

First Quarter **2011**

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Unaudited Interim Consolidated Financial Statements
For the quarter ended March 31, 2011

Intact Financial Corporation

Intact Financial Corporation

Interim Consolidated financial statements (unaudited)

Table of contents

Interim Consolidated financial statements

Interim Consolidated balance sheet (unaudited)	2
Interim Consolidated statement of comprehensive income (unaudited)	3
Interim Consolidated statement of changes in shareholders' equity (unaudited)	4
Interim Consolidated statement of cash flows (unaudited)	4

Notes to the Interim Consolidated financial statement

Note 1 - Basis of presentation	5
Note 2 - Summary of significant accounting policies	6
Note 3 - Financial instruments	17
Note 4 - Insurance risk	21
Note 5 - Insurance assets and liabilities	23
Note 6 - Revenue	24
Note 7 - Income taxes	24
Note 8 - Other assets and other liabilities	26
Note 9 - Employee future benefits	26
Note 10 - Debt outstanding	28
Note 11 - Share capital	29
Note 12 - Share-based payments	30
Note 13 - Additional information on the Interim Consolidated statement of cash flows	31
Note 14 - Related-party transactions	32
Note 15 - First-time adoption of IFRS	32

Intact Financial Corporation
Interim Consolidated balance sheet (unaudited)
(in millions of Canadian dollars)

As at	Note	March 31, 2011	December 31, 2010	January 1, 2010
Assets				
Investments	3			
Cash and cash equivalents		\$ 78	\$ 138	\$ 60
Debt securities		4,673	4,821	4,784
Preferred shares		1,584	1,503	1,582
Common shares		1,933	1,877	1,312
Loans		325	314	319
		8,593	8,653	8,057
Accrued investment income		58	43	43
Investments in associates		120	119	98
Premium receivables		1,635	1,762	1,640
Reinsurance assets		221	235	261
Income taxes receivable	7	10	52	40
Deferred tax assets	7	80	29	56
Deferred acquisition costs		398	420	396
Other assets	8	357	335	336
Property and equipment		45	46	46
Intangible assets		172	170	159
Goodwill		217	211	179
Total assets		\$ 11,906	\$ 12,075	\$ 11,311
Liabilities				
Claims liabilities	5	\$ 4,393	\$ 4,379	\$ 4,270
Unearned premiums		2,432	2,586	2,464
Financial liabilities	3	553	490	279
Income taxes payable	7	78	78	102
Deferred tax liabilities	7	23	28	21
Other liabilities	8	983	1,049	860
Debt outstanding	10	496	496	398
		8,958	9,106	8,394
Shareholders' equity				
Share capital	11	970	993	1,061
Contributed surplus		100	96	83
Retained earnings	15	1,613	1,596	1,527
Accumulated other comprehensive income	15	265	284	246
		2,948	2,969	2,917
Total liabilities and shareholders' equity		\$ 11,906	\$ 12,075	\$ 11,311

See accompanying notes to the unaudited Interim Consolidated financial statements.

Intact Financial Corporation
Interim Consolidated statement of comprehensive income (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

For the periods ended March 31,	Note	2011	2010
Direct premiums written	6	\$ 942	\$ 918
Net premiums earned	6	1,068	1,019
Net claims incurred	5	(687)	(636)
Underwriting expenses		(323)	(314)
		58	69
Impact of change in net claims discount rate	5	17	3
Underwriting income (loss)		75	72
Net investment income	3	73	73
Net investment gains (losses)	3	62	40
Share of profit from investments in associates		3	2
Other revenues		13	9
Other expenses		(12)	(7)
Finance costs	10	(7)	(6)
Net income (loss) before income tax expense (benefit)		207	183
Income tax expense (benefit)	7	50	42
Net income (loss) attributable to shareholders		\$ 157	\$ 141
Weighted average number of common shares, basic and diluted (in millions)		111	119
Earnings per share, basic and diluted (dollars)		\$ 1.42	\$ 1.19
Dividends paid per share (dollars)		\$ 0.37	\$ 0.34
Net income (loss) attributable to shareholders		\$ 157	\$ 141
Other comprehensive income (loss)			
Net actuarial gains (losses) on employee future benefits	9	8	(23)
Available-for-sale securities:			
Changes in net unrealized gains		62	29
Reclassification to income of net (gains) losses		(99)	(47)
Income tax benefit (expense)	7	10	9
Other comprehensive income (loss) for the period		(19)	(32)
Total comprehensive income (loss) attributable to shareholders		\$ 138	\$ 109

See accompanying notes to the unaudited Interim Consolidated financial statements.

Intact Financial Corporation
Interim Consolidated statement of changes in shareholders' equity (unaudited)

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as at January 1, 2011		\$ 993	\$ 96	\$ 1,596	\$ 284	\$ 2,969
Net income (loss) attributable to shareholders		-	-	157	-	157
Other comprehensive income (loss) for the period		-	-	-	(19)	(19)
Total comprehensive income (loss) for the period		-	-	157	(19)	138
Common shares repurchased for cancellation	11	(23)	-	(99)	-	(122)
Dividends paid		-	-	(41)	-	(41)
Share-based payments	12	-	4	-	-	4
Balance as at March 31, 2011		\$ 970	\$ 100	\$ 1,613	\$ 265	\$ 2,948
Balance as at January 1, 2010		\$ 1,061	\$ 83	\$ 1,527	\$ 246	\$ 2,917
Net income (loss) attributable to shareholders		-	-	141	-	141
Other comprehensive income (loss) for the period		-	-	-	(32)	(32)
Total comprehensive income (loss) for the period		-	-	141	(32)	109
Common shares repurchased for cancellation	11	(34)	-	(133)	-	(167)
Dividends paid		-	-	(40)	-	(40)
Share-based payments	12	-	2	-	-	2
Balance as at March 31, 2010		\$ 1,027	\$ 85	\$ 1,495	\$ 214	\$ 2,821

See accompanying notes to the unaudited Interim Consolidated financial statements.

Interim Consolidated statement of cash flows (unaudited)

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

For the periods ended March 31,	Note	2011	2010
Operating activities			
Net income (loss) attributable to shareholders		\$ 157	\$ 141
Adjustments for non-cash items	13	(94)	(70)
Changes in other operating assets and liabilities	13	(108)	(78)
Changes in net claims liabilities		29	(20)
Net cash flows provided by (used in) operating activities		(16)	(27)
Investing activities			
Proceeds from sale of investments		2,132	2,375
Purchases of investments		(1,994)	(2,105)
Purchases of brokerages and books of business, net of sales		(8)	(9)
Purchases of property and equipment and other		(11)	(10)
Net cash flows provided by (used in) investing activities		119	251
Financing activities			
Proceeds from issuance of debt	10	-	98
Common shares repurchased for cancellation	11	(122)	(167)
Dividends paid		(41)	(40)
Net cash flows provided by (used in) financing activities		(163)	(109)
Net increase (decrease) in cash and cash equivalents		(60)	115
Cash and cash equivalents, beginning of period		138	60
Cash and cash equivalents, end of period	13	\$ 78	\$ 175

See accompanying notes to the unaudited Interim Consolidated financial statements.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Note 1 - Basis of presentation

These unaudited Interim Consolidated financial statements of the Intact Financial Corporation (“Intact” or the “Company”) and its subsidiaries have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (“IAS 34”) and using the accounting policies the Company expects to adopt in its Consolidated financial statements as at and for the year ending December 31, 2011.

As these Interim financial statements are the Company’s first financial statements prepared using International Financial Reporting Standards (“IFRS”), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company’s most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) have been included in these financial statements.

For all periods up to and including the period ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS and as such, in preparing these financial statements, management has amended certain accounting policies previously applied in the Canadian GAAP financial statements to comply with IAS 34. The comparative figures for 2010 were restated to reflect these adjustments. Certain additional information and footnote disclosures which are considered material to the understanding of the Company’s financial statements prepared in accordance with IAS 34 are provided in Note 15 – *First-time adoption of IFRS* along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS.

The Interim Consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for investments in associates and financial instruments measured at fair value (see Note 2.1(b) for accounting policy details). Financial assets and liabilities are offset and the net amount is reported on the Interim Consolidated balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

The Company presents its Interim Consolidated balance sheet broadly in order of liquidity.

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally involving a shareholding of more than one half of the voting shares. The financial statements of all subsidiary companies are fully consolidated from the date control is transferred to the Company. They are deconsolidated from the date control ceases. All balances, transactions, income and expenses and profits and losses resulting from intercompany transactions and dividends are eliminated in full on consolidation.

Associates are those entities over which the Company exerts significant influence as defined under IFRS and are accounted for using the equity method. See Note 2.1(c) for accounting policy details.

In preparing these Interim Consolidated financial statements, the Company has adopted certain presentation standards. All amounts in these statements are in millions of Canadian dollars except as otherwise noted. Certain comparative figures have been reclassified to conform with the presentation adopted in the current period. Captions used in these Interim Consolidated financial statements and notes generally have words such as “Income”, “Profit”, “Earnings” and “Gains” placed before the words “Expense”, “Loss” and “Losses”.

Seasonality

The property and casualty insurance business is seasonal in nature. While net premiums earned are generally stable from quarter to quarter, net underwriting income is typically highest in the second quarter of each year. This is driven mainly by weather conditions which may vary significantly between quarters.

Note 2 - Summary of significant accounting policies

2.1 Significant accounting policies

a) Insurance contracts

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

Premium and commission revenue recognition

Premiums written are deferred as Unearned premiums and recognized as revenue, net of reinsurance, on a pro rata basis over the terms of the underlying policies, usually twelve months and generally no longer than twenty four months. Commission revenue is recorded on an accrual basis and included in Other revenue on the Interim Consolidated statement of comprehensive income.

Claims liabilities

Claims liabilities are reported gross of the reinsurers' share. The reinsurers' share is reported as an asset in Reinsurance assets.

Claims liabilities are estimated by the appointed actuary using standard actuarial techniques and based on assumptions such as historical loss development factors and payment patterns, future rates of insurance claims frequency and severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance policies. These liabilities are recognized on the Interim Consolidated balance sheet and changes are recognized in Net claims incurred on the Interim Consolidated statement of comprehensive income. The claims liabilities are only extinguished when the contract expires, is discharged or cancelled.

Claims liabilities are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in claims liabilities is a provision to account for the future development of these insurance claims, including insurance claims incurred but not reported by policyholders ("IBNR"), as well as a provision for adverse deviations, as required by Canadian accepted actuarial practice. Claims liabilities are discounted to take into account the time value of money.

Claims liabilities are discounted using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate.

Unearned premiums

Unearned premiums are calculated on a pro rata basis, from the unexpired portion of the premiums written and are recognized over the term of the insurance contract in Net premiums earned on the Interim Consolidated statement of comprehensive income.

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

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Deferred acquisition costs

Deferred acquisition costs comprise commissions, premium taxes and expenses directly related to the writing or renewal of insurance policies. They are deferred and amortized on the same basis as the unearned premiums and are reported in Underwriting expenses on the Interim Consolidated statement of comprehensive income.

Industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the Facility Association ("FA"). In addition, entities can choose to cede certain risks to FA administered risk sharing pools ("RSP"). The related risks associated with FA insurance policies and policies ceded by companies to the RSP are aggregated and shared by the entities in the Canadian Property and Casualty ("P&C") insurance industry, generally in proportion to market share and volume of business ceded to the RSP. The Company applies the same accounting policies to FA and RSP insurance it assumes as it does to insurance policies issued by the Company directly to policyholders.

In accordance with the Office of the Superintendent of Financial Institutions Canada ("OSFI") guidelines, assumed and ceded RSP premiums are reported in Direct premiums written. In addition, the Company acts as a "facility carrier" responsible for the administration of a portion of the FA policies. In exchange for providing these services the Company receives fees. Policy issuance fees are earned immediately while claims handling fees are deferred and earned over the servicing life of the claims.

Reinsurance

Reinsurance assets include reinsurers' share of claims liabilities and unearned premiums. The Company reports reinsurance balances on the Interim Consolidated balance sheet on a gross basis to indicate the extent of credit risk related to reinsurance. The estimates for the reinsurers' share of claims liabilities are presented as an asset and are determined on a basis consistent with the related claims liabilities. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Reinsurance liabilities are reported in Other liabilities and relate to ceded premiums written as well as reinstatement premiums payable. Refer to Note 4 – *Insurance risk* for further details.

Structured settlements

The Company enters into annuity agreements with various Canadian life insurance companies that have credit ratings of at least A- or higher at the inception date of the contract to provide for fixed and recurring payments to claimants. As a result, the liability to its claimants is substantially discharged and the Company removes that liability from its Interim Consolidated balance sheet. However, the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations.

b) Financial instruments contracts

The Company has classified or designated its financial assets and liabilities in the following categories:

- available-for-sale,
- financial assets and liabilities at fair value through profit or loss ("FVTPL"), formerly held-for-trading ("HFT"),
- cash and cash equivalents, loans and receivables, or
- other financial liabilities.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

The table below summarizes the Company's initial and subsequent measurement basis of financial instruments, as well as the reporting of related changes in fair value based on classification category.

Table 2.1 - Financial instruments measurement basis and classification of related changes in fair value

Classification category	Initial measurement	Subsequent measurement	Changes in fair value
Financial assets			
Available-for-sale instruments	Fair value using bid prices at the trade date	Fair value using bid prices at period end	Reported on the Interim Consolidated statement of comprehensive income (in Other comprehensive income (loss) when unrealized or in Net investment gains (losses) when realized or impaired)
Fair value through profit or loss instruments	Fair value using bid prices at the trade date	Fair value using bid prices at period end	Reported on the Interim Consolidated statement of comprehensive income (in Net investment gains (losses))
Cash and cash equivalents, loans and receivables	Fair value at the issuance date	Amortized cost using the effective interest method	Reported on the Interim Consolidated statement of comprehensive income (in Net investment gains (losses)) when realized or impaired
Financial liabilities			
Fair value through profit or loss instruments	Fair value using ask prices at the trade date	Fair value using ask prices at period end	Reported on the Interim Consolidated statement of comprehensive income (in Net investment gains (losses))
Other financial liabilities	Fair value at the issuance date	Amortized cost using the effective interest method	Reported on the Interim Consolidated statement of comprehensive income (in Net investment gains (losses)) when the liability is extinguished

Financial instruments are no longer recognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial instruments

Available-for-sale instruments

As described in Table 2.1, non-derivative available-for-sale financial assets are recorded at fair value on the Interim Consolidated balance sheet on the trade date and changes in fair values are recorded, net of income taxes, in Other comprehensive income (loss) ("OCI") until the financial asset is disposed of, or has become impaired (see Table 3.2 for fair value and unrealized gains and losses). When the asset is disposed of, or has become impaired, the gain or loss is reported in Net investment gains (losses) on the Interim Consolidated statement of comprehensive income and the amount is deducted from OCI. Gains and losses on the sale of available-for-sale debt and equity securities are calculated on a first in, first out basis and on an average cost basis, respectively.

Fair value through profit or loss instruments

Non-derivative financial assets and liabilities at fair value through profit or loss are purchased or incurred with the intention of generating profits in the near term ("classified as fair value through profit or loss") or are voluntarily so designated by the Company ("designated as fair value through profit or loss").

The Company designated a portion of its debt securities that are backing its claims liabilities as fair value through profit or loss. This designation aims to reduce the volatility caused by the fluctuations in fair values of underlying claims liabilities due to changes in discount rates. To comply with regulatory guidelines, the Company ensures that the weighted dollar duration of the debt securities designated as fair value through profit or loss is approximately equal to the weighted dollar duration of the claims liabilities. The rate used to discount claims liabilities is calculated based on a dollar match of investments backing these claims liabilities.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Cash and cash equivalents

Cash and cash equivalents consist of cash as well as highly liquid investments that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Loans and receivables

Loans issued to third parties and associates are accounted for at amortized cost using the effective interest rate method.

Debt outstanding

The Company's medium term notes together with associated issuance costs are classified as Debt outstanding and accounted for at amortized cost using the effective interest method.

Mutual fund investments

The Company invests in two mutual funds offered by a third party. These funds invest mainly in equities and distribute most of their income. The Company's participation in these investment vehicles can fluctuate from day to day based on the amount invested by the Company and third parties. When the Company is deemed to control such vehicles, they are consolidated and the third party interest liability is recorded at fair value and disclosed as Net asset value attributable to third party unit holders (Note 8 - *Other assets and other liabilities*).

Derivative financial instruments

Derivative financial instruments are used for risk management purposes. Currency swaps, options, forwards, futures, and total return swaps are held for non-trading purposes to mitigate foreign exchange and market risks.

Derivative financial instruments are recognized at their fair value, with changes in the fair value reported on the Interim Consolidated statement of comprehensive income in Net investment gains (losses) during the period in which they arise.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (the "host instrument"). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument. The terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and therefore the embedded derivatives are designated or classified separately from the host contract. Embedded derivatives are classified as financial assets and liabilities at fair value through profit or loss.

Long-term investments

Long-term investments are unquoted investments for which the Company has no significant influence. These investments are not traded and as such are carried at cost less any accumulated impairment losses, which approximates fair value. The investments are included in Other assets on the Interim Consolidated balance sheet.

Fair value measurement

The fair value of financial instruments on initial recognition is normally the transaction price, being the fair value of the consideration given or received.

Subsequent to initial recognition, the fair values of financial instruments are determined based on available information and categorized according to a three-level fair values hierarchy.

All derivatives are carried as financial assets when the fair value is positive and as a financial liability when the fair value is negative. Where the fair values of financial assets and financial liabilities reported on the Interim Consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

For discounted cash flow analyses, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments, currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

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

Impairment of financial assets

The Company determines, at each balance sheet date, whether there is objective evidence that financial instruments, other than fair value through profit or loss, are impaired. Objective evidence of impairment for an available-for-sale equity instrument would include a significant or prolonged decline in fair value of the instrument below its cost. An available-for-sale debt instrument is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows. The following table demonstrates the measurement and recognition of impairment losses for each type of financial asset.

Table 2.2 - Measurement and recognition of financial asset impairment

Instrument category	Loss measurement	Reported loss	Subsequent fair value increases
Available-for-sale equity instrument	Difference between acquisition cost and current fair value less any impairment loss previously recognized on that instrument	Impairment loss removed from OCI and recognized in Net investment gains (losses) on the Interim Consolidated statement of comprehensive income	Recognized directly in OCI
Available-for-sale debt instrument	Difference between unamortized cost and current fair value less any impairment loss previously recognized on that instrument	Impairment loss removed from OCI and recognized in Net investment gains (losses) on the Interim Consolidated statement of comprehensive income	Recognized in Net income (loss) attributable to shareholders when there is observable positive development on the original impairment loss event. Otherwise, recognized to OCI
Financial assets carried at amortized cost	Difference between the asset's carrying value and the present value of the estimated future cash flows	Impairment loss is recognized directly in Net income (loss) attributable to shareholders on the Interim Consolidated statement of comprehensive income	Recognized in Net income (loss) attributable to shareholders when there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized
Financial assets carried at cost	Difference between the asset's carrying value and the present value of the estimated future cash flows	Impairment loss is recognized directly in Net income (loss) attributable to shareholders on the Interim Consolidated statement of comprehensive income	Impairment losses are not reversed

c) Investments in associates

The Company's investments in associates are accounted for using the equity method. Investments in associates are reported on the Interim Consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates. The Company's profit from investments in associates is shown on the Interim Consolidated statement of comprehensive income and reflects the share of the results of operations of the associates after tax. Profits or losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate. The Company determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies of associates in line with those of the Company.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

d) Revenue and expense recognition

Dividends are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date. Dividends paid on instruments sold short are recorded as interest expense. Interest income from debt securities and loans are recognized on an accrual basis. Dividends received, dividends paid on equities sold short and interest income are all reported in Net investment income on the Interim Consolidated statement of comprehensive income.

Transaction costs associated with financial instruments classified or designated as fair value through profit or loss are recognized on the Interim Consolidated statement of comprehensive income as incurred. For other financial instruments, transaction costs are capitalized on initial recognition and amortized using the effective interest method. Premiums earned or discounts incurred for loans and available-for-sale securities are also amortized using the effective interest method.

e) Income taxes

Income tax expense (benefit) comprises current and deferred tax. Income tax is recognized in Net income (loss) attributable to shareholders on the Consolidated statement of comprehensive income except to the extent that it relates to items recognized in OCI or directly to equity.

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the balance sheet date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantively enacted as at the balance date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

f) Employee future benefits

Pension and post retirement plans

The present value of the accrued benefit obligations of defined benefit pension and other retirement plans, net of the fair value of plan assets are recognized on the Interim Consolidated balance sheet. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method based on services provided by employees and management's best estimate assumptions. See Note 9 - *Employee future benefits*. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in OCI and reported on the Interim Consolidated statement of comprehensive income in the period in which they occur. Cumulative gains and losses are reported in Accumulated other comprehensive income on the Interim Consolidated balance sheet. These actuarial gains and losses are not reclassified to Net income (loss) attributable to shareholders in subsequent periods.

Costs, recognized on the Interim Consolidated statement of comprehensive income, for employee future benefit plans include:

- the cost of pension benefits provided in exchange for employees' services rendered during the period,
- the interest cost of pension obligations and
- the expected long-term return on the fair value of plan assets.

Post employment benefits

Health and dental benefits continue to be provided to eligible employees who are absent from work due to long-term disability (or other approved leave) for the duration of their leave. The estimated present value of these benefits is charged to Net income (loss) attributable to shareholders on the Interim Consolidated statement of comprehensive income in the period the absence commences.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

g) Share-based payments

The Company has three types of stock-based compensation plans:

Long-term incentive plan

Members of Management and certain key employees are entitled to the long term incentive program of the Company ("LTIP"). Under the 2005 LTIP, these employees were granted each year share units as a portion of their remuneration. Each such award vests and is paid out in shares at the end of a three-year performance cycle based on determined Company's metrics relative to the Canadian P&C insurance industry (the "industry"); such shares are restricted and cannot be traded for an additional period of two years after vesting.

The Board of Directors approved a change in the LTIP in 2010. Under this new program, participants are awarded notional share units referred to as Performance Stock Units ("PSUs") and Restricted Stock Units ("RSUs"). The payout for the PSUs is based on a specific target composed of the difference between the three-year average return on equity of the company and that of the Canadian P&C industry. RSUs automatically vest three years from the year of the grant. Vesting for RSUs is not linked to Company's performance.

The Company re-estimates the number of awards that are expected to vest at each reporting period. At the time of the payout, the Company purchases on the market an amount of common shares based upon the performance targets achieved with respect to the vesting of the performance units and an amount of common shares equal to the amount of restricted stock units with respect to the vesting of restricted stock units. This type of compensation is measured at the quoted market value of the award at the grant date and recognized as an expense over the vesting period with a corresponding increase reported in Contributed surplus.

Employee share purchase plan

Employees who are not eligible for the LTIP are entitled to make contributions to a voluntary employee share purchase plan ("ESPP"). Under the ESPP, eligible employees can contribute up to 10% of their annual base salary through a payroll deduction. As an incentive to participate to the plan, the Company contributes to the plan an amount equal to 50% of the employee contribution. The common shares are purchased on the market by an independent broker at the end of each month and are held by a custodian on behalf of the employees. The common shares purchased with the Company's contributions vest upon continued employment for a period of twelve months. The Company's contributions under the ESPP are accrued and expensed over the vesting period.

Deferred share unit plan

Non-employee directors of the Company are eligible to participate to the Company's deferred share unit ("DSU") Plan. Subject to part of their remuneration that must be received in DSUs or shares of the Company, the directors are given the choice of cash, Intact shares, DSUs, or a combination of the three for their compensation. Both the shares and the DSUs vest at the time of the grant. The DSUs are redeemed upon director termination and are settled for cash at that time. When directors elect to receive shares, the Company makes instalments to the share agent for the purchase of Intact shares on behalf of the directors. The Company records the expense for cash payments when paid and for share payments when instalments are made to the share agent. The DSUs are cash-settled awards which are accounted for as an expense at the time of granting with a corresponding financial liability reported in Other liabilities. This liability is re-measured at each reporting date based on current share price with any fluctuations in the liability also recorded as an expense until it is settled in cash.

h) Acquisitions and disposals

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the fair value of the consideration transferred, measured at acquisition date and the amount of any non-controlling interest in the acquiree. Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the Company's share in the net identifiable assets acquired and liabilities assumed. Acquisition-related costs are recognized directly in Net income (loss) attributable to shareholders on the Interim Consolidated statement of comprehensive income in the period they are incurred.

The gain or loss on the disposal of books of business is measured as the difference between the proceeds and the carrying value of the net assets disposed. The gain or loss is recognized in Net income (loss) attributable to shareholders on the Interim Consolidated statement of comprehensive income in the period it is incurred.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

i) Goodwill and intangible assets

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested at least annually for impairment. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the cash generating unit (CGU) that is expected to benefit from the combination. Gains and losses calculated on the disposal of a business include the carrying value of goodwill relating to the business sold. The Company performs its annual test for goodwill impairment at December 31. The Company currently has one CGU (see note 2.1 n) Operating segments for details). The recoverable amount of the CGU was determined based on the present value of expected future cash flows. No impairment losses in respect of goodwill were recognized in 2010 or the first quarter of 2011 as the recoverable amount the Company's CGU was greater than its carrying value.

Intangible assets acquired separately are measured initially at cost. Intangible assets acquired in a business combination are recorded at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite lives, as well as those intangibles that are under development, are not subject to amortization, but are tested for impairment on an annual basis. Gains and losses arising from the disposition or impairment of an intangible asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in Other revenues or Other expenses on the Interim Consolidated statement of comprehensive income.

The Company's intangible assets consist of customer relationships, rights to offer renewals, and internally developed software. These have all been assessed as having finite lives and amortization methods and rates are shown below.

	<u>Method</u>	<u>Rate or term</u>
Customer relationships including rights to offer renewals	Straight-line	10 years
Internally developed software	Straight-line	3 to 7 years

j) Earnings per share

Earnings per share are computed by dividing Net income (loss) attributable to shareholders by the weighted average number of common shares outstanding for the period. The Company has not issued any share options and therefore diluted earnings per share are the same as earnings per share.

k) Property and equipment

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

	<u>Method</u>	<u>Rate or term</u>
Computer equipment	Straight-line	30 – 36 months
Furniture and equipment	Declining balance and straight-line	20% and 60 months, respectively
Leasehold improvements	Straight-line	Over the terms of related leases

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

l) Current vs non current

Assets are classified as current when expected to be realized within the Company's normal operating cycle of one year. Liabilities are classified as current when expected to be settled within the Company's normal operating cycle of one year. All other assets and liabilities are classified as non current.

The Company's Interim Consolidated balance sheet is not presented using current and non current classifications. However, the following balances are generally classified as current: Cash and cash equivalents, Investments, Accrued investment income, Premium receivables, Reinsurance assets, Income taxes receivable, Deferred acquisition costs, Unearned premiums, Financial liabilities and Income taxes payable.

The following balances are generally classified as non current: Investments, Investments in associates, Deferred tax assets, Property and equipment, Intangible assets, Goodwill, Financial liabilities, Deferred tax liabilities, Other liabilities and Debt outstanding.

m) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to Net income (loss) attributable to shareholders on the Interim Consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

n) Operating segments

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

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

2.2 Standards issued but not yet effective

a) Financial instruments: Classification and Measurement

In November 2009, the IASB issued IFRS 9 - *Financial Instruments*. This standard represents the completion of the first part of a three-part project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. The new standard reduces complexity by replacing the many different rules in IAS 39. The key features for the new standard are as follows:

- a business model test is applied first in determining whether a financial asset is eligible for amortised cost measurement. The business model objective is based on holding financial assets in order to collect contractual cash flows rather than realizing cash flows from the sale of the financial assets,
- in order to be eligible for amortized cost measurement an asset must have contractual cash flow characteristics representing principal and interest,
- all other financial assets are measured at fair value on the Interim Consolidated balance sheet,
- an entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in OCI. The dividends on investments for which this election is made must be recognized in Net income (loss) attributable to shareholders but gains or losses are not removed from OCI when the equity investment is disposed of, and
- if a financial asset is eligible for amortized cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.

The standard is effective for years beginning on or after January 1, 2013. The Company is currently analyzing the impact this standard will have on its Interim Consolidated financial statements.

2.3 Significant accounting judgments, estimates and assumptions

The carrying values of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next annual reporting period are:

a) Valuation of claims liabilities

The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business line and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

b) Valuation of pension benefit obligation

The cost of defined benefit pension plans and other post employment benefit plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in the assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates are contained in Note 9.4.

c) Impairment

Goodwill and intangible assets

The Company determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. Also, intangible assets under development are not subject to amortization but are tested for impairment on an annual basis. Impairment testing of these assets requires an estimation of the recoverable amount of the cash generating units to which the assets are allocated.

Financial assets

The Company determines whether financial assets, other than fair value through profit or loss, are impaired at each Consolidated balance sheet date. These financial assets are impaired when there is objective evidence of a decline in fair value below cost. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value of an available-for-sale equity instrument and a loss event that has occurred impairing the expected cash flows of an available-for-sale debt instrument. For asset-backed securities, considerations include liquidity risk, credit risk, volatility, discount rates, prepayment rates and default rate assumptions.

d) Measurement of embedded derivatives

The Company owns perpetual preferred shares with call options which give the issuer the right to redeem the shares at a particular price. Accounting standards require the value of the option liability to be measured separately from the preferred shares. The value of the option liability for embedded derivatives is determined using a valuation which relies predominantly on the price volatility of the underlying preferred shares, which can be significantly affected by market conditions. Judgment is also required to determine the time period over which the volatility is measured.

e) Measurement of income taxes

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

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Note 3 - Financial instruments

The following tables summarize the Company's investments.

Table 3.1 - Investments by classification

As at March 31, 2011	Available- for-sale	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Cash and cash equivalents, loans and receivables	Total
Cash and cash equivalents	-	-	-	78	78
Debt securities					
Short-term notes	242	-	-	-	242
Fixed income					
Investment grade					
Government	1,198	-	1,559	-	2,757
Corporate	693	-	929	-	1,622
Asset-backed	52	-	-	-	52
Total debt securities	2,185	-	2,488	-	4,673
Preferred shares					
Investment grade					
Retractable	238	26	-	-	264
Fixed rate perpetual	542	90	-	-	632
Other perpetual	576	105	-	-	681
Non rated					
Fixed rate perpetual	7	-	-	-	7
Total preferred shares	1,363	221	-	-	1,584
Common shares	1,070	451	412	-	1,933
Loans	-	-	-	325	325
Total investments	4,618	672	2,900	403	8,593
As at December 31, 2010					
Cash and cash equivalents	-	-	-	138	138
Debt securities					
Short-term notes	363	-	-	-	363
Fixed income					
Investment grade					
Government	1,345	-	1,591	-	2,936
Corporate	638	-	832	-	1,470
Asset-backed	52	-	-	-	52
Total debt securities	2,398	-	2,423	-	4,821
Preferred shares					
Investment grade					
Retractable	241	25	-	-	266
Fixed rate perpetual	565	75	-	-	640
Other perpetual	506	85	-	-	591
Non rated					
Fixed rate perpetual	6	-	-	-	6
Total preferred shares	1,318	185	-	-	1,503
Common shares	1,021	438	418	-	1,877
Loans	-	-	-	314	314
Total investments	4,737	623	2,841	452	8,653
As at January 1, 2010					
Cash and cash equivalents	-	-	-	60	60
Debt securities					
Short-term notes	211	-	-	-	211
Fixed income					
Investment grade					
Government	1,628	-	1,631	-	3,259
Corporate	522	-	689	-	1,211
Asset-backed	103	-	-	-	103
Total debt securities	2,464	-	2,320	-	4,784
Preferred shares					
Investment grade					
Retractable	304	17	-	-	321
Fixed rate perpetual	777	45	-	-	822
Other perpetual	391	48	-	-	439
Total preferred shares	1,472	110	-	-	1,582
Common shares	727	201	384	-	1,312
Loans	-	-	-	319	319
Total investments	4,663	311	2,704	379	8,057

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 3.2 - Carrying value of investments

	FV TPL	Other investments				Total
	instruments	Unamortized	Unrealized	Unrealized	Net	investments
As at March 31, 2011	At fair value	cost	gains	losses	unrealized	At carrying
					gains (losses)	value
Cash and cash equivalents	-	78	-	-	-	78
Debt securities						
Short-term notes	-	242	-	-	-	242
Fixed income						
Investment grade						
Government	1,559	1,188	14	(4)	10	2,757
Corporate	929	685	9	(1)	8	1,622
Asset-backed	-	51	1	-	1	52
Total debt securities	2,488	2,166	24	(5)	19	4,673
Preferred shares						
Investment grade						
Retractable	26	235	6	(3)	3	264
Fixed rate perpetual	90	382	160	-	160	632
Other perpetual	105	461	115	-	115	681
Non rated						
Fixed rate perpetual	-	4	3	-	3	7
Total preferred shares	221	1,082	284	(3)	281	1,584
Common shares	863	969	111	(10)	101	1,933
Loans	-	325	-	-	-	325
Total investments	3,572	4,620	419	(18)	401	8,593
As at December 31, 2010						
Cash and cash equivalents	-	138	-	-	-	138
Debt securities						
Short-term notes	-	363	-	-	-	363
Fixed income						
Investment grade						
Government	1,591	1,320	26	(1)	25	2,936
Corporate	832	627	12	(1)	11	1,470
Asset-backed	-	51	1	-	1	52
Total debt securities	2,423	2,361	39	(2)	37	4,821
Preferred shares						
Investment grade						
Retractable	25	239	6	(4)	2	266
Fixed rate perpetual	75	418	147	-	147	640
Other perpetual	85	396	110	-	110	591
Non rated						
Fixed rate perpetual	-	3	3	-	3	6
Total preferred shares	185	1,056	266	(4)	262	1,503
Common shares	856	882	150	(11)	139	1,877
Loans	-	314	-	-	-	314
Total investments	3,464	4,751	455	(17)	438	8,653
As at January 1, 2010						
Cash and cash equivalents	-	60	-	-	-	60
Debt securities						
Short-term notes	-	211	-	-	-	211
Fixed income						
Investment grade						
Government	1,631	1,625	13	(10)	3	3,259
Corporate	689	506	16	-	16	1,211
Asset-backed	-	100	3	-	3	103
Total debt securities	2,320	2,442	32	(10)	22	4,784
Preferred shares						
Investment grade						
Retractable	17	307	10	(13)	(3)	321
Fixed rate perpetual	45	609	168	-	168	822
Other perpetual	48	310	81	-	81	439
Total preferred shares	110	1,226	259	(13)	246	1,582
Common shares	585	650	80	(3)	77	1,312
Loans	-	319	-	-	-	319
Total investments	3,015	4,697	371	(26)	345	8,057

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

As at March 31, 2011, asset-backed securities consisted of auto loan receivables, credit card receivables and commercial mortgage-backed securities. All of these asset-backed securities are AAA rated as of March 31, 2011 and December 31, 2010.

As at March 31, 2011, the fair value of the loans was \$334 (December 31, 2010 - \$330). The fair value was established using valuation techniques that used both input parameters based on observable market data and input parameters not based on observable market data.

The Company uses Dominion Bond Rating Services ("DBRS") and Standard & Poor's ("S&P") to rate debt securities and preferred shares. Debt securities with a rating equal to or above BBB- are classified as investment grade and other rated debt securities are classified as below investment grade. Preferred shares with a rating equal to or above P3 low are classified as investment grade and those rated below P3 low are classified as below investment grade or non rated.

3.1 Equities sold short

Among the Company's various investment strategies is a market neutral equity investment strategy. The objective of this strategy, which consists of having both long and short equity positions, is to maximize the value added from active equity portfolio management while at the same time using short positions to mitigate overall equity market volatility. Long positions are reported in Common shares and short positions are reported in Financial liabilities on the Interim Consolidated balance sheet.

The Company has secured its short positions by pledging government debt securities as collateral.

Table 3.3 - Long and short positions

	March 31, 2011		December 31, 2010		January 1, 2010	
	Fair value	Debt securities pledged as collateral	Fair value	Debt securities pledged as collateral	Fair value	Debt securities pledged as collateral
Long positions	398	-	398	-	184	-
Short positions	(399)	411	(397)	407	(183)	183

The following table details the Company's financial liabilities.

Table 3.4 - Details of the Company's financial liabilities

As at	March 31, 2011	December 31, 2010	January 1, 2010
Accounts payable to investment brokers on unsettled trades	71	10	13
Equities sold short positions (Table 3.3)	399	397	183
Derivative liabilities	4	16	16
Embedded derivatives	79	67	67
Total financial liabilities	553	490	279

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

The following table provides additional details about the items reported in Net investment income and Net investment gains (losses).

Table 3.5 - Details of the Company's net investment income and net investment gains (losses)

For the periods ended	March 31, 2011	March 31, 2010
Amounts reported in Net investment income		
Interest income from:		
Financial instruments at fair value through profit or loss	24	24
Available-for-sale financial instruments	18	19
Loans and receivables	5	5
Total interest income	47	48
Dividend income (expense) from:		
Dividends paid on equities sold short	(3)	(2)
Financial instruments at fair value through profit or loss, net	7	6
Available-for-sale financial instruments	27	26
Dividends from long term investments	1	-
Total dividend income	32	30
Expenses	(6)	(5)
Net investment income	73	73
Amounts reported in Net investment gains (losses)		
Net realized gains (losses) from:		
Financial instruments classified as fair value through profit or loss	(3)	5
Financial instruments designated as fair value through profit or loss	6	20
Derivative financial instruments	(29)	(26)
Available-for-sale financial instruments	103	54
Embedded derivatives	(13)	(10)
Impairment losses of:		
Common share equity securities	(2)	(3)
Other net gains (losses)	-	-
Net investment gains (losses)	62	40

Table 3.6 - Fair values and notional amounts of derivatives

As at March 31, 2011	Fair value		Notional amount
	positive	negative	
Held for non-trading purposes			
Foreign currency exposure			
Forwards	-	-	29
Swaps	4	-	27
Interest rate exposure			
Futures	-	-	75
Equity exposure			
Total return swaps	-	3	411
Options	1	-	12
Credit default swaps	-	1	48
Total	5	4	
As at December 31, 2010			
Held for non-trading purposes			
Foreign currency exposure			
Forwards	-	-	32
Swaps	4	-	27
Interest rate exposure			
Futures	-	-	75
Equity exposure			
Total return swaps	-	15	412
Options	-	-	13
Credit default swaps	-	1	50
Total	4	16	

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Note 4 - Insurance risk

4.1 Insurance risk and management

The Company principally underwrites automobile, home and commercial property contracts to individuals and small to medium size businesses. Claims risk mostly comprises risks associated with:

- underwriting and pricing risks,
- fluctuation in the timing, frequency and severity of claims relative to expectations,
- large unexpected losses arising from a single event such as a catastrophe event, and
- inadequate reinsurance protection.

a) Underwriting

The majority of the insurance risk that the Company is exposed to is of a short-tail nature as the average duration of claims liabilities is 2.2 years as at March 31, 2011, unchanged from March 31, 2010. Policies generally cover a twelve month period, with the exception of a portion of the personal line insurance contracts where coverage is for a two year period.

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

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

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

As at March 31, 2011 written premiums were derived from Personal Auto 48% (March 31, 2010 – 49%), Personal Property 23% (March 31, 2010 – 22%), Commercial Automobile 8% (March 31, 2010 – 8%) and Commercial P&C 21% (March 31, 2010 – 21%). The provincial split of written premium revenue was Ontario 46% (March 31, 2010 – 46%), Quebec 23% (March 31, 2010 – 24%), Alberta 20% (March 31, 2010 – 19%) and other provinces 11% (March 31, 2010 – 11%).

The Enterprise Risk Committee monitors the Company's overall risk profile, aiming for a balance between risk, return and capital and determines policies concerning the Company's risk management framework. The committee's mandate is to identify, measure and monitor risks and avoid risks that are outside of the Company's risk tolerance level. Further, in order to minimize unforeseen risks, new products are subject to an internal product and approval review process.

b) Claims management and reinsurance

An objective of the Company is to ensure that sufficient claims liabilities are established to cover future insurance claim payments. The Company's success depends upon the ability to accurately assess the risk associated with the insurance contracts underwritten by the Company. The Company establishes claims liabilities to cover the estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claims liabilities do not represent an exact calculation of the liability. Rather, claims liabilities are the Company's estimates of its expected ultimate cost of resolution and administration of claims. Expected inflation is taken into account when estimating claims liabilities, thereby mitigating inflation risk.

Overseen by the Company's Insurance Committee, strict claim review policies are in place to assess all new and ongoing claims. In addition, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims reduce the risk exposure of the Company. Further, the Company enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that could negatively impact the business. The Company has

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

established a Large Loss Committee responsible for analysing large losses and litigious files to ensure that appropriate claims liabilities are established and approved.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and hail or wind storms). The placement of ceded reinsurance is almost exclusively on an excess-of-loss basis (per event or per risk) as per practice, actuarial norms and regulatory guidelines. Under such programs, management considers that in order for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes significant insurance risk related to the underlying reinsured contracts and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claims liabilities and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its contract holders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company evaluates reinsurance recoverables and receivables at each balance sheet date and provides for reinsurance amounts deemed uncollectible. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. The Company has collateral in place to support amounts receivable and recoverable from non registered reinsurers.

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect the Company's ceded premium volume and profitability. Reinsurance companies exclude some coverages from the contracts that the Company purchases from them or may alter the terms of such contracts from time to time. These gaps in reinsurance protection expose the Company to greater risk and greater potential loss and could adversely affect its ability to underwrite future business. Where the Company cannot successfully mitigate risk through reinsurance arrangements, consideration is given to reducing premiums written in order to lower its risk.

c) Sensitivity to insurance risk

The principal assumption underlying the claims liabilities estimates is that the Company's future claims development will follow a similar pattern to past claims development experience.

These estimates are based on various quantitative and qualitative factors, including:

- average claim costs including claim handling costs;
- average claims by accident year;
- trends in claims severity and frequency; and
- other factors such as inflation, expected or in-force government pricing and coverage reforms, and the level of insurance fraud.

Most or all of the qualitative factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Company's ability to accurately assess the risk of the insurance contracts that the Company underwrites. In addition, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Company and additional lags between the time of reporting and final settlement of claims.

The Company refines its claims liabilities estimates on an ongoing basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process and the policies surrounding this are overseen by the Company's Reserve Review Committee.

The claims liabilities sensitivity to certain key assumptions is outlined below in table 4.1. It has not been possible to quantify the sensitivity to certain assumptions due to their nature. The analysis below is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on Net income (loss) before income tax expense (benefit) and shareholders' equity. Movements in these assumptions may be non-linear and may be correlated with one another.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 4.1 - Sensitivity analysis

Sensitivity factors	Change in assumptions	Impact on Net income before income tax expense	Impact on Shareholders' equity
Average number of claims incurred but not reported	+5%	(40)	(29)
Average incurred claims settlement cost	+5%	(199)	(143)

Note 5 - Insurance assets and liabilities

5.1 Movement of insurance assets and liabilities

Claims liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the period end date, including insurance claims incurred but not reported. The ultimate cost of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the insurance claims incurred.

The following table presents the movement of the Company's net claims liabilities during the year.

Table 5.1 - Movement of the Company's claims liabilities

For the periods ended	Direct contract liabilities	Ceded contract liabilities	Net contract liabilities
March 31, 2011			
Balance, beginning of period	4,379	216	4,163
Current period claims	771	3	768
Prior year (favourable) claims development	(80)	1	(81)
Total claims incurred	691	4	687
Increase (decrease) due to changes in discount rate	(18)	(1)	(17)
Claims paid	(659)	(18)	(641)
Balance, end of period	4,393	201	4,192
March 31, 2010			
Balance, beginning of period	4,270	243	4,027
Current period claims	712	1	711
Prior year (favourable) claims development	(72)	3	(75)
Total claims incurred	640	4	636
Increase (decrease) due to changes in discount rate	(3)	-	(3)
Claims paid	(674)	(21)	(653)
Balance, end of period	4,233	226	4,007

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Note 6 - Revenue

6.1 Total revenue

Table 6.1 - Total revenue

For the periods ended	March 31, 2011	March 31, 2010
Net premium earned	1,068	1,019
Interest income	47	48
Dividend income	32	30
Net investment gains (losses)	62	40
Share of profit from investments in associates	3	2
Other revenues	13	9
Total revenue for the period	1,225	1,148

Table 6.2 - Impact of reinsurance

For the periods ended	March 31, 2011	March 31, 2010
Premiums written		
Direct	942	918
Ceded	(28)	(25)
Net	914	893
Changes in unearned premiums	154	126
Net premiums earned	1,068	1,019

Note 7 - Income taxes

7.1 Income tax expense (benefit)

The following table shows the major components of income tax expense (benefit) for the periods ended March 31, 2011 and 2010.

Table 7.1 - Consolidated statement of comprehensive income

For the periods ended	March 31, 2011	March 31, 2010
Current tax expense (benefit)		
Current year	99	96
Prior year adjustment	-	(2)
	99	94
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	(49)	(52)
	(49)	(52)
Income tax expense (benefit)	50	42
Income tax recorded in other comprehensive income		
Net actuarial gains (losses) on employee future benefit plans	2	(6)
Net changes in unrealized gains (losses) on available-for-sale instruments	16	9
Reclassification to income of net (gains) losses on available-for-sale instruments	(28)	(12)
Total income tax expense (benefit) recorded in other comprehensive income	(10)	(9)

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 7.2 - Effective tax rate reconciliation

	March 31, 2011 %	March 31, 2010 %
Income tax expense calculated at statutory tax rates	28.0	30.3
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	(4.4)	(5.0)
Other	0.7	(2.4)
Effective income tax rate	24.3	22.9

7.2 Components of deferred tax assets and liabilities

Table 7.3 - Components of deferred income tax assets and liabilities

	Consolidated balance sheet			Interim Consolidated statement of comprehensive income	
	March 31, 2011	December 31, 2010	January 1, 2010	March 31, 2011	March 31, 2010
Deferred tax assets					
Net claims liabilities	56	56	58	-	-
Investments	-	-	3	-	-
Expenses deferred for tax purposes	33	35	36	(2)	-
Property and equipment	3	3	4	-	-
Losses available for carry-forward	6	16	15	(10)	3
Post employment benefit plans	10	10	3	-	7
Other	1	1	1	-	-
Total deferred tax assets	109	121	120	(12)	10
Deferred tax liabilities					
Deferred income for tax purposes	6	77	42	(71)	(43)
Deferred gains and losses on specified debt obligations	23	23	28	-	(1)
Investments	2	2	-	-	(9)
Property and equipment	8	8	6	-	-
Other	12	10	9	2	1
Total deferred tax liabilities	51	120	85	(69)	(52)
Reported in:					
Deferred tax assets	80	29	56		
Deferred tax liabilities	23	28	21		
Income tax expense (benefit) reported to net income				(49)	(52)
Income tax expense (benefit) reported to other comprehensive income				(8)	(10)

The Company recognized a deferred tax asset for all of its unused non-capital losses as at March 31, 2011 and December 31, 2010. A deferred tax liability has not been recognized in respect of the investments in associates.

At March 31, 2011, the Company had allowable capital losses of \$56 (December 31, 2010 – \$56), which had not been recognized when computing the deferred tax asset. These losses, which have no expiry date, can be used to reduce future taxable capital gains.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Note 8 - Other assets and other liabilities

8.1 Components of other assets

Table 8.1 - Components of other assets

As at	March 31, 2011	December 31, 2010	January 1, 2010
Other receivables	263	248	245
Pension asset (Note 9)	60	56	60
Long-term investments, at cost	19	19	21
Prepays	11	9	8
Other	4	3	2
Total other assets	357	335	336

During the reporting period, there were no events or changes in circumstances that indicated that the carrying values of the long-term investments may not be recoverable. Total dividends received from investments carried at cost amounted to \$1 for the period ended March 31, 2011 (December 31, 2010 - \$2) and are reported in Net investment income.

8.2 Components of other liabilities

Table 8.2 - Components of other liabilities

As at	March 31, 2011	December 31, 2010	January 1, 2010
Premium and sale taxes payable	65	104	93
Commissions payable	97	170	119
Industry pools payable	210	216	229
Employee future benefit obligation	90	96	71
Net asset value attributable to third party unit holders	275	225	127
Other payables	246	238	221
Total other liabilities	983	1,049	860

Note 9 - Employee future benefits

The Company has several defined benefit pension plans. For these plans, the measurement date is December 31 and the latest actuarial valuations were performed as at the Company's transition date to IFRS (January 1, 2010).

The Company offers employer paid post retirement benefit ("PRB") plans providing life insurance and health benefits to certain retirees, which are closed to active employees. The post retirement benefit plans are unfunded. The measurement date for post retirement benefits is December 31 and the latest actuarial valuations were performed as at the Company's transition date to IFRS (January 1, 2010).

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

9.1 Plan movements

Table 9.1 - Pension plan movements

	Expenses (revenue)	Present value of benefit obligation	Fair value of plan assets	Net actuarial gains (losses) recognized in OCI
Balance as at January 1, 2011	-	(705)	682	-
Current service cost	8	(8)	-	-
Interest costs on benefit obligation	9	(9)	-	-
Expected return on assets	(11)	-	11	-
Expense recognized on the Interim Consolidated statement of comprehensive income	6	-	-	-
Net actuarial gains (losses) recognized in OCI	-	16	(8)	8
Employees contributions	-	(2)	2	-
Employer contributions	-	-	8	-
Benefit payments	-	6	(6)	-
Balance as at March 31, 2011	-	(702)	689	8
Balance as at January 1, 2010	-	(566)	570	-
Current service cost	6	(6)	-	-
Interest costs on benefit obligation	9	(9)	-	-
Expected return on assets	(10)	-	10	-
Expense recognized on the Interim Consolidated statement of comprehensive income	5	-	-	-
Net actuarial gains (losses) recognized in OCI	-	(30)	7	(23)
Employees contributions	-	(2)	2	-
Employer contributions	-	-	9	-
Benefit payments	-	5	(5)	-
Balance as at March 31, 2010	-	(608)	593	(23)

9.2 Funding status

The following table shows the aggregate funding status of the Company's pension plans and post retirement benefit plans as well as the split of the net pension surplus (deficit) as reported in Other assets and Other liabilities.

Table 9.2 - Funding status

As at	Pension plans			Post retirement benefits		
	March 31, 2011	December 31, 2010	January 1, 2010	March 31, 2011	December 31, 2010	January 1, 2010
Benefit obligation	(702)	(705)	(566)	(14)	(14)	(13)
Fair value of plan assets	689	682	570	-	-	-
Surplus (deficit)	(13)	(23)	4	(14)	(14)	(13)
Reported on the Consolidated balance sheet in:						
Pension assets	60	56	60	-	-	-
Pension benefit obligation	(73)	(79)	(56)	(14)	(14)	(13)

Based on the latest actuarial valuations of all its plans, total cash contributions by the Company to the pension plans are expected to be approximately \$33 in 2011. All of the Company's contributions are expected to be in the form of cash.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

9.3 Composition of pension plan assets

The following table shows the composition of the Company's pension plan assets, at fair value.

Table 9.3 - Composition of pension plan assets

As at	March 31, 2011	December 31, 2010	January 1, 2010
Equity securities	40.1%	40.3%	50.3%
Debt securities	58.1%	58.5%	45.1%
Other investments	1.8%	1.2%	4.6%

The pension plan assets composition does not take into account the impact of derivatives and short securities held in the pension plans investment portfolios.

9.4 Assumptions used

The following table summarizes the key weighted average assumptions used for the measurement of the employee future benefit plans and related expenses.

Table 9.4 - Assumptions

	Pension plans			Post retirement benefit plans		
	March 31, 2011	December 31, 2010	January 1, 2010	March 31, 2011	December 31, 2010	January 1, 2010
To determine benefit obligation at end of period						
Discount rate	5.4%	5.3%	6.1%	4.9%	4.9%	5.6%
Rate of increase in future compensation	3.5%	3.5%	3.5%	n/a	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	9.0%	9.0%	8.5%
Dental care cost trend rate	n/a	n/a	n/a	4.5%	4.5%	4.5%
To determine benefit expense for the period						
Discount rate	6.1%	6.1%	6.7%	5.6%	5.6%	6.0%
Rate of increase in future compensation	3.5%	3.5%	3.5%	n/a	n/a	n/a
Expected long-term rate of return on plan assets	6.8%	6.8%	7.0%	n/a	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	8.5%	8.5%	9.0%
Dental care cost trend rate	n/a	n/a	n/a	4.5%	4.5%	4.5%

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. The expected long-term rate of return is determined based on expected future performance for each asset class and is weighted based on the current and expected asset portfolio mix. Consideration is given to historical performance, the premium return generated from an actively managed portfolio, economic developments, inflation rates and administrative expenses.

9.5 Effect of a change in the health care cost trend

The impact of a 1% increase or decrease in the health care and dental care cost trend rate would not be significant on the Company's results or financial position.

Note 10 - Debt outstanding

10.1 Medium term notes

On March 23, 2010, the Company completed an additional Series 2 offering of \$100.0 principal amount of unsecured medium term notes (the "Notes"). The Notes bear interest at a fixed annual rate of 6.40% until maturity on November 23, 2039, payable in equal semi-annual instalments commencing on May 23, 2010.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

The following tables present details of debt outstanding:

Table 10.1 - Medium term notes offerings

	Medium term notes	
	Series 1	Series 2
Date issued	August 31, 2009	November 23, 2009 March 23, 2010
Maturity date	September 3, 2019	November 23, 2039
Principal amount outstanding	\$250	\$250
Fixed annual rate	5.41%	6.40%
Semi-annual coupon payment due each year on:	March 3, September 3	May 23, November 23

Table 10.2 - Fair value and carrying value of medium term notes

	March 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Medium term notes, series 1	249	264	249	265	249	253
Medium term notes, series 2	247	263	247	269	149	147
Total debt outstanding	496	527	496	534	398	400

The medium term notes are accounted for at amortized cost and reflected in the total carrying value as shown in the table above.

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

Finance costs on the Interim Consolidated statement of comprehensive income comprise interest expense on the medium term notes.

10.2 Credit facility

Effective December 20, 2010, the Company obtained a three year unsecured revolving term facility of \$250 which matures on December 20, 2013 in replacement of a previous revolving term facility of \$150. This credit facility may be drawn as prime loans at the prime rate plus a margin or as bankers' acceptances at the bankers' acceptance rate plus a margin. As at March 31, 2011, the Company had not drawn down under the facility (December 31, 2010 - \$nil).

Note 11 - Share capital

11.1 Authorized, issued and outstanding

Table 11.1 - Components of share capital

Classes of shares	March 31, 2011			December 31, 2010			January 1, 2010		
	Authorized (in shares)	Issued and outstanding (in shares)	Amount	Authorized (in shares)	Issued and outstanding (in shares)	Amount	Authorized (in shares)	Issued and outstanding (in shares)	Amount
Common Class A	Unlimited	109,555,665	\$970	Unlimited	112,179,565	\$993	Unlimited	119,906,567	\$1,061
	Unlimited	-	-	Unlimited	-	-	Unlimited	-	-

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

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 11.2 - Reconciliation of shares outstanding

For the periods ended	March 31, 2011 (in shares)	March 31, 2010 (in shares)
Balance as at the beginning of the period	112,179,565	119,906,567
Shares repurchased for cancellation	2,623,900	3,909,384
Balance as at the end of the period	109,555,665	115,997,183

11.2 Normal course issuer bid

On February 22, 2010, the Company commenced a normal course issuer bid ("NCIB") to purchase during the next 12 months ending February 21, 2011, up to 5% of its public float. On August 5, 2010, the Company announced an increase in the maximum number of shares it could repurchase under the NCIB from 5% to 10% of its public float. On February 9, 2011 the Company announced that it would renew its NCIB program to repurchase approximately 5% of its outstanding shares. The new program began on February 22, 2011 for a 12-month period. As at March 31, 2011, 2.6 million (March 31, 2010 - 3.9 million) common shares had been repurchased for cancellation under the NCIB at an average price of \$46.90 per share (March 31, 2010 - \$42.99 per share) for a total consideration of \$122 (March 31, 2010 - \$167). Total cost paid, including fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased for cancellation and the excess of \$99 million (March 31, 2010 - \$133 million) was charged to retained earnings.

	Maximum shares to be purchased	Period ended March 31, 2011	From inception to March 31, 2011
February 22, 2010 to February 21, 2011 Program	11,955,826		
Number of common shares repurchased for cancellation		1,979,500	9,706,502
Weighted-average price per share (in dollars)		\$46.69	\$44.61
Total consideration paid (in millions)		\$91	\$433
February 22, 2011 to February 21, 2012 Program	5,523,548		
Number of common shares repurchased for cancellation		644,400	644,400
Weighted-average price per share (in dollars)		\$47.54	\$47.54
Total consideration paid (in millions)		\$31	\$31
Total for the period			
Number of common shares repurchased for cancellation		2,623,900	n/a
Weighted-average price per share (in dollars)		\$46.90	n/a
Total consideration paid (in millions)		\$122	n/a

Note 12 - Share-based payments

12.1 Long-term incentive plans

The following table shows the movement in LTIP share units during the period.

Table 12.1 - Movement in LTIP

For the periods ended	March 31, 2011 (in units or shares)	March 31, 2010 (in units or shares)
LTIP (share equivalents)		
Outstanding, beginning of period	629,637	163,060
Net change in estimate during the period	51,531	312,974
Outstanding, end of period	681,168	476,034
LTIP (restricted common shares)		
Outstanding, end of period	-	53,495

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

The amount charged to compensation expense for LTIP was \$4 for the period ended March 31, 2011 (March 31, 2010 – \$2). Compensation expense is included in Underwriting expenses and Other expenses on the Interim Consolidated statement of comprehensive income.

12.2 Employee share purchase plan

The following table shows the movement in ESPP restricted common shares during the period.

Table 12.2 - Movement in ESPP

For the periods ended	March 31, 2011 (in units)	March 31, 2010 (in units)
ESPP (restricted common shares)		
Outstanding, beginning of period	107,562	108,546
Awarded during the period	26,968	25,444
Vested or forfeited during the period	(26,078)	(22,854)
Outstanding, end of period	108,452	111,136

The amount charged to compensation expense for the ESPP was \$1 for the period ended March 31, 2011 (March 31, 2010 - \$1). Compensation expense is included in Underwriting expenses and Other expenses on the Interim Consolidated statement of comprehensive income.

Note 13 - Additional information on the Interim Consolidated statement of cash flows

The following table provides additional details on the items included in net cash flows from operating activities.

Table 13.1 - Additional information on the Interim Consolidated statement of cash flows

For the periods ended	March 31, 2011	March 31, 2010
Adjustments for non-cash items		
Net investment gains (losses)	(62)	(40)
Deferred income tax expense (benefit)	(49)	(52)
Depreciation of property and equipment	3	4
Amortization of intangible assets	8	7
Net premiums on debt securities classified as available-for-sale	3	3
Other	3	8
Total as reported on the Interim Consolidated statement of cash flows	(94)	(70)
Changes in other operating assets and liabilities		
Unearned premiums, net	(154)	(126)
Change in deferred acquisition costs, net	23	21
Premium and other receivables	98	75
Income taxes payable, net	42	4
Other assets	(7)	2
Other liabilities	(110)	(54)
Total as reported on the Interim Consolidated statement of cash flows	(108)	(78)
Composition of cash and cash equivalents		
Cash, net of bank overdrafts	37	2
Cash equivalents	41	173
Total cash and cash equivalents	78	175
Other relevant cash flow disclosures		
Interest paid	7	7
Interest received	31	31
Dividends received	33	32
Income taxes paid (recovered)	56	91

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Note 14 - Related-party transactions

The Company enters into transactions with associates in the normal course of business. Transactions with related parties are at normal market prices and mostly comprise of commissions for insurance policies and interest and principal payments on loans. The Company also has interest bearing loans receivable (Note 3) from certain equity interest brokerages or their principals.

Table 14.1 - Revenues and expenses with related parties

For the periods ended	March 31, 2011	March 31, 2010
Reported in:		
Income		
Net investment income	4	4
Expenses		
Other expenses	32	29

Table 14.2 - Interim Consolidated balance sheet amounts with related parties

As at	March 31, 2011	December 31, 2010
Reported in:		
Assets		
Loans	248	244
Accrued investment income	1	1
Liabilities		
Other liabilities	42	41

Note 15 - First-time adoption of IFRS

15.1 Accounting policies – basis of preparation

The Interim Consolidated financial statements represent the first interim financial statements of the Company prepared in accordance with IFRS, as issued by the IASB. Previously, the Company prepared its Consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principal (Canadian GAAP). The 2010 comparative statements have been restated to conform with IFRS.

The Company adopted IFRS in accordance with IFRS 1- *First-time adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was at the Company's transition date, January 1, 2010. The Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of December 31, 2011, as required; and
- applied the optional exemptions and mandatory exceptions as applicable for first-time IFRS adopters.

IFRS 1 grants limited exemptions from these requirements in specified areas where the cost of complying with the standards would likely exceed the benefits to users of financial statements. IFRS 1 also prohibits retrospective application of IFRS in some areas, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. Below are the details of the Company's optional and mandatory exemptions.

15.2 IFRS optional exemptions

The Company has applied the following applicable optional exemptions:

a) Business combinations

IFRS 1 provides the option to apply IFRS 3 - *Business combinations*, retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date and such business combinations have not been restated. As a result of applying these exemptions, any goodwill and intangible assets arising from such business combinations before the transition date have not been adjusted from the carrying value previously determined under Canadian GAAP.

b) Employee benefits

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19 - *Employee benefits*, for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under Canadian GAAP in the opening retained earnings at the transition date. The Company elected to recognize all cumulative gains and losses at the transition date in the opening retained earnings for all of its employee benefit plans.

c) Property, plant and equipment

IFRS 1 provides the option to retrospectively apply IAS 16 - *Property, plant, and equipment*, for the determination of the cost at the date of transition or to use the property, plant and equipment's fair value as its deemed cost upon transition to IFRS. The Company elected to retrospectively apply IAS 16 at the transition date and this resulted in no accounting difference.

d) Designation of financial assets and financial liabilities

IFRS 1 permits an entity to irrevocably re-designate certain financial instruments. On transition date, the Company elected not to change the classification or designation of its financial assets or liabilities from previous Canadian GAAP.

15.3 IFRS mandatory exceptions

The Company has applied the following applicable mandatory exemptions:

a) Hedge accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 – *Financial instruments: recognition and measurement* at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of transition date are recognized as hedges in the Company's results under IFRS.

Upon the transition date, the Company discontinued the hedge relationship as the hedge accounting criteria required by IFRS were not satisfied. The hedging and hedged instruments within this former hedging relationship are accounted for at their fair value and the change in the fair value is recognized on the Interim Consolidated statement of comprehensive income under IFRS. This change resulted in no accounting difference as the change in the fair value of the hedged instrument is reported to net income under IFRS, not to other comprehensive income as per Canadian GAAP.

b) Estimates

The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

15.4 On-transition changes in accounting policies

In addition to the exemptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Company.

a) Employee future benefits

Actuarial gains and losses

Under Canadian GAAP, actuarial gains and losses that arose in calculating the present value of the defined benefit obligation and the fair value of plan assets were recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" was established as 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% was amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% corridor were deferred.

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Under IFRS, entities have the choice of recognizing ongoing actuarial gains and losses in the income statement over time similar to the Canadian GAAP “corridor” approach, or alternatively, immediately recognizing actuarial gains and losses in OCI in the period in which they occur. The Company has elected to recognize all actuarial gains and losses immediately in OCI. On January 1, 2010, cumulative unrecognized actuarial losses were fully recognized in retained earnings. Subsequent actuarial gains and losses are recognized in Other comprehensive income and are not reclassified to Net income attributable to shareholders. The present value of the accrued benefit obligations, net of the fair value of plan assets are recognized on the Consolidated balance sheet.

b) Financial instruments

Under Canadian GAAP, available-for-sale equity instruments were measured at fair value with changes in fair value reported, net of taxes, to OCI until the asset was disposed of or had become other than temporarily impaired. At the end of each balance sheet date a quantitative assessment was made to identify available-for-sale equity instruments which had a significant or prolonged decline in fair value. Management then applied judgment based on each issuer’s financial condition to determine if the decline was “other than temporary” and if objective evidence of impairment existed.

Under IFRS, the Company still determines, at each balance sheet date, whether there is objective evidence that available-for-sale equity instruments are impaired. Objective evidence for an available-for-sale equity instrument includes also a significant or prolonged decline in fair value of the instrument below its cost. However, the impairment assessment is less judgmental as determination whether an available-for-sale equity instruments decline is “other than temporary” is not required. Therefore, impairment losses under IFRS will likely be recognized earlier than under Canadian GAAP. In addition, under IFRS, perpetual preferred shares are assessed for impairment using the equity impairment rules, whereas under Canadian GAAP debt impairment rules were appropriate.

At the transition date to IFRS, retrospective application of these rules was required. This resulted in reclassification from OCI to opening retained earnings for impairments which would have occurred prior to January 1, 2010 under IFRS rules. This reclassification has no overall impact on the Company’s shareholders’ equity. Net investment gains (losses) reported under Canadian GAAP for the financial year 2010 were restated under IFRS as these prior period IFRS impairments impact the measurement of realized gains and losses in 2010 under IFRS.

c) Income taxes

Income tax effect on reconciling differences between Canadian GAAP and IFRS

Differences for income taxes include the effect of recording, where applicable, the deferred tax effect on differences between Canadian GAAP and IFRS.

15.5 Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company’s first-time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following tables represent the reconciliations from Canadian GAAP to IFRS for the respective periods noted for the Consolidated balance sheet, Consolidated statement of comprehensive income and Consolidated shareholders’ equity.

Table 15.1 - Legend to tables below

Reference in tables below	Reference to
a.	Note 15.4 a) – <i>Employee future benefits</i>
b.	Note 15.4 b) – <i>Financial instruments</i>
c.	Note 15.4 c) – <i>Income taxes</i>

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 15.2 - Reconciliation of the Consolidated balance sheet as at January 1, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measurement adjustments	IFRS balance	IFRS accounts
				<i>Ref.</i>		
Assets						Assets
Cash and cash equivalents	\$ 60	(60)	-	-	\$ -	Investments
Invested assets						
	-	60	60	-	60	Cash and cash equivalents
Debt securities	4,784	-	4,784	-	4,784	Debt securities
Equity securities	2,894	(1,312)	1,582	-	1,582	Preferred shares
	-	1,312	1,312	-	1,312	Common shares
Loans	319	-	319	-	319	Loans
	7,997	60	8,057	-	8,057	
Accrued interest and dividend income	43	-	43	-	43	Accrued investment income
	-	98	98	-	98	Investments in associates
Premium receivables	1,640	-	1,640	-	1,640	Premium receivables
Other receivables	245	(245)	-	-	-	
Reinsurance assets	261	-	261	-	261	Reinsurance assets
Income taxes receivable	40	-	40	-	40	Income tax receivable
Future income tax asset	38	-	38	(c) 18	56	Deferred tax assets
Deferred acquisition costs	396	-	396	-	396	Deferred acquisition costs
Other assets	293	101	394	(a) (58)	336	Other assets
	-	46	46	-	46	Property and equipment
Intangibles	159	-	159	-	159	Intangible assets
Goodwill	179	-	179	-	179	Goodwill
Total assets	\$ 11,351	-	11,351	(40)	\$ 11,311	Total assets
Liabilities						Liabilities
Claims liabilities	\$ 4,270	-	4,270	-	\$ 4,270	Claims liabilities
Unearned premiums	2,464	-	2,464	-	2,464	Unearned premiums
Financial liabilities	279	-	279	-	279	Financial liabilities
Income taxes payable	102	-	102	-	102	Income tax payable
Future income tax liability	26	-	26	(c) (5)	21	Deferred tax liabilities
Other liabilities	830	-	830	(a) 30	860	Other liabilities
Debt outstanding	398	-	398	-	398	Debt outstanding
	8,369	-	8,369	25	8,394	
Shareholders' equity						Shareholders' equity
Share capital	1,061	-	1,061	-	1,061	Share capital
Contributed surplus	83	-	83	-	83	Contributed surplus
Retained earnings	1,902	-	1,902	(a,b) (375)	1,527	Retained earnings
Accumulated other comprehensive loss	(64)	-	(64)	(b) 310	246	Accumulated other comprehensive income (loss)
	2,982	-	2,982	(65)	2,917	
Total liabilities and equity	\$ 11,351	-	11,351	(40)	\$ 11,311	Total liabilities and shareholders' equity

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 15.3 - Reconciliation of the Consolidated balance sheet as at December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measurement adjustments	IFRS balance	IFRS accounts
				Ref.		
Assets						Assets
Cash and cash equivalents	\$ 138	(138)	-	-	\$ -	Investments
Invested assets						
	-	138	138	-	138	Cash and cash equivalents
Debt securities	4,821	-	4,821	-	4,821	Debt securities
Equity securities	3,380	(1,877)	1,503	-	1,503	Preferred shares
	-	1,877	1,877	-	1,877	Common shares
Loans	314	-	314	-	314	Loans
	8,515	138	8,653	-	8,653	
Accrued interest and dividend income	43	-	43	-	43	Accrued investment income
	-	119	119	-	119	Investments in associates
Premium receivables	1,762	-	1,762	-	1,762	Premium receivables
Other receivables	248	(248)	-	-	-	
Reinsurance assets	235	-	235	-	235	Reinsurance assets
Income taxes receivable	52	-	52	-	52	Income tax receivable
Future income tax asset	20	-	20	(c) 9	29	Deferred tax assets
Deferred acquisition costs	420	-	420	-	420	Deferred acquisition costs
Other assets	335	83	418	(a) (83)	335	Other assets
	-	46	46	-	46	Property and equipment
Intangibles	170	-	170	-	170	Intangible assets
Goodwill	211	-	211	-	211	Goodwill
Total assets	\$ 12,149	-	12,149	(74)	\$ 12,075	Total assets
Liabilities						Liabilities
Claims liabilities	\$ 4,379	-	4,379	-	\$ 4,379	Claims liabilities
Unearned premiums	2,586	-	2,586	-	2,586	Unearned premiums
Financial liabilities	490	-	490	-	490	Financial liabilities
Income taxes payable	78	-	78	-	78	Income tax payable
Future income tax liability	54	-	54	(c) (26)	28	Deferred tax liabilities
Other liabilities	996	-	996	(a) 53	1,049	Other liabilities
Debt outstanding	496	-	496	-	496	Debt outstanding
	9,079	-	9,079	27	9,106	
Shareholders' equity						Shareholders' equity
Share capital	993	-	993	-	993	Share capital
Contributed surplus	96	-	96	-	96	Contributed surplus
Retained earnings	1,894	-	1,894	(a,b) (298)	1,596	Retained earnings
Accumulated other comprehensive loss	87	-	87	(b) 197	284	Accumulated other comprehensive income (loss)
	3,070	-	3,070	(101)	2,969	
Total liabilities and equity	\$ 12,149	-	12,149	(74)	\$ 12,075	Total liabilities and shareholders' equity

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 15.4 - Reconciliation of the Consolidated statement of comprehensive income for the year ended December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measure adjustments	IFRS balance	IFRS accounts
				Ref.		
Revenues						
Premiums written						
Direct	\$ 4,475	-	4,475	-	\$ 4,475	Direct premiums written
Ceded	(123)	123	-	-	-	
Net	4,352	(4,352)	-	-	-	
Changes in unearned premiums	(121)	121	-	-	-	
Net premiums earned	4,231	-	4,231	-	4,231	Net premiums earned
	-	(2,766)	(2,766)	-	(2,766)	Net claims incurred
	-	(1,272)	(1,272)	-	(1,272)	Underwriting expenses
	4,231	(4,038)	193	-	193	
	-	(36)	(36)	-	(36)	Impact of change in net claims discount rate
	4,231	(4,074)	157	-	157	Underwriting income (loss)
Interest income	179	115	294	-	294	Net investment income
Dividend income	136	(136)	-	-	-	
Net investment gains	64	-	64	(b) 118	182	Net investment gains (losses)
	-	15	15	-	15	Share of profit from investments in associates
Distribution income and other	59	(15)	44	-	44	Other revenues
Expenses						
Underwriting						
Claims	(2,802)	2,802	-	-	-	
Commissions, premium taxes and general expenses	(1,272)	1,272	-	-	-	
Distribution expenses and other	(21)	-	(21)	(a) (6)	(27)	Other expenses
Investment expenses	(21)	21	-	-	-	
Interest on debt outstanding	(28)	-	(28)	-	(28)	Finance costs
Income before income taxes	525	-	525	112	637	Net income (loss) before income tax expense (benefit)
Income tax expense (benefit)	105	-	105	(c) 35	140	Income tax expense (benefit)
Net income	\$ 420	-	420	77	\$ 497	Net income (loss) attributable to shareholders
Earnings per share, basic and diluted (dollars)	3.65				4.32	Earnings per share, basic and diluted (dollars)
	-	-	-	(a) (41)	(41)	Net actuarial gains (losses) on employee future benefits
Net decrease (increase) in unrealized losses on available-for-sale securities	257	-	257	-	257	Available-for-sale securities:
Income taxes	(70)	70	-	-	-	Changes in net unrealized gains
Reclassification to income of net (gains) losses on available-for-sale securities	(47)	-	(47)	(b) (118)	(165)	Reclassification to income of net (gains) losses
Income taxes	11	(70)	(59)	(c) 47	(12)	Income tax benefit (expense)
Other comprehensive income (loss)	151	-	151	(112)	39	Other comprehensive income (loss)
Comprehensive income (loss)	\$ 571	-	571	(35)	\$ 536	Total comprehensive income (loss) attributable to shareholders

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 15.5 - Reconciliation of the Interim Consolidated statement of comprehensive income for the period ended March 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measure adjustments	IFRS balance	IFRS accounts
				<i>Ref.</i>		
Revenues						
Premiums written						
Direct	\$ 918	-	918	-	\$ 918	Direct premiums written
Ceded	(25)	25	-	-	-	
Net	893	(893)	-	-	-	
Changes in unearned premiums	126	(126)	-	-	-	
Net premiums earned	1,019	-	1,019	-	1,019	Net premiums earned
	-	(636)	(636)	-	(636)	Net claims incurred
	-	(314)	(314)	-	(314)	Underwriting expenses
	1,019	(950)	69	-	69	
	-	3	3	-	3	Impact of change in net claims discount rate
	1,019	(947)	72	-	72	Underwriting income (loss)
Interest income	46	27	73	-	73	Net investment income
Dividend income	32	(32)	-	-	-	
Net investment gains	6	-	6	(b) 34	40	Net investment gains (losses) Share of profit from investments in associates
	-	2	2	-	2	
Distribution income and other	11	(2)	9	-	9	Other revenues
Expenses						
Underwriting						
Claims	(633)	633	-	-	-	
Commissions, premium taxes and general expenses	(314)	314	-	-	-	
Distribution expenses and other	(10)	5	(5)	(a) (2)	(7)	Other expenses
Interest on debt outstanding	(6)	-	(6)	-	(6)	Finance costs
	151	-	151	32	183	Net income (loss) before income tax expense (benefit)
Income before income taxes	151	-	151	32	183	
Income tax expense (benefit)	31	-	31	(c) 11	42	Income tax expense (benefit)
	120	-	120	21	141	Net income (loss) attributable to shareholders
Net income	\$ 120	-	120	21	\$ 141	
Earnings per share, basic and diluted (dollars)	1.01	-	-	(a) (23)	(23)	Earnings per share, basic and diluted (dollars) Net actuarial gains (losses) on employee future benefits Available-for-sale securities:
	-	-	-	-	-	
Net decrease (increase) in unrealized losses on available-for-sale securities	29	-	29	-	29	Changes in net unrealized gains
Income taxes	(9)	9	-	-	-	
Reclassification to income of net (gains) losses on available-for-sale securities	(13)	-	(13)	(b) (34)	(47)	Reclassification to income of net (gains) losses
Income taxes	1	(9)	(8)	17	9	Income tax benefit (expense)
Other comprehensive income (loss)	8	-	8	(40)	(32)	Other comprehensive income (loss)
	128	-	128	(19)	109	Total comprehensive income (loss) attributable to shareholders
Comprehensive income (loss)	\$ 128	-	128	(19)	\$ 109	

Intact Financial Corporation
Notes to the Interim Consolidated financial statements (unaudited)
(in millions of Canadian dollars, except as otherwise noted)

Table 15.6 - Reconciliation of the Interim Consolidated shareholders' equity as at March 31, 2010

	Note 15.4	Canadian GAAP	Effect of transition to IFRS	IFRS
Investments		\$ 7,981	\$ -	\$ 7,981
Premium receivables		1,541	-	1,541
Reinsurance assets		243	-	243
Investments in associates		100	-	100
Goodwill and intangible assets		346	-	346
Other assets	a,c	999	(45)	954
Total assets		\$ 11,210	\$ (45)	\$ 11,165
Claims liabilities		\$ 4,233	\$ -	\$ 4,233
Unearned premiums		2,337	-	2,337
Financial liabilities		344	-	344
Debt outstanding		496	-	496
Other liabilities	c	895	39	934
Total liabilities		\$ 8,305	\$ 39	\$ 8,344
Share capital		\$ 1,027	\$ -	\$ 1,027
Contributed surplus		85	-	85
Retained earnings	a,b	1,849	(354)	1,495
Accumulated other comprehensive income (loss)	b	(56)	270	214
Total equity		\$ 2,905	\$ (84)	\$ 2,821