First Quarter 2011

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Management's Discussion and Analysis
For the quarter ended March 31, 2011

Intact Financial Corporation

[intact]

May 3, 2011

The following Management's Discussion and Analysis ("MD&A"), which was approved by the Board of Directors for the quarter ended March 31, 2011, is intended to enable the reader to assess the Company's results of operations and financial conditions for the three-month period ended March 31, 2011, compared to the corresponding periods in 2010. It should be read in conjunction with the Company's unaudited interim Consolidated financial statements and accompanying notes, as well as the MD&A and the audited Consolidated financial statements in the Company's 2010 Annual Report. All amounts herein are expressed in Canadian dollars.

The Company uses both International Financial Reporting Standards ("IFRS") and certain non-IFRS measures to assess performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. Management of Intact Financial Corporation analyzes performance based on underwriting ratios such as combined, general expenses and claims ratios as well as other performance measures such as return on equity ("ROE") and operating return on equity. These measures and other insurance related terms are defined in the Company's glossary available on the Intact Financial Corporation web site at www.intactfc.com in the "Investor Relations" section. Additional information about Intact Financial Corporation, including the Annual Information Form, may be found online on SEDAR at www.sedar.com.

International Financial Reporting Standards

The three months ended March 31, 2011 MD&A reflects the Company's adoption of IFRS as issued by the International Accounting Standards Board. Certain 2010 comparative figures have been restated in accordance with IFRS except as noted otherwise. Section 10.3 of this MD&A provides details on the impact of adopting IFRS, while Tables 29 and 30 present a reconciliation of the Company's key performance indicators from those previously prepared under Canadian GAAP to those prepared under IFRS.

Note 15 of the Company's unaudited interim Consolidated financial statements contains a detailed description of our conversion to IFRS, including accounting policies adopted and a line-by-line reconciliation of financial statements previously prepared under Canadian GAAP to those under IFRS for the three months ended March 31, 2010 and for the year ended December 31, 2010.

The full year impact of adopting IFRS in 2010 on net operating income per share was minimal, at $0.03. Earnings per share and return on equity were impacted by a greater amount, increasing by $0.67 and 3.0 percentage points, respectively, when compared to Canadian GAAP. The variance for EPS is attributable to a higher level of realized gains resulting from the retrospective application of impairment rules on available-for-sale equity instruments, including perpetual preferred shares. ROE increased due to these realized gains as well as due to the negative impact on shareholders' equity from the transition adjustment related to employee future benefits.

Forward-looking statements

This document contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter or in the Company's 2010 Annual Information Form. Please read the cautionary note in section 12.1 of this document.

Certain totals, subtotals and percentages may not agree due to rounding. A change column has been provided for convenience showing the variation between the current period and the prior period. Not applicable (n/a) is used to indicate that the current and prior year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%. "Intact", the "Company", "IFC" and "we" are terms used throughout the document to refer to Intact Financial Corporation and its subsidiaries. For captions used in this MD&A, words such as "Income", "Earnings" and "Gains" will always be placed before the words "Expense", "Loss" and "Losses".

Important notes:

- All references to direct premiums written in this MD&A exclude industry pools, unless otherwise noted.
- All references to "excess capital" in this MD&A include excess capital in the P&C insurance subsidiaries at 170% minimum capital test ("MCT") plus liquid assets in the holding company, unless otherwise noted.
- Catastrophe claims are any one claim, or group of claims, equal to or greater than $5 million, related to a single event.
- All underwriting results and related ratios exclude the market yield adjustment ("MYA"), except if noted otherwise.

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Section 1 - Intact Financial Corporation

Overview

Intact Financial Corporation is the largest provider of property and casualty ("P&C") insurance in Canada, insuring approximately four million individuals and businesses through our insurance subsidiaries. With an estimated 11% market share in Canada, we are the largest private sector provider of P&C insurance in Ontario, Québec, Alberta and Nova Scotia. We distribute insurance under the Intact Insurance brand through a wide network of brokers and our wholly-owned subsidiary, BrokerLink. We also distribute insurance direct to consumers through our belairdirect and GP Car and Home (formerly Grey Power) brands. We manage our own investment portfolio of approximately $8.6 billion.

Section 2 - Overview of consolidated performance

First quarter highlights

- Net operating income per share of $0.91 in Q1 on strong underwriting results – a solid start to the year
- Q1 combined ratio of 94.6%, slightly above last year's exceptional 93.2% on seasonal weather conditions
- Healthy DPW growth in all lines of business except Ontario auto due to our prudent approach to growth
- Operating ROE of 14.8% for the last 12 months while book value per share is up 11% in the same period

Consolidated financial results

Table 1 – Key components of net income

(in millions of dollars, except as otherwise noted)	Q1-2011	Q1-2010	Change
Direct premiums written (excluding pools)	**943**	914	3%
Net underwriting income (excluding MYA) (table 4)	**58**	69	(16)%
Combined ratio (excluding MYA)	**94.6%**	93.2%	1.4 pts
Net investment income (table 9)	**73**	73	-
Finance costs	**7**	6	17%
Total gains excluding fair-value-through-profit-or-loss ("FVTPL") fixed income securities (table 12)	**84**	44	91%
Net income before income tax expenses	**207**	183	13%
Income tax expense	**50**	42	19%
Effective income tax rate	**24.3%**	22.9%	1.4 pts
Net income	**157**	141	11%
Net operating income (table 2)	**101**	113	(11)%
Earnings per share ("EPS") – basic and diluted (in dollars)	**1.42**	1.19	19%
Net operating income per share (in dollars)	**0.91**	0.95	(4)%
Return on equity ("ROE") for the last 12 months	**17.8%**	n/a	n/a
Return on equity ("ROE") YTD annualized	**21.2%**	19.7%	1.5 pts
Operating return on equity for the last 12 months	**14.8%**	n/a	n/a
Operating return on equity YTD annualized	**15.1%**	17.1%	(2.0) pts
Book value per share (in dollars)	**26.91**	24.33	11%

Direct premiums written growth was 3% year-over-year, based on contributions from all lines of business. Personal lines were up 2%, driven by personal property, while commercial lines grew 5% year-over-year with contributions from both auto and P&C. IFC's continued top-line growth reflects the Company's organic growth initiatives, improving industry pricing conditions and a prudent approach to growth in the Ontario auto market.

Continued positive results from the Company's action plans led to a very good performance in Q1-2011 with an underwriting profit in all lines of business and an overall combined ratio of 94.6%. This is 1.4 points higher than Q1-2010, a quarter where weather conditions were unusually mild.

Net investment income remained stable in the first quarter at $73 million, representing a market-based yield of 4.0%. Cash and investments amounted to $8.6 billion at the end of March 2011, comparable to year end 2010 and $0.6 billion higher than one year ago.

The Company's financial position remains very strong with book value per share reaching $26.91, 11% higher than a year ago (IFRS adjusted), and $784 million of excess capital at the end of the first quarter. Our ratio of debt to total capital remains low at 14.4% with additional debt capacity of about $241 million before reaching our optimal debt to total capital ratio of 20%.

On February 8, 2011, the Board of Directors increased the Company's quarterly dividend by 8.8%, or 3 cents, to 37 cents per share on its outstanding common shares. This is the sixth consecutive year the Company has increased its dividend.

Section 3 - Canadian property and casualty insurance industry 12-month outlook

IFC is well-positioned to continue outperforming the P&C insurance industry in the current environment due to its significant scale, pricing and underwriting discipline, prudent investment and capital management practices, and strong financial position.

	P&C insurance industry	IFC's strategy
Pricing and claims environment (12-month outlook)	• Industry premiums are likely to increase at a similar rate as in 2010, with mid single digit growth in personal auto (driven by Ontario), upper single digit growth in personal property (reflecting the impact of water related losses and more frequent and/or severe storms) and low single digit growth in commercial lines (with no acceleration from the pace of 2010). • Loss ratio improvement is expected from personal auto (assuming Ontario reforms bring anticipated cost savings and are effective at slowing claims inflation) and personal property (as a result of the benefit from continued premium increases). • We do not anticipate loss ratio improvement in commercial lines, but expect pricing conditions to improve at a moderate pace over time, following several years of soft industry pricing.	• IFC maintains its disciplined pricing strategy while capitalizing on its strong position to grow organically as other companies reduce their appetite for new business and market pricing becomes more rational. • We will maintain our disciplined approach to the Ontario auto market as the results of the reforms unfold and the efforts to curb fraud and abuse are successful. • Although we reached our target improvement in home insurance, we maintain our focus on the actions underway to create a sustainable competitive advantage in this line of business. • In commercial lines, we will build on our four point loss ratio advantage to accelerate our penetration in small to mid-sized businesses.
Capital markets	• Global capital markets remain volatile, with possible strength in the near term, but vulnerability in the mid term as economic data raise questions about the sustainability of the global recovery. • Recent inflation data and comments from the Bank of Canada lead us to believe that interest rates, which are currently very low, might begin to increase in the near term. Despite this, we estimate that the industry's pre-tax investment yield will decline, given its asset mix and duration. • Debt and equity capital markets are currently open allowing companies to raise capital at reasonable rates. • Global capital requirements are evolving quickly and generally becoming more stringent. This is also true in Canada where the Office of the Superintendent of Financial Institutions Canada ("OSFI") recently published a discussion paper on proposed changes to the MCT which could potentially reduce industry capital ratios by approximately 14 percentage points. These proposed changes are currently under review and a draft guideline is expected within a few months.	• IFC maintains a strong financial position with $784 million in excess capital and a debt to total capital ratio of 14.4% which represents additional debt capacity of about $241 million before reaching our optimal debt to total capital ratio of 20%. • Our $8.6 billion cash and investment portfolio is largely Canadian-denominated with minimal U.S. exposure. IFC's investment portfolio has a differentiated asset strategy and slightly longer duration than the typical industry portfolio. As such, we expect our yield to decline to a lesser extent on a relative basis. • Capital requirements are not expected to negatively impact IFC to the same degree as the overall P&C insurance industry, given the composition of our investment portfolio and the nature of our claims liabilities.
Overall	• The industry's return on equity was approximately 7% in 2010. Although the combined ratio may improve, we believe this would be more than offset by a reduction in the level of investment income. Consequently, we do not expect improvement in ROEs in the near term.	• We believe the Company is likely to outperform the industry's ROE by at least 500 basis points in the next 12 months, due to the following: – Our 2010 outperformance was approximately 700 basis points. – We expect to maintain a combined ratio advantage, due to continued robust action plans across all lines of business, in addition to an expanding yield advantage. – IFC maintains significant capital management flexibility.

Section 4 - Business developments and operating environment

Overall, the underwriting environment continues to evolve as expected with an improved pricing dynamic in a number of business lines and jurisdictions due to three main factors affecting the industry as a whole: 1) Continued pressure on underwriting margins, 2) low investment yields and consequently, 3) low returns on capital. These factors continue to support better pricing conditions, industry capacity reductions and further market consolidation, benefiting strong and disciplined players in the market such as IFC.

Canadian P&C insurance industry results – 2010 comparison

The Canadian P&C insurance results for 2010 are available. Highlights are as follows:

	P&C industry[1]	Top 20 Benchmark[2]	Intact
DPW growth	5.8%	5.0%	5.0%
Combined ratio[3]	101.0%	104.3%	96.3%
Return on equity	6.7%	4.3%	13.9%

Industry data source: MSA Research Inc.
[1] Excludes Lloyd's, ICBC, SGI, SAF, MPI and Genworth
[2] Excludes Lloyd's, Genworth and Intact
[3] Combined ratio includes MYA

We continued to outperform the Canadian P&C insurance industry's 20 largest companies ("Top 20 Benchmark") in 2010. While our direct premiums written growth was on par with the Top 20 Benchmark, our disciplined approach to pricing enabled us to deliver a combined ratio 8.0 percentage points lower than the Benchmark in 2010.

The combination of superior underwriting results and our capital management activities led to a return on equity outperformance of 9.6 percentage points versus our industry benchmark in 2010 despite having over $800 million of excess capital. These strong results have allowed us to return $500 million of capital to shareholders through dividends and share repurchases.

Ontario auto regulation

The Ontario government's 2011 Budget, announced on March 29, 2011, included a commitment to "modern insurance regulation that protects consumers, promotes a competitive Ontario insurance sector, reduces the regulatory burden on business and is harmonized with other Canadian jurisdictions". Last September, the Ontario government's auto reforms were implemented, offering greater choice for consumers while creating a more stable cost environment. The reforms also directly targeted abuse and fraud in the auto insurance system, which increase costs and lead to higher premiums. The government recently announced that it will build on these reforms by taking further immediate steps to reduce fraud, including:

- Working with the industry to use the newly established Health Claims for Auto Insurance (HCAI) database to detect potentially fraudulent activity;
- Introducing new rules to ensure that treatments are provided as invoiced;
- Establishing an auto insurance anti-fraud taskforce to determine the scope of auto insurance fraud in Ontario and make recommendations regarding detection, investigation, enforcement and consumer education; and
- Requiring auto insurers to annually attest that their companies have established effective compliance controls to satisfy the rules that protect the rights of policyholders and accident victims.

We support these initiatives and continue to focus on carefully managing the ongoing and evolving risk for abuse and fraud in the system, and to refine our fraud containment measures that were instituted during 2010.

Although still in the early stage of the reforms, initial signs are encouraging, consistent with our previously communicated expectations, and indicate that results for that line of business should improve in the coming 18 months. Though it is still too early to conclude the true effectiveness of the reforms, we remain cautiously optimistic that the benefits of the reform will materialize. Based on our data to date, it appears that about 5% of consumers are requesting the optional coverage top-ups. At this stage, based on an Insurance Bureau of Canada ("IBC") survey, approximately 70% of Accident Benefits claims fall under the Minor Injury Guidelines, which is above expectations. Attendant Care Benefits are gradually reducing as policies are renewed with lesser coverage since the reforms. Home maintenance, housekeeping and caregiver benefits are also gradually reducing due to positive

change to the incurred definition which now refers to actual economic loss. No material reduction in the number of medical benefit claims nor in the cost of examinations have been observed, as an increase in abuse and fraud with respect to accident benefits is offsetting some of the benefits expected from the reforms.

According to industry results, the loss ratio in Ontario auto for 2010, excluding IFC, was 101.6%, up from 91.5% a year earlier, despite the 22% rate increases taken by the industry over the past two years, and our view is that premiums for the industry are still inadequate. In the first quarter of 2011, Financial Services Commission of Ontario ("FSCO") approved rate increases of 3.32% for companies that filed a request.

Our disciplined approach in Ontario auto insurance drives a loss ratio advantage versus the competition, and comes from a number of actions, including:

- Early recognition of claims trends translating into more than 30% in rate increases since 2007
- Prudent management of exposures where abuse is more present
- Proactive claims management to mitigate abuse and fraud

Industry pools

Industry pools consist of the "residual market" (or Facility Association) as well as risk-sharing pools ("RSP") in Alberta, Ontario, Quebec, New Brunswick and Nova Scotia. In the first quarter, the net impact of industry pools negatively impacted personal auto net underwriting income by $4.6 million year-over-year, excluding MYA. This variance reflects unfavourable prior year claims development in industry pools in Q1-2011. Results for industry risk sharing pools tend to fluctuate between periods.

Capital markets

The Canadian equity market began the year on a strong note, as the S&P/TSX Index increased 5.0% while the preferred share index rose 1.2%. Movements in our equity investment values are generally in line with the equity markets' performance, although our exposure to individual sectors may be different.

Seasonality of the business

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.

Section 5 - Operating results

5.1 Net operating income

Table 2 - Components of net operating income

(in millions of dollars)	Q1-2011	Q1-2010	Change
Net underwriting income (table 4)	**58**	69	(16)%
Net investment income (table 9)	**73**	73	-
Other income (loss), net	**-**	1	(100)%
Pre-tax operating income	**131**	143	(8)%
Tax impact	**(30)**	(30)	n/a
Net operating income	**101**	113	(11)%

Changes in pre-tax operating income can be further analyzed as follows:

Table 3 - Changes in pre-tax operating income (year-over-year)

(in millions of dollars)	Q1-2011
Pre-tax operating income, as reported in 2010 (IFRS adjusted)	**143**
Changes in net underwriting income :	
Change in favourable prior year claims development	**6**
Other changes in net underwriting income	**(4)**
Change in catastrophe losses	**(14)**
Change in current accident year income from Facility Association	**1**
Total change in net underwriting income	**(11)**
Change in net investment income	**-**
Change in other income (loss), net	**(1)**
Total change in pre-tax operating income	**(12)**
Pre-tax operating income, as reported in 2011	**131**

Operating income (net and pre-tax) and net operating income per share are non-IFRS measures. Net operating income is defined as net income excluding the market yield adjustment and net gains on investments and other gains excluding fair-value-through-profit-or-loss ("FVTPL") debt securities, after tax. Pre-tax operating income is defined as net operating income before income taxes. Net operating income per share is equal to net operating income for the period divided by the average outstanding number of shares for the same period. These measures are used by management and financial analysts to assess the Company's performance; however, they may not be comparable to similar metrics published by other companies.

5.2 Underwriting results

Table 4 - Components of underwriting results

(in millions of dollars, except as otherwise noted)	Q1-2011	Q1-2010	Change
Net premiums earned	**1,068**	1,019	5%
Net claims:			
Current year claims (excluding catastrophes)	**754**	711	6%
Current year loss ratio	***70.6%***	*69.8%*	*0.8 pts*
Current year catastrophes	**14**	-	n/a
(Favourable) prior year claims development	**(81)**	(75)	n/a
Total net claims	**687**	636	8%
Claims ratio	***64.3%***	62.4%	*1.9 pts*
Commissions, premium taxes, general expenses	**323**	314	3%
Expense ratio	***30.3%***	*30.8%*	*(0.5) pts*
Net underwriting income	**58**	69	(16)%
Combined ratio	***94.6%***	93.2%	*1.4 pts*

Net premiums earned were up 5% in Q1-2011 consistent with the increase in written premiums over the past 12 months. The current year loss ratio was slightly higher in Q1-2011 than in Q1-2010, as weather conditions were generally clement, but less favourable than Q1-2010. Losses from catastrophes, consisting of two wind and water events in Québec and Ontario in Q1-2011, amounted to $14 million and largely explain the lower underwriting income compared to last year.

Based on improved recent claims experience, favourable prior year development, at 7.9% of opening reserves on an annualized basis, was slightly higher than the 7.5% in Q1-2010, and above the Company's historical level of 3-4%.

General expenses are slightly higher than last year due to additional costs related to business growth. The net impact is a 0.5 percentage point decrease in the expense ratio.

5.3 Underwriting results by lines of business – personal lines

Table 5 - Underwriting results for personal lines

(in millions of dollars, except as otherwise noted)	Q1-2011	Q1-2010	Change
Direct premiums written			
Automobile	**458**	452	1%
Property	**212**	202	5%
Total	**670**	654	2%
Written insured risks (thousands)			
Automobile	**513**	510	1%
Property	**313**	319	(2)%
Total	**826**	829	-
Net premiums earned			
Automobile	**539**	517	4%
Property	**253**	237	7%
Total	**792**	754	5%
Net underwriting income (loss)			
Automobile	**12**	16	(25)%
Property	**20**	29	(31)%
Total (excluding MYA)	**32**	45	(29)%
Market yield adjustment	**11**	2	450%
Net underwriting income (loss) (including MYA)	**43**	47	(9)%

Table 6 - Underwriting ratios for personal lines

	Q1-2011	Q1-2010	Change
Personal auto			
Claims ratio	**72.4%**	70.8%	1.6 pts
Expense ratio	**25.3%**	26.2%	(0.9) pts
Combined ratio	**97.7%**	97.0%	0.7 pts
Personal property			
Claims ratio	**57.5%**	52.6%	4.9 pts
Expense ratio	**34.8%**	35.2%	(0.4) pts
Combined ratio	**92.3%**	87.8%	4.5 pts
Personal lines – total			
Claims ratio	**67.7%**	65.0%	2.7 pts
Expense ratio	**28.3%**	29.0%	(0.7) pts
Combined ratio	**96.0%**	94.0%	2.0 pts

Direct premiums written growth in personal auto was 1% driven by an increase in units. We temporarily adopted, over the past few months, a more prudent approach towards growth in the Ontario auto market given the volatility and the level of fraud, impacting DPW in this segment of business. The combined ratio increased slightly from last year on weather conditions, despite a meaningful improvement in our loss ratio in Ontario in the quarter.

Although the recently-implemented Ontario auto reforms are expected to favourably impact claims costs and reduce inflation in the future, it is still too early to tell if all the benefits will materialize. We remain disciplined in this market despite the improvement in our loss ratio in Ontario auto in Q1-2011.

Direct premiums written growth in personal property reached 5% reflecting increases in rates and amounts insured, which was offset by a reduction of units. Our action plan is having a significant favorable impact on underwriting results, with a combined ratio of 92.3% in Q1-2011, which is 4.5 points higher than last year but driven largely by the March catastrophes in Ontario and Québec. Although the action plan has already delivered the results we had targeted at its launch in 2009, we continue our efforts to outperform the industry in this line of business. Our relative performance versus the industry has improved from a five point underperformance to an outperformance of almost two points in 2010.

5.4 Underwriting results by lines of business – commercial lines

Table 7 - Underwriting results for commercial lines

(in millions of dollars, except as otherwise noted)	Q1-2011	Q1-2010	Change
Direct premiums written			
Automobile	**76**	71	7%
P&C	**197**	190	4%
Total	**273**	261	5%
Written insured risks (thousands)			
Automobile	**64**	60	7%
P&C	**56**	55	2%
Total	**120**	115	4%
Net premiums earned			
Automobile	**82**	78	5%
P&C	**194**	187	4%
Total	**276**	265	4%
Net underwriting income (loss)			
Automobile	**7**	4	75%
P&C	**19**	20	(5)%
Total (excluding MYA)	**26**	24	8%
Market yield adjustment	**6**	1	500%
Net underwriting income (including MYA)	**32**	25	28%

Table 8 - Underwriting ratios for commercial lines

	Q1-2011	Q1-2010	Change
Commercial auto			
Claims ratio	**62.2%**	64.4%	(2.2) pts
Expense ratio	**29.5%**	30.6%	(1.1) pts
Combined ratio	**91.7%**	95.0%	(3.3) pts
Commercial P&C			
Claims ratio	**51.3%**	50.9%	0.4 pts
Expense ratio	**38.6%**	38.3%	0.3 pts
Combined ratio	**89.9%**	89.2%	0.7 pts
Commercial lines – total			
Claims ratio	**54.5%**	54.9%	(0.4) pts
Expense ratio	**35.9%**	36.0%	(0.1) pts
Combined ratio	**90.4%**	90.9%	(0.5) pts

Commercial lines continued to deliver strong results, both from a top line and bottom line point of view. Growth in both commercial P&C and commercial auto was driven by unit growth and premium increases, a sign that market conditions are improving in selected areas and that our actions are generating results. Combined ratios continued to be very healthy for both lines of business partly due to favourable prior year development as well as management actions to cancel unprofitable commercial groups and improve terms in selected segments.

5.5 Investment income

Table 9

(in millions of dollars, except as otherwise noted)	Q1-2011	Q1-2010	Change
Interest income	**47**	48	(2)%
Dividend income	**32**	30	7%
Investment income, before expenses	**79**	78	1%
Expenses	**(6)**	(5)	n/a
Net investment income	**73**	73	-
Market-based yield	**4.0%**	4.1%	(0.1) pts

Although investment income remained stable at $73 million, the market-based yield of 4.0% was down slightly from 4.1% in Q1-2010 on a different asset mix. The market-based yield is a non-IFRS measure defined as the annualized total pre-tax investment income (before expenses) divided by the average fair values of equity and fixed income securities held during the reporting period. The market-based yield may not be comparable to that of other companies since it is a non-IFRS measure.

5.6 Reconciliation to IFRS net income

Net operating income and net operating income per share are non-IFRS measures and as such must be reconciled to net income under IFRS as it appears in the Company's unaudited interim Consolidated financial statements.

Table 10 - Reconciliation to net income

(in millions of dollars, except as otherwise noted)	Q1-2011	Q1-2010	Change
Net income (loss)	**157**	141	11%
Add losses (deduct gains) excluding FVTPL debt securities (table 12) and others	**(84)**	(44)	(40)
Add market yield effect (table 13)	**5**	1	4
Add amortization of intangible assets recognized in business combinations	**3**	2	1
Add tax impact	**20**	13	7
Net operating income (excluding MYA)	**101**	113	(12)
Average outstanding shares (millions)	**111**	119	(8)
Net operating income per share (in dollars)	**0.91**	0.95	(0.4)

Section 6 - Non operating results

6.1 Net income before income tax expenses

Non operating results include net investment gains and losses and the market yield effect, all on a pre-tax basis. A summary of changes in net income before income tax expenses is as follows:

Table 11 - Changes in net income before income tax expenses (year-over-year)

(in millions of dollars, except as otherwise noted)	Q1-2011
Net income before income tax expenses, as reported in 2010 (IFRS adjusted)	**183**
Change in pre-tax operating income (table 3)	**(12)**
Change in net investment gains (losses) excluding FVTPL debt securities (table 12)	**40**
Change in market yield effect (table 13)	**(4)**
Net income before income tax expenses, as reported in Q1-2011	**207**
Income tax	**(50)**
Net income reported in 2011	**157**

6.2 Net investment gains (losses)

Table 12

(in millions of dollars)	Q1-2011	Q1-2010	Change
Debt securities			
Gains on AFS securities	**1**	6	(5)
Gains on fixed income securities and related derivatives	**1**	6	(5)
Equity securities			
Gains, net of stand-alone derivatives	**98**	51	47
Impairment losses	**(2)**	(3)	1
Losses on embedded derivatives	**(13)**	(10)	(3)
Gains on equity securities and related derivatives	**83**	38	45
Total gains excluding FVTPL debt securities	**84**	44	40
Losses on FVTPL debt securities	**(22)**	(4)	(18)
Total net gains, before income taxes	**62**	40	22

The Company recorded net investment gains of $84 million excluding FVTPL bonds, compared to gains of $44 million in Q1-2010. The gains resulted mainly from the annual rebalancing and normal rolling of the Company's common share portfolio during the quarter, but were magnified by continued strong capital markets and the unrealized gain position of the portfolio. Also enhancing the level of gains was the sale of equities which were retroactively impaired as part of the transition to IFRS in 2011, as explained hereafter in section 10.3.

6.3 Market yield effect

Claims liabilities are discounted at the estimated market yield of the assets backing these liabilities. The impact of changes in the discount rate used to discount claims liabilities based on the change in the market based yield of the underlying assets is called Market Yield Adjustment ("MYA"). The MYA to claims liabilities is offset by gains and losses on FVTPL fixed income securities with the objective that these items offset each other with a minimal overall impact to income. The difference between the MYA and the gains and losses on FVTPL fixed income securities is referred to as the "market yield effect" in this MD&A.

The process of matching the weighted-dollar duration of the claims liabilities to assets classified as FVTPL works well under normal conditions. However, market fluctuations, changes in yield curve, trading and changes in asset mix can result in a positive or negative market yield effect.

Table 13 - Market yield effect

(in millions of dollars, except as otherwise noted)	Q1-2011	Q1-2010	Change
Positive (negative) impact of MYA on underwriting	**17**	3	14
Net gains (losses) on FVTPL debt securities	**(22)**	(4)	(18)
Market yield effect	**(5)**	(1)	(4)

Section 7 - Investments

The Company's portfolio of investments is managed by Intact Investment Management Inc. ("IIM"), a wholly owned subsidiary of Intact Financial Corporation. The assets are managed by IIM in accordance with the Company's investment policy which has not substantially changed since December 31, 2010.

7.1 Investment mix

Table 14 - Investment mix (in accordance with IFRS)

	March 31, 2011	As a % of Total	December 31, 2010	As a % of Total
Short-term notes, including cash and cash equivalents	**320**	**4%**	501	6%
Fixed income securities	**4,431**	**52%**	4,458	52%
Preferred shares	**1,584**	**18%**	1,503	17%
Common shares	**1,933**	**22%**	1,877	22%
Loans	**325**	**4%**	314	3%
Total investments	**8,593**	**100%**	8,653	100%

The Company's cash and short-term investments are typically used in the first quarter of each year to cover the Company's seasonal outflows. This explains the reduction of cash and short-term investments above.

The following table illustrates the Company's asset mix after reflecting the impact of hedging strategies.

Table 15 - Investment mix (net of hedging positions)

	March 31, 2011	As a % of Total	December 31, 2010	As a % of Total
Short-term notes, including cash and cash equivalents	**320**	**4%**	501	6%
Fixed income securities	**4,841**	**62%**	4,857	61%
Preferred shares	**1,283**	**16%**	1,252	16%
Common shares	**1,070**	**14%**	1,027	13%
Loans	**325**	**4%**	314	4%
Total investments	**7,839**	**100%**	7,951	100%

7.2 Quality of the investment portfolio

The investment portfolio includes high-quality government and corporate bonds, as well as Canadian equity securities of large, publicly-traded, dividend-paying companies. Approximately 99.0% of the bonds are rated 'A' or better and 80.4% of the preferred shares are highly-rated as 'P1'or 'P2'. In addition, IFC does not invest in leveraged securities and the exposure to the U.S. market is minimal. Despite the difficulties in European sovereign debt markets, our fixed income portfolio remains strong as we have only minimal exposure (less than 1% of investments) to the affected regions. IFC manages its investments prudently to protect capital and generate superior after-tax returns.

Net pre-tax unrealized gains and losses on available-for-sale securities

Table 16

	IFRS					Canadian GAAP
(in millions of dollars)	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2010
Debt securities	**19**	37	73	53	17	37
Common shares	**101**	139	98	19	77	117
Preferred shares	**281**	262	244	196	233	(46)
Total net pre-tax unrealized gains (losses) position	**401**	438	415	268	327	108

The Company also adopted the IFRS impairment criteria for its AFS securities on transition to IFRS. The above unrealized gains at each quarter have been restated accordingly. The impact of adopting the new criteria was the retroactive recognition of impairment losses which impacted the opening balance sheet under IFRS as explained in section 10.3. Subsequent changes to the market values of the impaired securities were recorded as unrealized gains and losses in AOCI. These gains and losses are realized when the securities are sold.

In determining the fair value of investments, the Company relies mainly on quoted market prices. There are no investments in the AFS or FVTPL categories which are not quoted on an active market, except for a limited amount of fixed income securities that the Company holds.

Impairment recognition

Under IFRS, the Company 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 also includes a significant or prolonged decline in fair value of the instrument below its cost. However, the impairment assessment is based less on judgment and perpetual preferred shares are assessed for impairment using the equity impairment rules, whereas under Canadian GAAP debt impairment rules were appropriate.

Table 17 - Aging of unrealized losses on AFS common shares

	IFRS					Canadian GAAP
(in millions of dollars, except as otherwise noted)	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**	**December 31, 2010**
Less than 25% below book value	**8**	10	15	24	11	13
More than 25% below book value for less than 6 consecutive months	**2**	-	2	9	-	-
More than 25% below book value for more than 6 consecutive months	**-**	1	5	-	-	1
Net unrealized losses on AFS common shares	**10**	11	22	33	11	14

Section 8 - Selected quarterly information

Table 18

	IFRS					Canadian GAAP			
(in millions of dollars, except as otherwise noted)	**Q1-2011**	**Q4-2010**	**Q3-2010**	**Q2-2010**	**Q1-2010**	**Q4-2009**	**Q3-2009**	**Q2-2009**	**Q1-2009**
Written insured risks (thousands)	**946**	1,054	1,247	1,369	944	1,046	1,244	1,376	937
Direct premiums written (excluding pools)	**943**	1,060	1,206	1,318	914	1,011	1,144	1,251	869
Total revenues	**1,225**	1,196	1,226	1,220	1,148	1,125	1,116	1,065	937
Net premiums earned	**1,068**	1,092	1,067	1,055	1,019	1,037	1,019	1,011	989
(Favourable) unfavourable prior year claims development	**(81)**	(53)	(25)	(39)	(75)	(66)	(14)	(7)	(37)
Net underwriting income (loss)	**58**	22	37	66	69	56	(53)	43	8
Combined ratio (%)	**94.6%**	98.0%	96.6%	93.7%	93.2%	94.6%	105.2%	95.7%	99.2%
Net operating income	**101**	80	90	120	113	98	22	93	69
Net income (loss)	**157**	106	109	140	141	97	(8)	74	(36)
EPS basic/diluted (dollars)	**1.42**	0.95	0.96	1.22	1.19	0.81	(0.07)	0.62	(0.30)
Net operating income per share (dollars)	**0.91**	0.71	0.79	1.04	0.95	0.82	0.18	0.77	0.58

Section 9 - Financial condition

9.1 IFRS Balance sheet highlights

The table below shows the significant balance sheet captions as at March 31, 2011, December 31, 2010 and January 1, 2010.

Table 19

(in millions of dollars, except as otherwise noted)	As at March 31, 2011	December 31, 2010	January 1, 2010
Investments			
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
Total investments	**8,593**	8,653	8,057
Premiums receivables	**1,635**	1,762	1,640
Deferred acquisition costs	**398**	420	396
Reinsurance assets	**221**	235	261
Intangible assets and goodwill	**389**	381	338
Other assets	**670**	624	619
Total assets	**11,906**	12,075	11,311
Claims liabilities	**4,393**	4,379	4,270
Unearned premiums	**2,432**	2,586	2,464
Debt outstanding	**496**	496	398
Financial liabilities	**553**	490	279
Other liabilities	**1,084**	1,155	983
Total liabilities	**8,958**	9,106	8,394
Share capital and contributed surplus	**1,070**	1,089	1,144
Retained earnings	**1,613**	1,596	1,527
Accumulated other comprehensive income	**265**	284	246
Shareholders' equity	**2,948**	2,969	2,917
Book value per share (dollars)	**26.91**	26.47	24.33

Investments

See Section 7 – *Investments*.

Premiums receivable, deferred acquisition costs and unearned premiums

The decrease in premiums receivable, deferred acquisition costs and unearned premiums is consistent with the seasonality of the business.

Reinsurance assets

Reinsurance assets, which comprise recoverable reserves and ceded unearned premiums, have decreased as reinsurers were billed for prior year events.

Other assets

The increase in Other assets reflects larger accrued investment income and other receivables.

Financial liabilities

The increase reflects larger unsettled investment trades at quarter end.

Shareholders' equity

See Section 9.3 – *Shareholders' equity*.

9.2 Prior year claims development (excluding MYA)

The following table shows the development of claims liabilities for the 10 most recent accident years. The reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of insurance contracts and current estimates of claims liabilities for claims still open or claims still unreported. Prior year claims development can fluctuate from quarter to quarter and year to year, and therefore, should be evaluated over longer periods of time. The historical rate of favourable prior year claims development as a percentage of opening claims has been approximately 3%-4% per year over the long term.

Table 20

		Accident year									
(in millions of dollars, except as otherwise noted)	**Total**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001 & earlier**
Original reserve		1,488	1,430	1,376	1,282	1,178	1,119	1,118	973	839	2,418
(Favourable) unfavourable development during Q1-2011 excluding MYA	**(81)**	(45)	(5)	(1)	(5)	(6)	(9)	(3)	(2)	(2)	(3)
Cumulative development As a % of original reserve		(3.1)%	(5.9)%	(3.8)%	(3.2)%	(6.6)%	(15.0)%	(26.1)%	(22.4)%	(6.5)%	2.6%

Table 21 - Annualized rate of favourable prior year claims development

(annualized rate)	**Q1-2011**	**Q1-2010**	**Full year 2010**
(Favourable) unfavourable prior year claims development as a % of opening reserves	**(7.9)%**	(7.5)%	(4.8)%

Q1-2011 favourable prior year claims development was an annualized 7.9%. Excluding MYA, favourable prior year claims development was $81 million in the first quarter of 2011 (compared to $75 million in Q1-2010).

9.3 Shareholders' equity

Share capital

As at May 2, 2011 there were 109,513,165 common shares issued and outstanding. Refer to the Company's Annual Information Form for more detailed information on the rights of common shareholders.

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 fair 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.

As at March 31, 2011, the number of PSU and RSU accrued by participants was 489,467 and 191,701, respectively for a total outstanding of 681,168 units.

Accumulated other comprehensive income (loss)

AOCI reflects the net unrealized gains related to AFS assets and the net actuarial gains or losses related to employee future benefit plans.

Table 22

	March 31, 2011		
(in millions of dollars)	**Pre-tax**	**Taxes**	**After-tax**
Opening net unrealized gains (losses) on January 1, 2011 (IFRS adjusted)	**396**	**(112)**	**284**
Change in fair values during the period	**62**	**(16)**	**46**
Realized net gains (losses) reclassified to income during the period	**(99)**	**28**	**(71)**
Net actuarial gains (losses) on employee future benefit plans	**8**	**(2)**	**6**
Net unrealized AFS and actuarial gains (losses) at March 31, 2011	**367**	**(102)**	**265**

9.4 Liquidity and capital resources

Cash flows

Table 23 - Cash flow and liquidity

(in millions of dollars)	Q1-2011	Q1-2010	Change
Selected inflows (outflows)			
Operating activities:			
Cash used in operating activities	**(16)**	(27)	11
Investing activities:			
Net cash inflows (outflows) from sales (purchases) of investments	**138**	270	(132)
Net purchases of brokerages and books of business and property and equipment	**(19)**	(19)	-
Financing activities:			
Dividends paid	**(41)**	(40)	(1)
Net proceeds from debt issuance	**-**	98	(98)
Common shares repurchased for cancellation	**(122)**	(167)	45
Change in cash and cash equivalents during the period	**(60)**	115	(175)

Capital management

As at March 31, 2011, the Company had a total of $784 million in excess capital over an MCT of 170% compared to total excess capital of $807 million at the end of 2010. The decline in excess capital position reflects the common shares repurchased under the NCIB for a total consideration of $122 million and dividends paid to shareholders of $41 million partly offset by the profitability for the first three months of 2011.

The capital of the Company is managed on a consolidated basis as well as individually for each regulated subsidiary. The P&C insurance subsidiaries of the Company are subject to the regulatory capital requirements defined by OSFI and the Insurance Companies Act ("ICA"). OSFI has established an MCT guideline which sets out 100% as the minimum and 150% as the supervisory target MCT standards for P&C insurance companies. To mitigate the risk of significant adverse market events that could deteriorate its capital position below the supervisory target, the Company established an internal target MCT of 170%.

The following table presents the MCT ratio of the Company's insurance subsidiaries with a total for all companies. The Company's MCT level at March 31, 2011 was very strong at 235.8%. The increase from December 31, 2010 mainly reflects profitability.

Table 24

MCT – P&C Insurance Companies (in millions of dollars, except as otherwise noted)	**Intact Insurance**	**Belair Insurance**	**Nordic Insurance**	**Novex Insurance**	**Trafalgar Insurance**	**Total**
At March 31, 2011						
Total capital available	**1,877**	**222**	**337**	**220**	**198**	**2,854**
Total capital required	**805**	**97**	**114**	**103**	**91**	**1,210**
Excess capital	**1,072**	**125**	**223**	**117**	**107**	**1,644**
MCT %	**232.1%**	**227.7%**	**296.4%**	**214.4%**	**217.0%**	**235.8%**
Excess at 150%	**670**	**76**	**166**	**66**	**61**	**1,039**
Excess at 170%	**508**	**56**	**144**	**46**	**43**	**797**
At December 31, 2010						
Total capital available	1,923	233	384	226	203	2,969
Total capital required	843	99	144	99	87	1,272
Excess capital	1,080	134	240	127	116	1,697
MCT %	228.1%	234.8%	266.7%	229.4%	233.1%	233.4%
Excess at 150%	659	84	168	78	73	1,062
Excess at 170%	490	64	139	59	55	807

Total capital available and total capital required represent amounts applicable to the Company's P&C insurance subsidiaries and are determined in accordance with prescribed OSFI rules. Total capital available mostly represents total equity less specific deductions for disallowed assets including goodwill and intangibles. Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. As at March 31, 2011, the Company's P&C insurance subsidiaries were in compliance with both OSFI and ICA requirements as well as being above internal targets.

MCT sensitivity

The MCT is impacted by many factors including changes in equity market performance, interest rates and underwriting profitability. Based on IFC's MCT of 235.8% as at March 31, 2011, the following table sets out the estimated immediate impact or sensitivity of the Company's MCT ratio to certain sudden but independent changes in interest rates and equity market prices as at March 31, 2011. Actual results can differ materially from these estimates for a variety of reasons and therefore these sensitivities should be considered as directional estimates of the underlying factors.

Table 25 - MCT Sensitivity

	Interest Rate [1] **1% Increase**	**Equity Markets** [2] **10% Decline**
MCT Impact [3]	**(5)%**	**(4)%**

[1] The yield curve experiences an instantaneous parallel shift.

[2] A shock of -10% is applied to all common share holdings net of any equity hedges that the Company may have. In addition, a shock of approximately -5% is applied to all preferred shares.

[3] Capital sensitivities are calculated independently for each risk factor and assume that all other risk variables remain constant. No management action is considered.

Credit ratings

Table 26 - Financial strength ratings and credit ratings

	A. M. Best	**Moody's**	**DBRS**
Credit ratings of Intact Financial Corporation	**a-**	**A3**	**A (low)**
Financial strength ratings of the insurance subsidiaries of Intact Financial Corporation	**A+**	**Aa3**	**n/a**
	Affirmed on June 15, 2010	Affirmed on May 26, 2010	Affirmed on September 27, 2010

Financing

The following table details the two series of the Company's debt outstanding:

Table 27

	Medium term notes	
(in millions of dollars, except as otherwise noted)	**Series 1**	**Series 2**
Date issued	**August 31, 2009**	**November 23, 2009 and March 23, 2010**
Maturity date	**September 3, 2019**	**November 23, 2039**
Principal amount outstanding	**$250**	**$250**
Carrying value (amortized cost)	**$249**	**$247**
Fair value	**$264**	**$263**
Fixed annual	**5.41%**	**6.40%**
Semi-annual coupon payment due on:	**March 3, September 3**	**May 23, November 23**

The Company has determined that its optimal balance sheet should have debt representing up to 20% of its total capital. The Company expects to reach this level over time but the timing of any future debt issuances will depend on prevailing market conditions and the need for funds. A debt to total capital ratio up to 20% is within the limits set out under the credit facility and the rating agencies to maintain the Company's current ratings. As at March 31, 2011, the debt to total capital ratio was 14.4%. Based on current equity levels and a target debt to total capital ratio of 20%, the Company has approximately $241 million of additional debt capacity.

The Company's primary purpose for raising debt capital is acquisitions. We may however raise capital independent of any specific acquisition, to take advantage of market opportunities and to optimize the cost of funds. If suitable acquisitions do not materialize in a reasonable time period, the Company may consider other uses of debt capital, including share repurchases. In the meantime, the proceeds from the issues are invested in the Company's investment portfolio.

The Company has a three-year unsecured, revolving term facility of $250 million which matures on December 20, 2013. 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. Under the terms of the facility, the Company must maintain a debt to total capital ratio of 25% or less and maintain an interest coverage ratio of 3 to 1. As of March 31, 2011, the Company had not drawn down under the facility and was in full compliance with the covenants of the facility.

Dividend increase

On February 8, 2011, the Board of Directors increased the quarterly dividend by 9%, or three cents, to 37 cents per share on its outstanding common shares. The decision reflected the Company's objective of returning value to shareholders, the strength of the Company's financial position and quality of operating earnings. This is the sixth consecutive year the Company has increased its dividend. A quarterly dividend of $41 million was paid on March 31, 2011 to shareholders of record on March 15, 2011.

Normal course issuer bid

On February 8, 2011, the Board of Directors authorized the renewal of the Company's NCIB to repurchase for cancellation between February 22, 2011 and February 21, 2012 up to 5,523,548 common shares, representing approximately 5% of its outstanding shares as of February 15, 2011.

Table 28 – Normal course issuer bid

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

Off-balance sheet arrangements

Securities lending

The Company participates in a securities lending program to generate fee income. This program is managed by the Company's custodian, a major Canadian financial institution, whereby the Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. As at March 31, 2011, the Company had loaned securities (which are reported in Investments on the Company's unaudited interim Consolidated balance sheet) with a fair value of $1,401 million (compared to $1,332 million as at December 31, 2010). Collateral is provided by the counterparty and is held in trust by the custodian for the benefit of the Company until the underlying security has been returned to the Company. The collateral cannot be sold or re-pledged externally by the Company, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the loaned securities and amounts to $1,471 million at March 31, 2011 (compared to $1,399 million as at December 31, 2010).

Section 10 - Accounting and disclosure matters

10.1 Internal controls over financial reporting

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

To facilitate the adoption of IFRS, the Company has implemented a one-time control over the transition to IFRS. However, no significant changes were made to the Company's on-going internal controls over financial reporting during the period ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

10.2 Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit and equity market conditions. Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from those estimates.

10.3 International Financial Reporting Standards

The Company's unaudited interim Consolidated financial statements have been prepared in accordance with IFRS. The Company's principal accounting policies under IFRS are described in the Significant accounting policy note in the unaudited interim Consolidated financial statements. Those policies which have been significantly impacted by transition to IFRS are summarized below.

Employee future benefits – Net actuarial gains and losses

Under Canadian GAAP, net actuarial gains and losses resulting from the fluctuation of the benefit plan obligation present value and the fair value of the benefit plan assets were subject to amortization under the "corridor" approach. Under IFRS, entities have the choice of recognizing ongoing actuarial gains and losses in the income statement over time similar to the "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 actuarial gains and losses immediately in OCI. The present value of the accrued benefit obligations, net of the fair value of plan assets are, therefore, recognized on the unaudited interim Consolidated balance sheet. The Company believes this accounting policy provides greater transparency to shareholders and stakeholders. The transition adjustment under IFRS for this accounting policy choice was a net reduction in shareholders' equity of $101 million after-tax as at December 31, 2010 (see table 30).

Financial instruments

Under Canadian GAAP, available-for-sale equity instruments were measured at fair value with changes in fair value reported, net of income taxes, to OCI until the asset was disposed of or had became 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 impairment assessment is similar but 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 (see Table 30). 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 (see Table 29, Net Income).

The following tables reconcile our restatements of previously reported under Canadian GAAP to IFRS.

Table 29 - Reconciliation of the key profitability indicators for the periods ended March 31, 2010 and December 31, 2010.

For the three months ended March 31, 2010	**Canadian GAAP**	**Employee future benefits and other adjustments**	**Financial instruments**	**IFRS**
Net income	**120**	**(1)**	**22**	**141**
Net operating income	**112**	**1**	**-**	**113**
Earnings per share – basic and diluted (in dollars)	**1.01**	**(0.01)**	**0.19**	**1.19**
Net operating income per share (in dollars)	**0.94**	**0.01**	**-**	**0.95**
Return on equity ("ROE") YTD annualized				**19.7%**
Operating return on equity YTD annualized				**17.1%**
For the year ended December 31, 2010				
Net income	420	(4)	81	497
Net operating income	399	3	-	402
Earnings per share ("EPS") – basic and diluted (in dollars)	3.65	(0.03)	0.70	4.32
Net operating income per share (in dollars)	3.47	0.03	-	3.50
Return on equity for the last 12 months	13.9%	0.2 pts	2.8 pts	16.9%
Operating return on equity for the last 12 months	13.2%	1.8 pts	-	15.0%

Table 30 - Reconciliation of the key financial position indicators as at January 1, 2010 and December 31, 2010.

As at January 1, 2010	**Canadian GAAP**	**Employee future benefits and other adjustments**	**Financial instruments**	**IFRS**
Total assets	**11,351**	**(40)**	**-**	**11,311**
Total liabilities	**8,369**	**25**	**-**	**8,394**
Share capital and contributed surplus	**1,144**	**-**	**-**	**1,144**
Retained earnings	**1,902**	**(65)**	**(310)**	**1,527**
Accumulated other comprehensive income (loss)	**(64)**	**-**	**310**	**246**
Shareholders' equity	**2,982**	**(65)**	**-**	**2,917**
Book value per share (in dollars)	**24.88**	**(0.55)**	**-**	**24.33**
As at December 31, 2010				
Total assets	12,149	(74)	-	12,075
Total liabilities	9,079	27	-	9,106
Share capital and contributed surplus	1,089	-	-	1,089
Retained earnings	1,894	(70)	(228)	1,596
Accumulated other comprehensive income (loss)	87	(31)	228	284
Shareholders' equity	3,070	(101)	-	2,969
Book value per share (in dollars)	27.37	(0.90)	-	26.47

10.4 New accounting standards and policies

Future accounting changes

Financial instruments: Classification and Measurement

In November 2009, the IASB issued IFRS 9 - *Financial Instruments: Classification and Measurement*. 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 amortized 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 unaudited 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 attributable to shareholders but gains or losses are not removed from OCI when the equity investment is derecognized, 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 Consolidated financial statements.

10.5 Related-party transactions

All related-party transactions are with entities associated with the Company's distribution segment.

Section 11 - Risk management

The Company has not significantly changed its risk management strategy presented in the 2010 annual MD&A.

11.1 Estimated impact of changes in interest rates and equity prices

Impact of changes in interest rates and common equity prices

For our AFS fixed income or preferred securities, a 100 basis point increase in interest rates would increase income before taxes by approximately $23 million, as a result of marking to market the written call option liabilities embedded in the Company's redeemable preferred shares and the marking to market of derivative positions. A 100 basis point increase would also decrease OCI by approximately $155 million. Conversely, a 100 basis point decrease in interest rates would decrease income before taxes and increase OCI by the same amounts, respectively. The impacts described here are approximately linearly related to the change in interest rates.

Furthermore, a 10% increase in equity markets and a 5% increase in preferred shares would decrease income before taxes by $17 million, as a result of marking to market the written call option liabilities embedded in the Company's redeemable preferred shares. However, it would result in a linear increase of OCI by $186 million. Conversely, a 10% decrease in equity prices and a 5% decrease in preferred shares would increase income before taxes and decrease OCI by the same amounts, respectively. The impacts described here are approximately linearly related to the change in the equity market.

The above sensitivity analyses were prepared using the key assumptions described below:

- the securities in the Company's portfolio are not impaired;
- interest rates and equity prices move independently;
- shifts in the yield curve are parallel;
- credit and liquidity risks have not been considered;
- for our FVTPL debt securities, the estimated impact on income before taxes is assumed to be offset by the MYA. In addition, it is important to note that AFS securities in an unrealized loss position, as reflected in OCI, may at some point in the future be realized either through a sale or impairment.

Section 12 - Other matters

12.1 Cautionary note regarding forward-looking statements

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

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: the Company's ability to implement its strategy or operate its business as management currently expects; its ability to accurately assess the risks associated with the insurance policies that the Company writes; unfavourable capital market developments or other factors which may affect the Company's investments and funding obligations under its pension plans; the cyclical nature of the P&C insurance industry; management's ability to accurately predict future claims frequency; government regulations; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; the Company's reliance on brokers and third parties to sell its products; the Company's ability to successfully pursue its acquisition strategy; its ability to execute its business strategy; the Company's participation in the Facility Association (a mandatory pooling arrangement among all industry participants); terrorist attacks and ensuing events; the occurrence of catastrophic events; the Company's ability to maintain its financial strength ratings; the Company's ability to alleviate risk through reinsurance; the Company's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); the Company's reliance on information technology and telecommunications systems; the Company's dependence on key employees; general economic, financial and political conditions; the Company's dependence on the results of operations of its subsidiaries; the volatility of the stock market and other factors affecting the Company's share price; and future sales of a substantial number of its common shares.

All of the forward-looking statements included in this MD&A are qualified by these cautionary statements and those made in the "Risk Management" section of our MD&A for the year ended December 31, 2010. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.