 68%, driven by the increase in long-term interest rates.

2017 pension plan asset mix



Pension plan asset mix is essentially unchanged from 2016.

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

Section 17 – Treasury management

17.1 Financing structure

2017 Financing structure

Debt-to-total capital ratio	Weighted-average debt maturity	Weighted-average debt coupon	Weighted-average preferred share coupon
23.1%	12 years	3.39% (after tax)	4.07% (after tax)

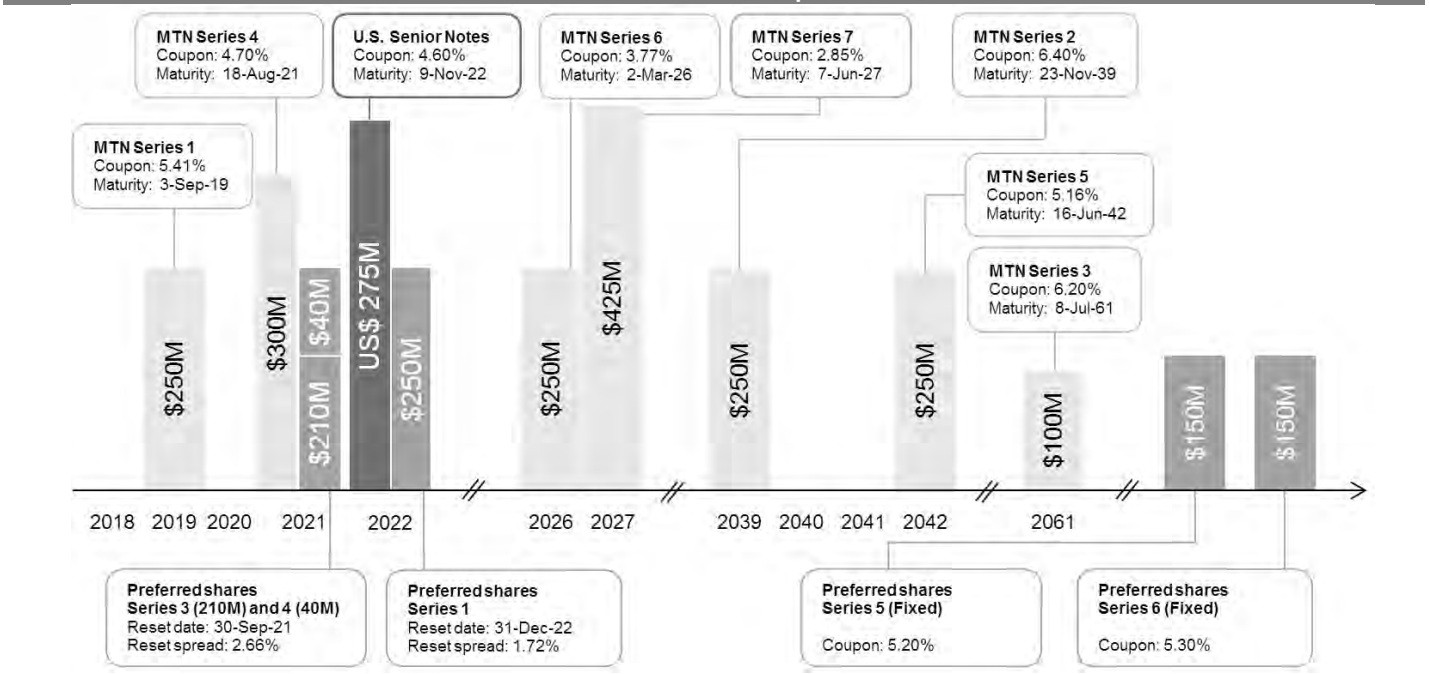
Evolving in an international context, we ensure that we are able to access funds in multiple currencies. With respect to financing, we believe that our optimal financing structure is one where the debt-to-total capital ratio is generally at or below 20%, all currency combined. The debt-to-total capital ratio may on occasion exceed 20% with a firm plan to revert back to 20% within a short period of time. Our debt-to-total capital ratio increased to 24.7% following the acquisition of OneBeacon at the end of September 2017, and decreased to 23.1% as at December 31, 2017 (18.6% as at December 31, 2016). Our debt-to-total capital ratio is expected to return to 20% within 24 months following the closing of the acquisition.

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

- We currently have seven series of medium-term notes outstanding with maturities ranging between 2 and 44 years.
- The notes carry a weighted average coupon of 4.61% (3.39% after tax).
- All debt tranches are prudent in size with no large peaks, reducing financing risk.
- Preferred shares provide flexibility in our capital structure at a reasonable cost.
- Debt and preferred shares represent about 30% of our total capital structure.

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

Finance structure – Notes and preferred shares



Credit facility

At closing of the acquisition, to maintain financial flexibility, we increased the size of our credit facility from $300 million to $750 million. We also extended the access to our unsecured revolving term credit facility to OneBeacon and cancelled the credit facility they had in place. Our five-year credit facility matures on August 28, 2022 and may be drawn as follows:

Type:	At a rate of:
Prime loans	Prime rate plus a margin
Base rate (Canada) advances	Base rate plus a margin
Bankers' acceptances	Bankers' acceptance rate plus a margin
Libor advances	Libor rate plus a margin

The outstanding balance under our credit facility amounted to $60 million as at December 31, 2017 at an interest rate of 2.62% (nil as at December 31, 2016).

As part of the covenants under the credit facility, we are required to maintain certain financial ratios, which were fully met as at December 31, 2017 and 2016.

Base shelf prospectus

On November 15, 2017, we filed a final short form base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada that will allow us to offer up to $7.0 billion in any combination of debt, preferred shares or common share securities, subscription receipts, warrants, share purchase contracts and units over the following 25 months. We also filed a supplement to our base shelf prospectus to establish a medium-term note program that would allow us to issue up to $1.7 billion in unsecured medium-term notes. As at December 31, 2017, the amounts available under the respective prospectuses were $7.0 billion and $1.7 billion, respectively.

Preferred shares rate reset

On December 1, 2017, we announced that we did not intend to exercise our right to redeem our Non-cumulative Rate Reset Class A Series 1 Preferred Shares ("Series 1 Preferred Shares") on December 31, 2017. On December 18, 2017, we also announced that, after having taken into account all elections received before the conversion deadline with respect to the Series 1 Preferred Shares tendered for conversion on December 31, 2017 into non-cumulative Floating rate Class A Series 2 Preferred Shares ("Series 2 Preferred Shares"), the holders of Series 1 Preferred Shares were not entitled to convert their shares as the amount of shares elected for conversion did not meet the minimum threshold requirement. Subject to certain conditions on December 31, 2022 and on December 31 every five years thereafter, the holders of Series 1 Preferred Shares will have the right to convert their shares into Series 2 Preferred Shares. In addition, we have the option to redeem the Series 1 and Series 2 Preferred Shares on the same dates.

17.2 Ratings

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

Shortly after the closing of the OneBeacon acquisition, Moody's and Fitch upgraded the financial strength rating and the senior unsecured debt rating of OneBeacon and OneBeacon's U.S. regulated entities (consolidated under Atlantic Specialty Insurance Company) respectively. A.M. Best upgraded the senior unsecured debt rating of OneBeacon and reaffirmed the financial strength rating its of U.S. regulated entities. Ratings of IFC and its principal Canadian P&C insurance subsidiaries were reaffirmed by A.M. Best, DBRS, Moody's and Fitch in the context of the acquisition of OneBeacon.

Table 32 – Ratings

	A. M. Best	DBRS	Moody's	Fitch
Financial strength ratings				
IFC's principal Canadian P&C insurance subsidiaries	**A+**	**AA(low)**	**A1**	**AA-**
OneBeacon U.S. regulated entities	**A**		**A2**	**AA-**
Senior unsecured debt ratings				
IFC	**a-**	**A**	**Baa1**	**A-**
OneBeacon	**bbb+**		**Baa2**	**A-**

17.3 OneBeacon acquisition financing

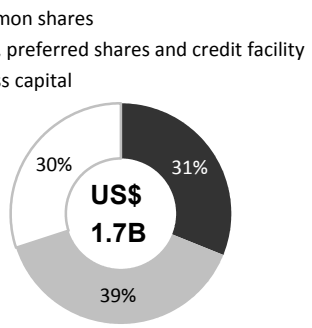
The acquisition of OneBeacon closed on September 28, 2017 and was financed using a combination of:

- common equity financing ($754 million);
- medium-term notes ($425 million);
- preferred shares ($300 million); and
- credit facility and excess capital.

Refer to Note 18 – Debt outstanding and Note 19 – Common shares and Preferred shares to the accompanying Consolidated financial statements for more details.

Financing of the acquisition of OneBeacon

Net proceeds from:



17.4 Currency management

We manage our cash flow and book value exposure to U.S. dollar currency volatility.

OneBeacon purchase price hedge

As at May 2, 2017 (date of the announcement), we hedged the purchase price exposure to fluctuations of the CAD/USD exchange rate by entering into currency derivatives to effectively lock the CAD equivalent purchase price at $2.3 billion. These derivatives qualified as cash flow hedges and were marked-to-market through OCI until closing. At closing, currency losses accumulated in AOCI amounting to $200 million were included in the purchase price of OneBeacon.

Book value exposure

Our objective is to benefit from currency diversification, while managing the impact of USD volatility on our book value. Foreign currency derivative contracts, such as currency swaps and forwards, are used as risk management tools.

- On May 2, 2017, we entered into foreign currency forward contracts for a notional amount of US$600 million to reduce the book value exposure of our USD denominated assets relative to the CAD, including OneBeacon. These derivatives represented economic hedges and were marked-to-market through net income up to closing of the OneBeacon acquisition.

- At closing, we designated these forward contracts as a net investment hedge of our foreign operation, OneBeacon. On December 20, 2017, we terminated half of the US$600 million hedging relationship so that US$300 million foreign currency forward contracts would be marked-to-market through net income partially offsetting the currency impact of USD denominated investments also going through net income. This left US$300 million contracts as net investment hedge of our foreign operations as at December 31, 2017.

- Since closing, gains or losses on this hedge, together with foreign exchange translation gains or losses on the net investment in OneBeacon are recognized in OCI.

Our net currency exposure to the USD (net of derivatives) was US$1,452 million as at December 31, 2017 (US$415 million as at December 31, 2016). ***Refer to Note 9.1 b) – Exposure to currency risk of the accompanying Consolidated financial statements for more details.***

Cash flow exposure

USD inflows from OneBeacon will be used to pay U.S. dollar denominated claims and expenses in connection with our Canadian operations. Any remaining exposure is managed using foreign currency derivative contracts such as currency swaps and forwards.

17.5 Understanding our cash flows

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

Table 33 – Cash flows

	Q4-2017	Q4-2016	Change	2017	2016	Change
Cash flows from operating activities	**23**	153	(130)	**781**	925	(144)
Cash flows deployed on:						
Business combinations	**-**	(19)	19	**(2,139)**	(19)	(2,120)
Equity investments in brokerages and other, net	**(25)**	(38)	13	**(108)**	(275)	167
Purchases of intangibles and P&E, net	**(24)**	(30)	6	**(98)**	(120)	22
Dividends	**(99)**	(80)	(19)	**(378)**	(324)	(54)
Share-based payments in shares	**(4)**	-	(4)	**(37)**	(19)	(18)
NCIB *(see Section 29.3)*	**-**	(7)	7	**(7)**	(44)	37
Cash flows generated from: *(see Section 17.3)*						
Issuance of common shares	**-**	-	-	**731**	-	731
Issuance of medium-term notes	**-**	-	-	**422**	248	174
Issuance of Class A Preferred shares	**-**	-	-	**292**	-	292
Amount drawn (repaid) under our credit facility	**(150)**	-	(150)	**60**	-	60
Cash flow available for investment activities[1]	**(279)**	(21)	(258)	**(481)**	372	(853)
Excess capital deployed on OneBeacon acquisition	**-**	-	-	**660**	-	660
Other net investment sales (purchases)	**(76)**	52	(128)	**(184)**	(345)	161
Net increase (decrease) in cash and cash equivalents	**(355)**	31	(386)	**(5)**	27	(32)

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

Liquidity generated by the issuance of common shares, medium-term notes, Class A Preferred shares, drawdown on our credit facility, together with a portion of the net investment sales, was used to finance the OneBeacon acquisition.

17.6 Contractual obligations

The table below presents the expected timing of contractual liquidity requirements as at December 31, 2017.

Table 34 – Contractual obligations

		Payments due by period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	Thereafter
Principal repayment on notes outstanding	**2,181**	-	250	664	1,267
Interest payments on notes outstanding	**1,283**	101	185	153	844
Claims liabilities[1]	**10,410**	4,139	2,857	1,606	1,808
Operating leases on premises and equipment	**810**	168	245	167	230
Pension obligations[2]	**48**	8	16	7	17
Total contractual obligations	**14,732**	4,416	3,553	2,597	4,166

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

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

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

Section 18 – Capital management

2017 Highlights

Total capital margin	MCT (Canada)	RBC (U.S.)
Over $1.1 billion	205%	459%

18.1 Capital management objectives

Our objectives when managing capital consist of:

- maintaining strong regulatory capital levels (see Regulatory capital section below), while ensuring policyholders are well protected; and
- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company.

We seek to maintain adequate capital levels to ensure that the probability of breaching the regulatory minimum requirements is very low. Such levels may vary over time depending on our evaluation of risks and their potential impact on capital. We also keep higher levels of excess capital when we foresee growth or actionable opportunities in the near term. Furthermore, we intend to return excess capital to shareholders through annual dividend increases and, when excess capital levels permit, through share buybacks. ***Refer to Section 29 – Shareholder information for more details.***

Regulatory capital

The amount of capital deployed in any particular company or country depends upon local regulatory requirements, as well as the Company's internal assessment of capital requirements in the context of its risk profiles, requirements and strategic plans. The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate (referred to as regulator supervisory minimum levels).

Canada	• Our federally chartered Canadian P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the Insurance Companies Act, while our Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the Act respecting insurance. • Federal and Québec regulated P&C insurers are required, at a minimum, to maintain a MCT ratio of 100%. • OSFI and the AMF have also established a regulator supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.
U.S.	• Our U.S. insurance operations are subject to regulation and supervision in each of the states where they are domiciled and licensed to conduct business. • State insurance departments have established the insurer solvency laws and regulatory infrastructure to maintain accredited status with the National Association of Insurance Commissioners ("NAIC"). • A key solvency-driven NAIC accreditation requirement is a state's adoption of RBC requirements. • Dividends from our major U.S. insurance subsidiary are subject to the New York Regulator's prior approval for a two year period ending September 30, 2019.

Regulatory capital guidelines change from time to time and may impact our capital levels. We carefully monitor all changes, actual or proposed.

18.2 Capital position

All our 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 Company action levels (CALs). CALs represent the thresholds below which regulator notification is required together with a company action plan to restore capital levels.

Table 35 – Estimated aggregated capital position

	December 31, 2017			September 30, 2017			December 31, 2016	
	Canada (MCT)	U.S. (RBC)	IFC capital margin	Canada (MCT)	U.S. (RBC)	IFC capital margin	Canada (MCT)	IFC capital margin
Regulatory capital ratios (RCRs)	**205%**	**459%**	**-**	201%	413%	-	218%	-
Industry-wide supervisory minimum levels	**150%**	**150%**	**-**	150%	150%	-	150%	-
CALs	**170%**	**200%**	**-**	170%	200%	-	170%	-
Capital above CALs (capital margin)	**618**	**438**	**1,056**	558	315	873	947	947
Other regulated/unregulated entities[1]			**79**			282		23
Total capital margin			**1,135**			1,155		970

[1] Other regulated entities include Split Rock Insurance, Ltd. (Bermuda) and IB Reinsurance Inc. (Barbados).

U.S. capital levels comprise the RBC levels of OneBeacon's U.S. regulated entities, consolidated in Atlantic Specialty Insurance Company (ASIC). As at December 31, 2017, ASIC's risk based capital (RBC) level stood at 459% up 46 points from September 30, 2017, as capital was reallocated to ASIC from our U.S. operations.

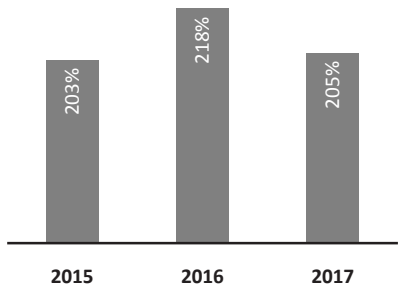
In Canada, our estimated aggregate MCT level was strong at 205% as at December 31, 2017, up 4 points from September 30, 2017 and down 13 points from December 31, 2016.

- Improvement in Q4-2017 was driven by strong operating results and the benefit of the phase-in.
- Decline from December 31, 2016 reflected the use of $660 million of capital to finance the acquisition of OneBeacon.

IFC's total capital margin stood at $1,135 million as at December 31, 2017. This represents the aggregate of capital in excess of CALs in regulated entities plus available cash in unregulated entities.

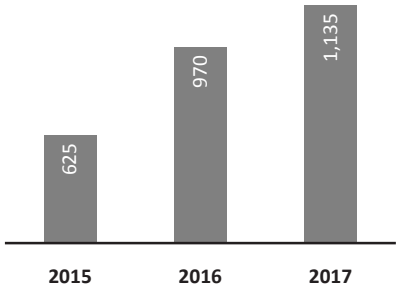
For details on our Own Risk and Solvency Assessment, please refer to Section 22.8 - Own Risk and Solvency Assessment.

MCT (Canada)



Total capital margin includes the aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC) plus available cash in unregulated entities.

Total capital margin



RISK MANAGEMENT

Section 19 – Overview

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

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

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

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

Section 20 – Risk management structure

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

The Board and Committee structures are reviewed periodically to be aligned with best practices, applicable laws and regulatory guidelines on corporate governance. The following structure is in place and remains largely unchanged from 2016.

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

Section 21 – Corporate governance and compliance program

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

21.1 Corporate governance and compliance program

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

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

Section 22 – Enterprise Risk Management

22.1 Mandate

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

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

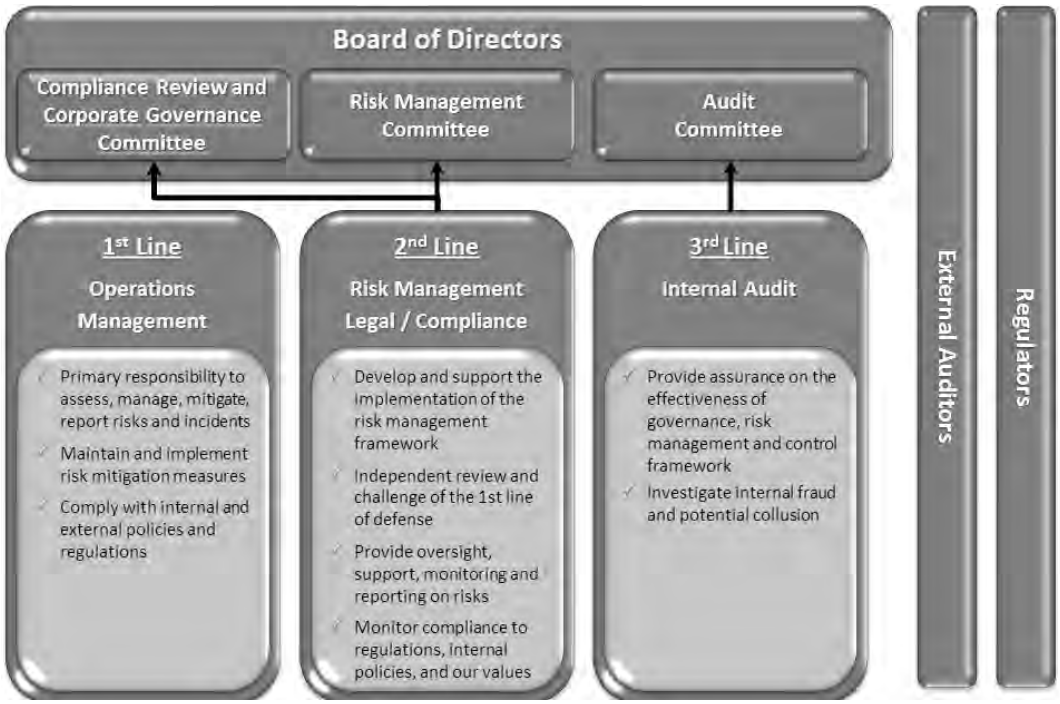
Our risks are separated into four main categories: Strategic Risk, Insurance Risk, Financial Risk and Operational Risk.

22.2 Objectives

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

22.3 A shared responsibility

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



22.4 Risk Appetite

How do we manage corporate risk?

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

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

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

22.5 Main risk factors and mitigating actions

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

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

22.6 Top and emerging risks that may affect future results

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

TOP AND EMERGING RISKS

Major earthquake in Canada — **Insurance risk**

Risk we are facing

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

Potential impact

The occurrence of a major earthquake in Canada could have a significant impact on our profitability and financial condition and that of the entire P&C insurance industry in Canada. Depending on the magnitude of the earthquake, its epicentre, and on the extent of the damages, the losses could be substantial even after significant reinsurance recoveries. There could also be significant additional costs to find the required reinsurance capacity upon further renewals. In addition, we could be subject to increased assessments from the P&C Insurance Compensation Corporation (PACICC) leading to further costs if other insurers are unable to meet their contractual obligations with their clients. Based on our assessment, our exposure to a major earthquake in Western Canada has increased slightly in 2017 versus the prior year taking into consideration potential exposure in the Pacific Northwest of the United States related to our U.S. specialty insurance operations.

How we manage this risk

Our risk management strategy consists of regular monitoring of insured value accumulation and concentration of risks. We use earthquake models to help assess our possible losses at various return periods and use reinsurance to transfer a material amount of risk. Consequently, the diversification of risk among an appropriate number of reinsurers is vital for us. ***See Section 15.4 – Reinsurance for more details on our reinsurance program.***

In 2017, we completed a comprehensive review of the models we use to evaluate our earthquake exposure. We concluded that the models we use to help us assess our risk are sound. Given the nature of earthquake risk, different models provide different assessments of the same exposure. We continue to maintain a prudent amount of reinsurance that exceeds our risk assessment of an earthquake in Western Canada, including the U.S. Pacific Northwest, at a 1-in-500 year return period.

Catastrophe events risk — Insurance risk

Risk we are facing

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

Catastrophe events include natural disasters and unnatural events.

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

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

Potential impact

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

Over the last few years, we have witnessed a continued increase in the number and severity of weather events. Changing weather patterns may have an impact on the likelihood and severity of natural catastophes, such as wildfires in the West and heavy precipitation in the East. The trend in climate change continues to pose a meaningful risk to our ability to meet our business objectives.

We began offering cyber risk insurance to our commercial customers in 2015 and have expanded our offerings in this space over time. The acquisition of OneBeacon expands further our exposure to this risk. We may be adversely affected by a large scale cyber-attack that simultaneously compromises the systems of many of our insureds.

In addition, we have exposure to terrorism risk in the U.S. through our U.S. specialty business. Terrorism can take many forms and both our property and workers' compensation policies may be affected by an event.

How we manage this risk

To address this issue, we have ongoing initiatives including pricing and product changes to reflect new climate realities, regular reviews of claims processes and a greater focus on consumer loss prevention. Many initiatives have been implemented over the last several years including the expanded use of deductibles and sub-limits, and the introduction of depreciation schedules in personal property insurance across Canada. These initiatives should help mitigate, to some extent, P&C insurance losses resulting from water damage and harsh weather. In 2017, we improved segmentation in our property insurance business with additional focus on wildfire risk.

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

In addition, our reinsurance program offers protection against multi-risk events and catastrophes. ***See Section 15.2 – Reinsurance for more details on our reinsurance program.***

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

In addition to private reinsurance, we also participate in the U.S. federal government terrorism insurance backstop (TRIPRA) that mitigates our exposure under certain circumstances as outlined in federal legislation.

Increased competition and disruption — Strategic risk

Risk we are facing

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

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

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

Potential impact

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

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

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

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

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

How we manage this risk

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

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

- Investing significantly in promoting our brands with an increasing focus on using web and mobile technology to reach consumers;
- Promoting our own usage-based insurance (UBI) product to better meet customer needs;
- Increased digitalization of the customer experience;
- Opening innovative service centres in major Canadian cities to provide an unmatched customer experience; and
- Creating Intact Ventures *(see Section 11.2)* to be at the forefront of technological change as it applies to the P&C insurance industry.

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

Turbulence in financial markets — Financial risk

Risk we are facing

Movements in interest rates, credit spreads, foreign exchange rates, inflation rates, and equity prices cause changes in realized and unrealized gains and losses. Generally, our interest and dividend income will be reduced during sustained periods of lower interest rates. During periods of rising interest rates, the fair value of our existing fixed-income securities will generally decrease and our realized gains on fixed-income securities will likely be reduced or result in realized losses. Changes in credit spreads would have similar impacts as those described above for changes in interest rates. Interest rates continued to be persistently low. In this context, purchases of fixed-income securities will likely be at lower yields than several years ago putting downward pressure on investment income. The significant and prolonged decline in oil prices may have an impact on the value of some of our securities or on the level of investment income we are able to generate given that our investment portfolio contains a significant amount of securities issued by companies in the energy sector. In both 2016 and 2017, our preferred share portfolio experienced significant fluctuations in market value as a result of changes in interest rates and credit spreads.

Potential impact

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

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

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

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

Our fixed income portfolio may experience defaults resulting in impairments and lower income prospectively.

How we manage this risk

While our strategy is long-term in nature, it is regularly reviewed to adapt to the investment environment when necessary, especially in times of turbulence and increased volatility. We closely monitor concentration across and within asset classes and ensure that exposures remain within the risk tolerance stated in our investment policy.

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

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

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

Reference to our Consolidated financial statements

Market risk	Credit risk
Notes 9.1 and 9.2	*Note 9.4*
Basis risk	**Liquidity risk**
Note 9.3	*Note 9.5*

Reserve and pricing inadequacy — Insurance risk

Risk we are facing

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

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

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

Potential impact

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

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

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

To the extent that actual losses and LAE exceed our expectations and the reserves reflected in our Consolidated financial statements, we will be required to reflect those changes by increasing our reserves. In addition, government regulators could require that we increase our reserves if they determine that our reserves were understated in the past. When we increase reserves, our income before income taxes for the period will decrease by a corresponding amount. In addition, increasing or strengthening reserves causes a reduction in our P&C insurance subsidiaries' capital and could cause a downgrading of the financial strength ratings of our P&C insurance subsidiaries. Any such downgrade could, in turn, adversely affect our ability to sell insurance policies. ***See Section 15.3 – PYD for more details on the claims reserve and prior year claims development.***

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

How we manage this risk

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

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

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

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

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

Following the acquisition of OneBeacon, we purchased reinsurance to protect against adverse development for OneBeacon's reserves from 2016 and prior years. This risk mitigation strategy offers partial protection in case of a deterioration in our U.S. dollar claims reserves.

Governmental and/or regulatory intervention	Strategic Risk

Risk we are facing

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

These laws and regulations:

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

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

Governmental and/or regulatory intervention (cont'd)	Strategic risk
Potential impact We believe that our insurance subsidiaries are in material compliance with all applicable regulatory requirements. However, it is not possible to predict the future impact of changing federal, provincial and territorial regulations on our operations. Laws and regulations enacted in the future may be more restrictive than current laws. Overall, our business is heavily regulated and changes in regulation may reduce our profitability and limit our growth prospects. We could be subject to regulatory actions, sanctions and fines if a regulatory authority believed we had failed to comply with any applicable law or regulation. Any such failure to comply with applicable laws could result in the imposition of significant restrictions on our ability to do business or significant penalties, which could adversely affect our reputation, results of operations and financial condition. In addition, any changes in laws and regulations could materially adversely affect our business, results of operations and financial condition. We may be subject to governmental or administrative investigations and proceedings in the context of our highly regulated sectors of activity. We cannot predict the outcome of these investigations, proceedings and reviews, and cannot be sure that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect our results of operations and financial condition. In addition, if we were to experience difficulties with our relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on our ability to do business in that jurisdiction and the price of our common shares. In addition, our written premiums and profitability can be significantly affected by many factors, including: • developing trends in tort and class action litigation; • changes in other laws or regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims handling procedures; • forced reductions in premiums or additional costs imposed by governments that limit our ability to properly price our insurance products; • modification of tax laws or a change in interpretation to existing tax laws, either retroactively or prospectively; and • nationalization of one or more of our business lines. Furthermore, a significant increase in solvency requirements would increase the possibility of regulatory intervention and may reduce our ability to generate attractive returns for shareholders. This may also negatively impact our ability to execute our growth strategy and attain our financial objectives.	***How we manage this risk*** We are supported by an in-house team of lawyers and staff, and by outside counsel when deemed necessary or appropriate, in handling general regulation and litigation issues and are an active member of the major industry associations. Our government relations team ensures contact with the governments of the various jurisdictions in which we operate, and can be proactive in situations that could affect our business. We regularly monitor trends and make adjustments to our strategy and products, when deemed appropriate, to ensure the sustainability of insurance products and to avoid the potential for additional regulation that may negatively impact our reputation, profitability, and financial condition. To reduce the risk of breaching the regulatory capital requirements, we have established an internal target capital ratio in excess of the supervisory target of 150% in our principal Canadian insurance subsidiaries and above 200% for our U.S. insurance subsidiaries. We operate above our internal target under normal circumstances to reduce the likelihood of regulatory intervention. Our Enterprise Risk Committee regularly review risks related to solvency and conducts stress testing to identify vulnerabilities and possibly areas for remediation. Our capital management policy contains guidelines to help ensure that we maintain adequate capital to withstand adverse event scenarios and has documented procedures to take corrective actions should any unanticipated conditions arise. In addition, we conducted a full internal solvency assessment as described hereafter in ***Section 22.8 – Own Risk and Solvency Assessment (ORSA).***

Failure of an acquisition — Strategic risk

Risk we are facing

Our primary strategy is to pursue consolidation in the Canadian market and expansion in foreign markets where we can deploy our expertise in pricing, underwriting, claims management and multi-channel management.

On September 28, 2017, we completed the US$1.7 billion ($2.3 billion) acquisition of OneBeacon, a specialty P&C insurance provider that offers a wide range of specialty insurance products in the United States. Failure on our part to manage this U.S. acquisition could have a material adverse effect on our business, results of operations and financial condition. In addition to specific country risks, we cannot be sure that we will be able to identify appropriate profitability targets or successfully integrate this acquired business into our operations.

Potential impact

With respect to the acquisition of OneBeacon, we are faced with a number of integration risks including but not limited to:

- the inability to derive the expected returns from the acquisition, which would lead to a lower future return on equity for shareholders;
- the inability to realize growth and profitability action plans, such as cross-border opportunities and underwriting profitability targets. Under certain adverse circumstances, this may lead to a write down of goodwill;
- challenges in harmonizing processes; and
- a departure of key employees during the integration phase.

In addition to the potential financial impact, our reputation may be adversely affected if such an event were to occur. Consequently, it may impact the cost or availability of capital for future acquisitions.

How we manage this risk

We are a proven industry consolidator with 16 successful P&C acquisitions since 1988. We have a dedicated corporate development team that follows a rigorous selection process. Our approach to conducting due diligence to assess all the risks and opportunities is well developed and is consistently executed. We also assign dedicated and experienced task forces to ensure a swift and effective integration with seamless impact to our customers. There is also strong oversight by the Board of Directors regarding acquisitions.

Failure of a major technology initiative — Operational risk

Risk we are facing

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

Potential impact

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

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

How we manage this risk

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

Information technology and cyber security risk — Operational risk

Risk we are facing

Information technology and cyber security risks continue to be key risks for many industries in Canada and around the globe. Criminal organizations, hackers, and other external actors have become more active and better equipped to attack even robust systems and networks. Our dependency on technology, network, telephony and critical applications makes our ability to operate and our profitability vulnerable to business interruptions, service disruptions, theft of intellectual property and confidential information, litigation and reputational damage.

The volume and sophistication of cyber-attacks continue to increase. These attacks may include targeted attacks on systems and applications, introduction of malicious software, denial of service attacks, and phishing attacks which could result in the fraudulent use or theft of data, and may involve attempts to fraudulently induce employees, customers or third party service providers to disclose sensitive information in order to gain access to the Company's data. Distributed Denial of Service (DDos) and Ransomeware attacks continue to increase in frequency and severity. These activities are designed to disrupt the operations of an organization and/or to benefit the attacker financially.

We may be unable to prevent cyber-attacks that result in system disruption or a breach of confidential information, whether personal or corporate in nature. Third party service providers and other suppliers may also be the subject of successful cyber-attacks leading to a material impact on our systems or the theft of confidential information.

Potential impact

Despite our commitment to information and cyber security, we may not be able to fully mitigate all risks associated with the increased sophistication and volume in the threat landscape. As such, we may be the subject to a cyber-attack resulting in system unavailability, data corruption or deletion, or the disclosure of confidential or personal information. Massive denial of service attacks and system intrusion attempts could compromise our ability to operate or we may be unable to safeguard personal and confidential information from public disclosure. Other potential consequences include our inability to provide customers with real-time access to information on their insurance policies, provide quotes for new insurance products or enable customers to report claims electronically.

These events and attacks may lead to wide ranging consequences including:

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

How we manage this risk

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

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

We benchmark our information security practices to assess areas of our cyber security program that require additional effort and to learn from industry leading practices.

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

Inability to contain fraud and/or abuse — Operational risk

Risk we are facing

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

Potential impact

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

How we manage this risk

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

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

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

Customer satisfaction risk — Strategic risk

Risk we are facing

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

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

Potential impact

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

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

How we manage this risk

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

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

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

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

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

Risk we are facing

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

Potential impact

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

How we manage this risk

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

The legalization of cannabis (marijuana) — Emerging risk

Risk we are facing

Under proposed legislation by Canada's federal government, marijuana would become legal under certain circumstances in July 2018. In addition, several states in the U.S. such as California have also proposed the legalization of marijuana. Cannabis for medical use is already permitted in many states and the trend to allow its use for recreational purpose may accelerate in the coming years.

Potential impact

Marijuana legalization could have an impact our results in various ways, including:

- higher frequency and severity of auto insured losses as a result of impaired driving; and
- an increase in claims related to liability insurance or workers compensation.

This could cause a decline in our underwriting income.

How we manage this risk

In 2017, we have taken actions to better understand how this risk may impact our business. Consequently, we have conducted a stress test inspired by other jurisdictions (e.g. Colorado) that have legalized marijuana for recreational purposes.

Our personal lines and commercial lines teams have reviewed our product wordings and underwriting guidelines to ensure we have a clear risk appetite around exposures related to marijuana producers and distributors. We will continue to monitor this risk and make adjustments to product pricing or features as more information becomes available.

22.7 Other risk factors that may affect future results

Legal risk

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

Reinsurance risk

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

People risk

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

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

Business interruption risk

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

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

Credit downgrade risk

Independent third party rating agencies assess our ability to honour our financial obligations (the "senior unsecured debt rating") and our insurance subsidiaries' ability to meet their ongoing policyholder obligations (the "financial strength rating"). ***See Section 17.2 – Ratings for more details.***

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

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

Limit on dividend and capital distribution risk

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

Deferred tax assets

We have a deferred tax asset related to net operating loss carryforwards and tax credit carryforwards as at December 31, 2017, that are subject to carryforward limitations in the U.S. Utilization of these assets and other assets included in our net deferred tax asset is dependent on generating sufficient future taxable income of the appropriate type (i.e. ordinary income or capital gains) in the appropriate jurisdiction. If it is determined that it is more likely that sufficient future taxable income will not be generated, we would be required to increase the valuation allowance (an offset to our deferred tax asset) in future periods, which could have an adverse effect on our results of operations.

Distribution risk

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

22.8 Own Risk and Solvency Assessment

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

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

We also compared our assessment of our own capital requirements with that of regulatory bodies on the same basis. Our overall assessment continues to be materially lower than current regulatory requirements given the same confidence level and time horizon. Our 2017 assessment of capital required decreased slightly compared to that of 2016. Our capital sufficiency remains very strong when comparing both available financial resources and tangible equity to our assessment of capital required.

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

Section 23 – Off-balance sheet arrangements

23.1 Securities lending

We participate in a securities lending program to generate fee income. This program is managed by our custodian, a major Canadian financial institution, whereby we lend securities we own to other financial institutions to allow them to meet their delivery commitments. We loaned securities, which are reported as investments in the accompanying Consolidated financial statements, with a fair value of $1,087 million as at December 31, 2017 ($720 million as at December 31, 2016).

Collateral is provided by the counterparty and is held in trust by the custodian for our benefit until the underlying security has been returned to us. The collateral cannot be sold or re-pledged externally by us, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the underlying loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the loaned securities and amounts to $1,144 million as at December 31, 2017 ($758 million as at December 31, 2016).

Section 24 – Sensitivity analyses

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

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

Table 36 - Sensitivity analysis (after tax)

For the years ended December 31,	2017			2016		
	Net income	OCI	BVPS	Net income	OCI	BVPS
Equity price risk						
Common share prices (10% decrease)[1]	**(1)**	**(201)**	**(1.45)**	9	(193)	(1.40)
Preferred share prices (5% decrease)[2]	**13**	**(62)**	**(0.35)**	8	(57)	(0.37)
Interest rate risk (100 basis point increase)	**9**	**(64)**	**(0.40)**	4	(75)	(0.54)
Currency risk (strengthening of the CAD by 10% vs all currencies)[3]						
USD investments supporting P&C Canada	**6**	**(1)**	**0.04**	2	(47)	(0.34)
International equities supporting P&C Canada	**-**	**(19)**	**(0.14)**	-	-	-
Consolidated net assets of a U.S. subsidiary	**-**	**(176)**	**(1.26)**	-	-	-

[1] Net of any equity hedges, including the impact of any impairment.
[2] Including the impact on related embedded derivatives.
[3] After giving effect to forward-exchange contracts.

The above analyses were prepared using the following assumptions:
- shifts in the yield curve are parallel;
- interest rates, equity prices and foreign currency move independently;
- credit, liquidity and basis risks have not been considered;
- impact on our pension plans has been considered; and
- risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.

AFS debt or equity securities in an unrealized loss position, as reflected in AOCI may be realized through sale in the future.

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

ADDITIONAL INFORMATION

Section 25 – Financial KPIs and definitions

25.1 Our financial KPIs

Our most relevant key performance indicators are outlined in the table below. DPW, Underlying current year loss ratio, NOI, NOIPS, OROE, ROE, AROE and AEPS are considered non-IFRS financial measures. ***See Section 27 – Non-IFRS financial measures for the reconciliation to the most comparable IFRS measures.***

		2017	2016	2015	2014	2013
Growth	DPW growth	5.5%	4.7%	6.2%	1.6%	7.2%
Underwriting performance	Underlying current year loss ratio	64.5%	64.8%	66.1%	64.3%	64.9%
	Claims ratio	65.4%	64.9%	61.3%	62.6%	66.9%
	Expense ratio	28.9%	30.4%	30.4%	30.2%	31.1%
	Combined ratio	94.3%	95.3%	91.7%	92.8%	98.0%
Consolidated performance	Net underwriting income	486	375	628	519	142
	Net investment income	432	414	424	427	406
	Net distribution income	132	111	104	75	75
	NOI	771	660	860	767	500
	NOIPS (in dollars)	5.60	4.88	6.38	5.67	3.62
	OROE	12.9%	12.0%	16.6%	16.3%	11.2%
	ROE	12.8%	9.6%	13.4%	16.1%	9.3%
	AROE	13.0%	11.0%	14.3%	16.8%	10.3%
	EPS (in dollars)	5.75	3.97	5.20	5.79	3.10
	AEPS (in dollars)	5.82	4.53	5.54	6.01	3.44
Financial strength	BVPS (in dollars)	48.00	42.72	39.83	37.75	33.94
	MCT (Canada)	205%	218%	203%	209%	203%
	RBC (U.S.)	459%	n/a	n/a	n/a	n/a
	Total capital margin	1,135	970	625	681	550
	Debt-to-total capital ratio	23.1%	18.6%	16.6%	17.3%	18.7%

25.2 Definitions of our financial KPIs

Our most relevant key performance indicators are defined below. Underlying current year loss ratio, NOI, NOIPS, ROE, OROE, AROE and AEPS are considered non-IFRS financial measures. ***See Section 27 - Non-IFRS financial measures for the reconciliation to the most comparable IFRS measures.***

- **AEPS** and **AROE** are **adjusted measures**, meaning that they exclude the after-tax impact of acquisition-related items, such as amortization of intangible assets recognized in business combinations, as well as integration and restructuring costs.
- **NOI, NOIPS** and **OROE** are **operating measures**, meaning that they exclude non-operating items detailed in ***Section 26 – Non-operating results.***
- **EPS** and **ROE** are **IFRS measures**, meaning that their definition is determined in accordance with IFRS.

Incentive compensation is based on the comparison of results for DPW growth, combined ratio, NOIPS and AROE as defined above, against those of our Canadian P&C insurance industry benchmark. ***See Section 11.3 –Delivering on our key financial objectives for more details on our performance versus the industry.***

Growth	**DPW growth** for a specific period	(DPW for a specified period – DPW for the previous year) / DPW for the previous year	**Written insured risks growth** for a specific period	(# of vehicles and premises in personal insurance - Total # for the previous year) / Total # for the previous year

Underwriting results	**Underlying current year loss ratio** for a specific period	Current year claims ratio excluding CAT losses and PYD / NEP before the impact of reinstatement premiums	**Expense ratio** for a specific period	Underwriting expenses (including commissions, premium taxes and general expenses related to underwriting activities) / NEP
	Claims ratio for a specific period	Claims incurred (net of reinsurance) / NEP	**Combined ratio** for a specific period	Claims ratio + Expense ratio

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

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

Financial strength	**BVPS** as at the end of a specific period	Common shareholders' equity[4] / Number of common shares outstanding at the same date	**Total capital margin** as at the end of a specific period	Aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC) plus available cash in unregulated entities.
	Regulatory capital ratio as at the end of a specific period	Minimum capital test (as defined by OSFI and the AMF in Canada) and Risk-based capital (as defined by the NAIC in the U.S.)	**Debt-to-total capital ratio** as at the end of a specific period	Total debt outstanding / Sum of the total shareholders' equity[4] and total debt outstanding as at the same date

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

Section 26 – Non-operating results

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

Table 37 – Non-operating results

	Q4-2017	Q4-2016	Change	2017	2016	Change
Net investment gains (losses)	**(24)**	(91)	67	**(36)**	(71)	35
Currency and other gains (losses)[1]	**18**	(6)	24	**105**	(1)	106
Total investment, currency and other gains (losses)	**(6)**	(97)	91	**69**	(72)	141
Positive (negative) impact of MYA on underwriting	**11**	87	(76)	**92**	34	58
Difference between expected return and discount rate on pension assets	**(12)**	(6)	(6)	**(45)**	(26)	(19)
Integration and restructuring costs[2]	**(12)**	(19)	7	**(57)**	(23)	(34)
Amortization of intangible assets recognized in business combinations	**(25)**	(12)	(13)	**(62)**	(53)	(9)
Underwriting results of exited lines	**(10)**	-	(10)	**(10)**	-	(10)
Other	**(4)**	(5)	1	**(18)**	(12)	(6)
Non-operating gains (losses)	**(58)**	(52)	(6)	**(31)**	(152)	121
Income tax expense on the above items	**27**	11	16	**25**	33	(8)
U.S. Corporate Tax reform	**27**	-	27	**27**	-	27
After-tax non-operating gains (losses)	**(4)**	(41)	37	**21**	(119)	140

[1] Including a currency derivative gain related to book value hedge of OneBeacon of $65 million in 2017.

[2] Including $10 million in Q4-2017 and $40 million in 2017 in connection with the acquisition of OneBeacon.

- Investment gains and losses as well as the effect of MYA on underwriting arise mostly from changes in market conditions, which can be volatile to earnings.
- Claims liabilities are discounted at the estimated market yield of the assets backing these liabilities. The impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets is referred to as MYA.
- Integration and restructuring costs include items such as retention bonuses, the initial net impact of a reinsurance coverage which provides protection against certain negative reserve developments, pre-acquisition finance costs and acquisition-related expenses.
- The difference between the expected return and discount rate on pension assets is treated as non-operating results, as we believe the gap in these measures is not reflective of our internal investment management expertise and management of our pension asset portfolio.
- Underwriting results of exited lines included the results of the U.S. Commercial's business units Programs, and Architects and Engineers.

Section 27 – Non-IFRS financial measures

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

NOI, NOIPS and OROE

- Exclude non-operating results *(see Section 26 for details)*

Table 38 – Reconciliation of NOI, NOIPS and OROE to net income

	Q4-2017	Q4-2016	2017	2016
Net income	**232**	171	**792**	541
Add (less) income tax expense (recovery)	**14**	53	**150**	145
Add non-operating losses	**58**	52	**31**	152
Pre-tax operating income	**304**	276	**973**	838
Tax impact	**(68)**	(64)	**(202)**	(178)
NOI	**236**	212	**771**	660
Less preferred share dividends	**(10)**	(4)	**(27)**	(20)
NOI to common shareholders	**226**	208	**744**	640
Divided by weighted-average number of common shares (in millions)	**139.2**	131.1	**133.1**	131.2
NOIPS, basic and diluted (in dollars)	**1.63**	1.58	**5.60**	4.88
NOI to common shareholders – last 12 months			**744**	640
Average common shareholders' equity, excluding AOCI			5,758	5,332
OROE for the last 12 months			12.9%	12.0%

All underwriting results and related ratios excluded the MYA and results of our U.S. Commercial exited lines, unless otherwise noted.

DPW

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

Table 39 – Reconciliation of DPW and DPW growth to DPW, as reported under IFRS

	Q4-2017	Q4-2016	2017	2016
DPW, as reported under IFRS	**2,301**	1,937	**8,748**	8,197
Less impact of industry pools and fronting	**(2)**	10	**(2)**	32
Less results of exited lines	**(18)**	-	**(18)**	-
Add share of the results of jointly held insurance operations	**-**	7	**-**	47
DPW (full term)	**2,281**	1,954	**8,728**	8,276
Add impact of the normalization for multi-year policies	**13**	7	**19**	17
DPW	**2,294**	1,961	**8,747**	8,293
DPW growth	**17%**	3%	**5%**	5%

Underlying current year loss ratio

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

Table 40 – Reconciliation of NEP before reinstatement premiums to NEP and of current year claims to net claims incurred, as reported under IFRS

	Q4-2017	Q4-2016	2017	2016
NEP, as reported under IFRS	**2,428**	2,035	**8,558**	7,902
Add share of the results of jointly held insurance operations	**-**	8	**-**	44
Less NEP of exited lines	**(28)**	-	**(28)**	-
NEP	**2,400**	2,043	**8,530**	7,946
Add (deduct) reinstatement premiums ceded (recovered)	**(2)**	2	**(2)**	29
NEP, before reinstatement premiums	**2,398**	2,045	**8,528**	7,975
Net claims incurred, as reported under IFRS	**1,552**	1,196	**5,538**	5,108
Less positive (negative) impact of MYA on underwriting results	**11**	87	**92**	34
Less difference between expected return and discount rate on pension assets allocated to net claims incurred	**(6)**	(3)	**(18)**	(10)
Add share of the results of jointly held insurance operations	**-**	5	**-**	29
Less net claims of exited lines	**(33)**	-	**(33)**	-
Total net claims	**1,524**	1,285	**5,579**	5,161
Less current year CAT claims	**(31)**	(34)	**(313)**	(385)
Add favourable (unfavourable) PYD	**62**	62	**238**	389
Current year claims	**1,555**	1,313	**5,504**	5,165
NEP, before reinstatement premiums	**2,398**	2,045	**8,528**	7,975
Underlying current year loss ratio	**64.8%**	64.2%	**64.5%**	64.8%

Underwriting expenses

Table 41 – Reconciliation of underwriting expenses to underwriting expenses, as reported under IFRS

	Q4-2017	Q4-2016	2017	2016
Underwriting expenses, as reported under IFRS	**735**	635	**2,605**	2,533
Less difference between expected return and discount rate on pension assets	**(6)**	(4)	**(27)**	(16)
Less other underwriting revenues	**(26)**	(30)	**(108)**	(123)
Less underwriting expenses of exited lines	**(5)**	-	**(5)**	-
Add profit (loss) from jointly held insurance operations	**-**	4	**-**	16
Underwriting expenses	**698**	605	**2,465**	2,410

ROE

- Excludes the dividends declared on preferred shares.

Table 42 – Reconciliation of ROE to net income

	Q4-2017	Q4-2016	2017	2016
Net income	**232**	171	**792**	541
Less preferred share dividends	**(10)**	(4)	**(27)**	(20)
Net income attributable to common shareholders	**222**	167	**765**	521
Net income attributable to common shareholders – last 12 months			**765**	521
Average common shareholders' equity			**5,961**	5,417
ROE for the last 12 months			**12.8%**	9.6%

AEPS and AROE

- Exclude the after-tax impact of amortization of intangible assets recognized in business combinations, as well as integration and restructuring costs.
- We believe that these items are not appropriate in assessing our underlying performance.

Table 43 – Reconciliation of AEPS and AROE to net income

	Q4-2017	Q4-2016	2017	2016
Net income	**232**	171	**792**	541
Adjustments, net of tax				
Remove currency derivative gain related to the acquisition of OneBeacon	**(7)**	-	**(62)**	-
Remove positive impact from U.S. Corporate Tax reform	**(27)**	-	**(27)**	-
Add amortization of intangibles recognized in business combinations	**20**	23	**50**	56
Add integration and restructuring costs	**7**	14	**49**	17
Adjusted net income	**225**	208	**802**	614
Less preferred share dividends	**(10)**	(4)	**(27)**	(20)
Adjusted net income attributable to common shareholders	**215**	204	**775**	594
Divided by weighted-average number of common shares (in millions)	**139.2**	131.1	**133.1**	131.2
AEPS, basic and diluted (in dollars)	**1.55**	1.56	**5.82**	4.53
Adjusted net income attributable to common shareholders - LTM			**775**	594
Average common shareholders' equity			**5,961**	5,417
AROE for the last 12 months			**13.0%**	11.0%

Cash flow available for investment activities

- Includes net cash flows from cash and cash equivalents and the investment portfolio.
- *See Section 17.5 – Understanding our cash flows* for a reconciliation of this non-IFRS financial measure.

Market-based yield

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

Section 28 – Accounting and disclosure matters

Reference to our Consolidated financial statements			
Significant accounting judgments, estimates and assumptions	**Change in accounting policy**	**Related-party transactions**	**Standards issued but not yet effective**
Note 3	*None*	*Note 29*	*Note 32*

28.1 New accounting standards effective January 1, 2017

There were no new accounting standards, which have a significant impact on our Consolidated financial statements, effective January 1, 2017. Please refer to Note 2 – *Summary of significant accounting policies* in the Consolidated financial statements.

28.2 Significant accounting judgments, estimates and assumptions

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

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

Reference to our Consolidated financial statements			
Description	**Note**	**Description**	**Note**
Business combinations	*Note 4.3*	Impairment of financial assets	*Note 22.2*
Valuation of claims liabilities	*Note 10.3*	Measurement of income taxes	*Note 23.3*
Impairment of goodwill and intangible assets	*Note 14.2*	Valuation of DB obligation	*Note 26.6*

28.3 Related-party transactions

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

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

28.4 Financial instruments

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

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

28.5 Disclosure controls and procedures

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

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109") of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2017. Management can therefore provide reasonable assurance that material information relating to the Company and its subsidiaries is reported to it on a timely basis so that it may provide investors with complete and reliable information.

28.6 Internal controls over financial reporting

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

Management has limited the scope of design of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of OneBeacon, which was acquired by IFC on September 28, 2017. OneBeacon's total assets and total liabilities represented approximately 21% and 18% of total consolidated assets and total consolidated liabilities, respectively, as at December 31, 2017. The impact of the acquisition on the total consolidated net income for the year ended December 31, 2017 amounted to a net loss of $2 million. Management is committed to removing this limitation within the timeframe permitted by regulation.

Management has evaluated the design and operating effectiveness of its ICFR as defined in NI 52-109, excluding OneBeacon's ICFR as explained above. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the Chief Executive Officer and the Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2017.

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

No significant changes were made to our ongoing ICFR during 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Section 29 – Shareholder information

29.1 Authorized share capital

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

29.2 Outstanding share data

Table 44 – Outstanding share data (number of shares)

As at February 2, 2018	
Common shares	**139,188,634**
Class A	
Series 1 preferred shares	**10,000,000**
Series 3 preferred shares	**8,405,004**
Series 4 preferred shares	**1,594,996**
Series 5 preferred shares[1]	**6,000,000**
Series 6 preferred shares[2]	**6,000,000**

[1] Series 5 preferred shares were issued on May 24, 2017.
[2] Series 6 preferred shares were issued on August 18, 2017.

Refer to our Annual Information Form for more detailed information on the rights of shareholders and to Note 19 – Common shares and preferred shares to the accompanying Consolidated financial statements for additional information.

29.3 Dividends declared on common shares and preferred shares

Table 45 – Dividends declared per share

	Q1-2018	Q4-2017	FY 2017
Common shares	**0.70**	**0.64**	**2.56**
Class A			
Series 1 preferred shares	**0.21225**	**0.2625**	**1.0500**
Series 3 preferred shares	**0.20825**	**0.20825**	**0.83305**
Series 4 preferred shares	**0.217725**	**0.2143725**	**0.8067975**
Series 5 preferred shares	**0.325**	**0.325**	**0.7845**
Series 6 preferred shares	**0.33125**	**0.49007**	**0.49007**

Please also see Section 11.4 – Delivering value to our shareholders.

29.4 NCIB

On February 13, 2017, we renewed our NCIB program which permits us to purchase for cancellation during the next 12 months up to 6,551,741 common shares, representing approximately 5% of our issued and outstanding common shares as at February 1, 2017.

- From January 1 to February 10, 2017, 20,400 common shares had been repurchased for cancellation under the 2016 NCIB program at an average price of $93.70 for total consideration of $1.9 million.
- From February 13 to September 30, 2017, 51,100 common shares had been repurchased for cancellation under the 2017 NCIB program at an average price of $94.19 per share for a total consideration of $4.8 million.

Following the announcement of the acquisition of OneBeacon on May 2, 2017, we suspended our purchases under the NCIB to maintain excess capital prior to the closing date of the transaction. We used excess capital for deleveraging, in line with our conservative transaction financing plan. This 2017 NCIB program will expire on February 12, 2018.

Section 30 – Selected annual and quarterly information

30.1 Selected annual information

Table 46 – Selected annual information

	2017	2016	2015
Total revenues[1]	**9,157**	8,538	8,070
Underwriting income[2]	**486**	375	628
Net income	**792**	541	706
EPS, basic and diluted (in dollars)	**5.75**	3.97	5.20
Cash dividends declared per share (in dollars)			
Common shares	**2.56**	2.32	2.12
Class A			
Series 1 Preferred Shares	**1.05**	1.05	1.05
Series 3 Preferred Shares	**0.83**	1.00	1.05
Series 4 Preferred Shares	**0.81**	0.20	n/a
Series 5 Preferred Shares	**0.78**	n/a	n/a
Series 6 Preferred Shares	**0.49**	n/a	n/a

[1] Total revenues exclude other underwriting revenues and NEP of exited lines. *Refer to Note 27 – Segment information to the accompanying Consolidated financial statements for details.*

[2] *Refer to Section 27 – Non-IFRS financial measures.*

Table 47 – Selected annual information

As at December 31,	2017	2016	2015
Investments	**16,853**	14,386	13,504
Total assets	**27,928**	22,866	21,315
Debt outstanding	**2,241**	1,393	1,143
Shareholders' equity	**7,463**	6,088	5,724

30.2 Selected quarterly information

Table 48 – Selected quarterly information[1]

				2017				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
DPW	**2,294**	**2,209**	**2,500**	**1,744**	1,961	2,193	2,458	1,681
Total revenues[2]	**2,576**	**2,231**	**2,204**	**2,146**	2,188	2,187	2,090	2,073
NEP	**2,400**	**2,082**	**2,051**	**1,997**	2,043	2,036	1,937	1,930
Current year CAT losses	**31**	**89**	**105**	**88**	34	166	164	21
Favourable PYD	**(62)**	**(53)**	**(41)**	**(82)**	(62)	(71)	(93)	(163)
Underwriting income	**178**	**170**	**103**	**35**	153	61	16	145
Combined ratio	**92.6%**	**91.8%**	**95.0%**	**98.2%**	92.5%	97.0%	99.2%	92.5%
Net investment income	**121**	**101**	**105**	**105**	104	102	104	104
Net distribution income	**28**	**30**	**50**	**24**	24	30	43	14
NOI	**236**	**219**	**193**	**123**	212	137	114	197
Net income	**232**	**171**	**243**	**146**	171	125	93	152
Per share measures, basic and diluted (in dollars)								
NOIPS	**1.63**	**1.61**	**1.44**	**0.90**	1.58	1.01	0.83	1.46
EPS	**1.60**	**1.25**	**1.82**	**1.08**	1.27	0.91	0.67	1.11

[1] *Refer to Section 27 – Non-IFRS financial measures.*
[2] Total revenues exclude other underwriting revenues and NEP of exited lines.

See also the discussion on seasonality of the business hereafter.

30.3 Seasonality of the P&C Canadian insurance business

The P&C Canadian insurance business is seasonal in nature. While NEP are generally stable from quarter to quarter, underwriting results are driven by weather conditions which may vary significantly between quarters. The underlying seasonality in our combined ratio is best illustrated by excluding the impact of CAT losses *(see Table 50).*

For instance, in 2017 our first and second quarters saw a higher combined ratio including CAT losses than the third and fourth quarters, meaning that underwriting results were relatively less profitable in Q1-2017 and Q2-2017. When CAT losses are excluded, the first and fourth quarters of 2017 saw a slightly higher combined ratio than the other quarters in 2017, meaning that the underwriting results were relatively less profitable in Q1-2017 and Q4-2017 than the rest of the year.

Table 49 – Seasonal indicator, including CAT losses

	2017	2016	2015	2014	2013	2012	2011	2010	Eight-year average
Q1	**1.04**	0.97	1.02	1.05	0.97	0.99	1.00	0.98	1.00
Q2	**1.01**	1.04	1.00	1.00	1.00	0.99	1.03	0.98	1.01
Q3	**0.97**	1.02	1.02	1.00	1.05	1.03	0.99	1.01	1.01
Q4	**0.98**	0.97	0.96	0.95	0.98	0.99	0.98	1.03	0.98

Table 50 – Seasonal indicator, excluding CAT losses

	2017	2016	2015	2014	2013	2012	2011	2010	Eight-year average
Q1	**1.03**	1.01	1.03	1.04	1.04	1.02	1.04	1.00	1.03
Q2	**0.99**	0.99	1.01	1.02	0.97	0.98	0.96	0.99	0.99
Q3	**0.97**	0.99	0.98	0.96	0.97	0.97	0.99	0.98	0.98
Q4	**1.01**	1.01	0.98	0.98	1.02	1.03	1.01	1.03	1.01

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