



Intact Financial Corporation

Audited Consolidated financial statements

For the year ended December 31, 2011

Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the consolidated financial statements of Intact Financial Corporation and its subsidiaries, collectively known as "the Company". This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with International financial reporting standards.

In meeting its responsibility for the reliability of consolidated financial statements, the Company maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal control includes the communication of policies and of the Company's Code of Conduct, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records. The Company's internal auditors review and evaluate the system of internal control.

The Company's Board of Directors, acting through the Audit and Risk Review Committee, which is composed entirely of Directors, who are neither officers nor employees of the Company, oversees management's responsibility for the design and operation of effective financial reporting and internal control systems, the preparation and presentation of financial information and the management of risk areas.

The Audit and Risk Review Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the Company employs an appropriate system of internal control, adheres to legislative and regulatory requirements and applies the Company's Code of Conduct. The internal and external auditors, as well as the Actuary, have full and unrestricted access to the Audit and Risk Review Committee, with and without the presence of management.

Pursuant to the Insurance Companies Act of Canada or to the Insurance Act ("Québec") ("the Acts"), the Actuary, who is a member of management, is appointed by the Board of Directors. The Actuary is responsible for discharging the various actuarial responsibilities required by the Acts and conducts a valuation of policy liabilities, in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit and Risk Review Committee.

The Office of the Superintendent of Financial Institutions Canada for the federally regulated property and casualty ("P&C") subsidiaries and l'Autorité des marchés financiers for the Québec regulated P&C subsidiary make such examinations and inquiries into the affairs of the P&C subsidiaries as deemed necessary.

The Company's external auditors, Ernst & Young LLP, Chartered Accountants, are appointed by the shareholders to conduct an independent audit of the consolidated financial statements of the Company and meet separately with both management and the Audit and Risk Review Committee to discuss the results of their audit, financial reporting and related matters. The auditors' report to shareholders appears on the following page.

February 7, 2012



Charles Brindamour
Chief Executive Officer



Mark A. Tullis
Senior Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Intact Financial Corporation

We have audited the accompanying consolidated financial statements of **Intact Financial Corporation** which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Intact Financial Corporation as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP¹

Montréal, Canada
February 7, 2012

Chartered Accountants

¹ CA auditor permit no. 15504

Intact Financial Corporation

Audited Consolidated financial statements

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Intact Financial Corporation
Audited Consolidated balance sheets
(in millions of Canadian dollars)

As at	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Investments	6			
Cash and cash equivalents		\$ 206	\$ 138	\$ 60
Debt securities		7,887	4,821	4,784
Preferred shares		1,281	1,503	1,582
Common shares		2,051	1,877	1,312
Loans		403	314	319
		11,828	8,653	8,057
Assets classified as held for sale	5	1,631	-	-
Accrued investment income		66	43	43
Premium receivables		2,487	1,762	1,640
Reinsurance assets		410	235	261
Income taxes receivable		58	52	40
Deferred tax assets	13	158	29	56
Deferred acquisition costs		652	420	396
Other assets	16	293	335	336
Investments in associates and joint ventures	14	241	119	98
Property and equipment	15	67	46	46
Intangible assets	17	1,068	170	159
Goodwill	17	794	211	179
Total assets		\$ 19,753	\$ 12,075	\$ 11,311
Liabilities				
Liabilities directly associated with assets classified as held for sale	5	\$ 1,330	\$ -	\$ -
Claims liabilities	11	6,886	4,379	4,270
Unearned premiums	11	3,790	2,586	2,464
Financial liabilities related to investments	6	532	715	406
Income taxes payable		17	78	102
Deferred tax liabilities	13	123	28	21
Other liabilities	16	1,441	824	733
Debt outstanding	19	1,293	496	398
		15,412	9,106	8,394
Shareholders' equity				
Common shares	20	1,889	993	1,061
Preferred shares	20	489	-	-
Contributed surplus		115	96	83
Retained earnings	29	1,642	1,565	1,527
Accumulated other comprehensive income	29	206	315	246
		4,341	2,969	2,917
Total liabilities and shareholders' equity		\$ 19,753	\$ 12,075	\$ 11,311

See accompanying notes to the audited Consolidated financial statements.

On behalf of the Board:



Charles Brindamour
Director



Eileen Mercier
Director

Intact Financial Corporation
Audited Consolidated statements of comprehensive income
(in millions of Canadian dollars, except as otherwise noted)

For the years ended December 31,	Note	2011		2010
Direct premiums written	12	\$ 5,126	\$	4,475
Net premiums earned	12	4,907		4,231
Net claims incurred	11	(3,133)		(2,766)
Underwriting expenses		(1,501)		(1,272)
		273		193
Impact of change in net claims discount rate	11	(81)		(36)
Underwriting income (loss)		192		157
Net investment income	6	326		294
Net investment gains (losses)	6	204		182
Integration and restructuring costs	16	(71)		-
Change in fair value of contingent consideration		(41)		-
Share of profit from investments in associates and joint ventures	14	16		15
Other revenues		50		44
Other expenses		(41)		(27)
Finance costs	19	(41)		(28)
Net income (loss) before income tax expense (benefit)		594		637
Income tax expense (benefit)	13	137		139
Net income (loss) from continuing operations attributable to shareholders		457		498
Net income (loss) from discontinued operations attributable to shareholders		8		-
Net income (loss) attributable to shareholders		\$ 465	\$	498
Weighted-average number of common shares, basic and diluted (in millions)		115		115
Earnings per common share, basic and diluted (dollars)	21	\$ 3.96	\$	4.32
From continued operations		3.89		4.32
From discontinued operations		0.07		-
Dividends paid per common share (dollars)		\$ 1.48	\$	1.36
Net income (loss) attributable to shareholders		\$ 465	\$	498
Other comprehensive income (loss)				
Net actuarial gains (losses) on employee future benefits	18	(139)		(41)
Derivatives designated as cash flow hedges:				
Net changes in unrealized gains (losses)		(15)		-
Reclassification to income of net (gains) losses		7		-
Available-for-sale securities:				
Net changes in unrealized gains (losses)		42		257
Reclassification to income of net (gains) losses		(179)		(166)
Income tax (expense) benefit	13	70		(12)
Other comprehensive income (loss) for the year from continuing operations		(214)		38
Total comprehensive income (loss) attributable to shareholders		\$ 251	\$	536

See accompanying notes to the audited Consolidated financial statements.

Intact Financial Corporation
Audited Consolidated statements of changes in shareholders' equity
(in millions of Canadian dollars, except as otherwise noted)

	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as at January 1, 2011		\$ 993	\$ -	\$ 96	\$ 1,565	\$ 315	\$ 2,969
Net income (loss) attributable to shareholders		-	-	-	465	-	465
Other comprehensive income (loss)		-	-	-	(105)	(109)	(214)
Total comprehensive income		-	-	-	360	(109)	251
Common shares repurchased for cancellation	20	(24)	-	-	(105)	-	(129)
Common shares issued	20	920	-	-	-	-	920
Preferred shares issued	20	-	489	-	-	-	489
Dividends paid on common shares	20	-	-	-	(170)	-	(170)
Dividends paid on preferred shares	20	-	-	-	(8)	-	(8)
Share-based payments	22	-	-	19	-	-	19
Balance as at December 31, 2011		\$ 1,889	\$ 489	\$ 115	\$ 1,642	\$ 206	\$ 4,341
Balance as at January 1, 2010		\$ 1,061	\$ -	\$ 83	\$ 1,527	\$ 246	\$ 2,917
Net income (loss) attributable to shareholders		-	-	-	498	-	498
Other comprehensive income (loss)		-	-	-	(31)	69	38
Total comprehensive income (loss)		-	-	-	467	69	536
Common shares repurchased for cancellation	20	(68)	-	-	(273)	-	(341)
Dividends paid on common shares	20	-	-	-	(156)	-	(156)
Share-based payments	22	-	-	13	-	-	13
Balance as at December 31, 2010		\$ 993	\$ -	\$ 96	\$ 1,565	\$ 315	\$ 2,969

See accompanying notes to the audited Consolidated financial statements.

Audited Consolidated statements of cash flows
(in millions of Canadian dollars, except as otherwise noted)

For the years ended December 31,	Note	2011	2010
Operating activities			
Net income (loss) attributable to shareholders		\$ 465	\$ 498
Adjustments for non-cash items	23	(112)	(102)
Changes in other operating assets and liabilities	23	(94)	(171)
Changes in net claims liabilities	11	270	135
Net cash flows provided by (used in) operating activities		529	360
Investing activities			
Business combination, net of cash acquired	4	(2,546)	-
Proceeds from sale of investments		9,070	8,555
Purchases of investments		(8,804)	(8,359)
Purchases of brokerages and books of business, net of sales		(10)	(37)
Purchases of property and equipment and other		(56)	(42)
Net cash flows provided by (used in) investing activities		(2,346)	117
Financing activities			
Net proceeds from issuance of debt	19	797	98
Common shares repurchased for cancellation	20	(129)	(341)
Proceeds from issuance of common shares	20	910	-
Proceeds from issuance of preferred shares	20	485	-
Dividends paid	20	(178)	(156)
Net cash flows provided by (used in) financing activities		1,885	(399)
Net increase (decrease) in cash and cash equivalents		68	78
Cash and cash equivalents, beginning of year		138	60
Cash and cash equivalents, end of year	23	\$ 206	\$ 138

See accompanying notes to the audited Consolidated financial statements.

Note 1 - Status of the Company

Intact Financial Corporation (the "Company") (TSX: IFC), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange. The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian property and casualty ("P&C") insurance market. On September 23, 2011, the Company acquired all of the issued and outstanding shares of AXA Canada Inc. ("AXA Canada"). Further details of the acquisition are provided in Note 4 – *Business combination*. The Company's significant subsidiaries are Intact Insurance Company, Belair Insurance Company Inc., The Nordic Insurance Company of Canada, Novex Insurance Company, Trafalgar Insurance Company of Canada, Equisure Financial Network Inc., Canada Brokerlink Inc., GP Car and Home Inc., IB Reinsurance Inc., Intact General Insurance Inc., now known as AXA Insurance Inc., Intact Farm Insurance Inc., AXA General Insurance, AXA Pacific Insurance Company and AXA Insurance (Canada).

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

Note 2 - Basis of presentation

Statement of compliance

These audited Consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As permitted by IFRS 4 – *Insurance Contracts*, the Company applies the Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for the accounting of its insurance contracts. These audited Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 7, 2012.

For all years up to and including the year 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 IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain additional information and footnote disclosures considered material to the understanding of the Company's financial statements prepared in accordance with IFRS are provided in Note 29 – *First-time adoption of IFRS* along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS.

The audited Consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for investments in associates and joint ventures that are accounted using the equity method and financial instruments measured at fair value (see Note 3.1b), c) and d) for accounting policy details). Financial assets and liabilities are offset and the net amount is reported on the audited Consolidated balance sheets 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 audited Consolidated balance sheets 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 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 3.1c) – *Investments in associates* for accounting policy details.

Joint ventures are those entities over which the Company exerts joint control as defined under IFRS and are accounted for using the equity method. See Note 3.1d) – *Joint ventures* for accounting policy details.

Intact Financial Corporation

Notes to the audited Consolidated financial statements

In preparing these audited 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 year. Captions used in these audited Consolidated financial statements and the accompanying notes generally have words such as “benefit”, “income”, “revenue”, “profit” or “gains” placed before the words “expense” or “loss”.

Note 3 - Summary of significant accounting policies

3.1 Significant accounting policies

a) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk 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 risks, 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 revenues on the audited Consolidated statements 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 generally accepted Canadian actuarial standard 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 audited Consolidated balance sheets and changes are recognized in Net claims incurred on the audited Consolidated statements 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, 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 audited Consolidated statements 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 were 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 are not considered adequate to cover all deferred acquisition costs and related insurance

Intact Financial Corporation

Notes to the audited Consolidated financial statements

claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition costs, a liability is accrued for the excess deficiency. The reductions of deferred acquisition costs and the additional liability cannot be reversed in future periods.

Deferred acquisition costs

Policy acquisition costs incurred in acquiring insurance premiums comprise commissions, premium taxes and expenses directly related to the writing or renewal of insurance policies. To the extent they are considered recoverable, the acquisition costs are deferred and amortized on the same basis as the unearned premiums and are reported in Underwriting expenses on the audited Consolidated statements of comprehensive income.

The recoverability of the deferred acquisition costs is tested through the liability adequacy test, performed at the end of each period. The portion of the deferred acquisition costs that appears not to be covered by estimated future benefits is considered as irrecoverable and is written off.

Deferred acquisition costs are derecognized when the corresponding contracts are settled or cancelled.

Reinsurance commissions

Commissions receivable on ceded reinsurance contracts are deferred and amortized on a straight-line basis over the term of the expected premiums payable. The unearned reinsurance commissions are recorded in Other liabilities on the audited Consolidated balance sheets.

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 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 Office of Superintendent of Financial Institutions Canada ("OSFI") guidelines, assumed and ceded RSP premiums are reported respectively in Direct and net 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 third party reinsurance balances on the audited Consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party 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 9 - *Financial risk* and Note 10 - *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 audited Consolidated balance sheets. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations. Refer to Note 9 - *Financial risk* for further details about credit risk for structured settlements.

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Notes to the audited Consolidated financial statements

b) Financial instruments contracts

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

- Available-for-sale (“AFS”),
- Financial assets and liabilities at fair value through profit and loss (“FVTPL”),
- Cash and cash equivalents, loans and receivables, or
- Other financial liabilities.

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

Classification category	Initial measurement	Subsequent measurement	Changes in fair value
Financial assets			
AFS	Fair value using bid prices at the trade date	Fair value using bid prices at year-end	Reported on the audited Consolidated statements of comprehensive income (in Other comprehensive income (loss) when unrealized or in Net investment gains (losses) when realized or impaired)
FVTPL	Fair value using bid prices at the trade date	Fair value using bid prices at year-end	Reported on the audited Consolidated statements 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 audited Consolidated statements of comprehensive income (in Net investment gains (losses)) when realized or impaired (except for cash and cash equivalent where no impairment exists)
Financial liabilities			
FVTPL instruments	Fair value using ask prices at the trade date	Fair value using ask prices at year-end	Reported on the audited Consolidated statements 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 audited Consolidated statements of comprehensive income (in Net investment gains (losses)) when the liability is extinguished

Financial assets are derecognized 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 assets lent by the Company in the course of the securities lending operations are not derecognized because the Company has not transferred the important risks and rewards related to the lent assets.

Financial liabilities are derecognized when they have expired or have been cancelled.

Financial instruments

Available-for-sale instruments

As described in Table 3.1, non-derivative AFS financial assets are recorded at fair value on the audited Consolidated balance sheets 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 6.2 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 audited Consolidated statements 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.

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Notes to the audited Consolidated financial statements

FVTPL

Non-derivative financial assets and liabilities at FVTPL are purchased or incurred with the intention of generating profits in the near term (“classified as FVTPL”) or are voluntarily so designated by the Company (“designated as FVTPL”).

A portion of Company’s debt securities backing its claims liabilities has been designated as FVTPL. 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 FVTPL 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.

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 and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest method, less impairment. Gains and losses are recognized in the audited Consolidated statements of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

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 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 as a liability at fair value and disclosed as Net asset value attributable to third party unit holders (Note 6 - *Financial instruments*).

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 audited Consolidated statements of comprehensive income in Net investment gains (losses) during the period in which they arise. See Note 7 - *Derivative financial instruments* for further details.

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 financial assets and liabilities classified at FVTPL.

Hedge accounting

The Company uses derivatives in its hedging strategies to manage its exposure to risk arising from financial instruments. Where hedge accounting can be applied, a hedge relationship is designated and documented at inception to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in accomplishing the objective of offsetting changes in either the fair value or the anticipated cash flows attributable to the risk being hedged both at inception and

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Notes to the audited Consolidated financial statements

throughout the life of the hedge. Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Cash flow hedges

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recognized in OCI while the ineffective portion is recognized in Net investment gains (losses). When hedge accounting is discontinued, the amounts accumulated in AOCI are reclassified to Finance costs on the same basis as these costs are incurred. Gains and losses on derivatives are reclassified immediately to Net income (loss) attributable to shareholders when the hedged item is sold or terminated early.

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 audited Consolidated balance sheets.

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 value of financial instruments are determined based on available information and categorized according to a three-level fair value hierarchy. The distribution of the Company's financial instruments between each of the fair value hierarchy levels is described in Note 8 – *Fair value measurement*.

All derivatives are carried as financial assets when the fair value is positive and as a financial liability when the fair value is negative. See Table 7.1 for more details.

Where the fair values of financial assets and financial liabilities reported on the audited Consolidated balance sheets 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.

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 assets, other than those classified or designated at FVTPL, are impaired. A financial asset or a group of financial assets is impaired when there is objective evidence of impairment as a result of one or more events that has an impact on the estimated future cash flows of the financial asset or group of financial assets. Objective evidence 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.

For debt securities classified as AFS, impairment is recorded for the difference between amortized cost and fair value when it is probable that the future cash flows will not be fully recovered, following a credit event that affected the issuer of those debt securities. However, a credit event is not sufficient to constitute, in itself, evidence of impairment. Other factors are considered to conclude that the debt security is impaired, such as payment default. If the risk diminishes or disappears, the impairment

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provision can be reversed. Impairment reversals are recognized as gains in the audited Consolidated statements of comprehensive income.

For equity instruments classified as AFS, a significant or prolonged decline of the value below the cost is an evidence of impairment. The Company determined that common shares with an unrealized loss of at least 25% for a nine-month period and perpetual preferred shares with an unrealized loss of at least 25% for a twelve-month period are generally impaired. In addition, for all equity instruments, a decline below carrying value of more than 50% at the end of any reporting period are generally impaired. When there is objective evidence that impairment exists, the equity instrument is written down, regardless of the unrealized loss, in the audited Consolidated statements of comprehensive income, for an amount equal to the unrealized loss. Impairments on equity instruments are not reversible.

For assets classified as loans and receivables, the instruments that are individually significant are tested for impairment when there is a payment default or when there are objective indications that the counterparty will not honour its obligations. When an instrument in that category is determined to be impaired, its carrying amount is reduced either to its estimated realizable value, which is obtained by discounting estimated future cash flows from the investment concerned using the effective interest rate, or the fair value of collateral. The provision can be reversed when the event that gave rise to its recognition subsequently disappears. The loans and receivables which have not been individually impaired are grouped by similar characteristics to be tested for impairment.

Table 3.2 - Measurement and recognition of financial asset impairment

Instrument category	Loss measurement	Reported loss	Subsequent fair value increases
AFS equity instrument	Difference between acquisition cost and current fair value less any impairment loss on that instrument previously recognized	Unrealized loss removed from OCI and recognized in Net investment gains (losses) on the audited Consolidated statements of comprehensive income	Increases are recognized directly in OCI
AFS debt instrument	Difference between unamortized cost and current fair value less any unrealized loss on that instrument previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses) on the audited Consolidated statements 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 in 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 audited Consolidated statements 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 audited Consolidated statements 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 audited Consolidated balance sheets 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 audited Consolidated statements of comprehensive income and reflects after-tax the share of the results of operations of the associates. 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 into line with those of the Company.

d) Joint ventures

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

e) Assets classified as held for sale and discontinued operations

Assets are classified as held for sale when the carrying amount is to be recovered principally through a sale transaction rather than through continued use and such sale is considered highly probable. Assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

Assets classified as held for sale by the Company are considered as discontinued operations if the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company and they: represent a separate major line of business or geographical area of operations; are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or are a subsidiary acquired exclusively with a view to resell.

Liabilities directly associated with assets classified as held for sale are measured at the lower of their carrying value or fair value less costs to sell. Interest and other expenses related to these liabilities continue to be recorded and the liabilities are presented net of intragroup transactions.

Revenues and expenses from discontinued operations comprise the revenues and expenses of the subsidiary held for sale, adjusted with the revaluations at fair value of the related assets classified as held for sale and corresponding liabilities. Revenues and expenses from discontinued operations are presented on a net basis, as Net income (loss) from discontinued operations in the audited Consolidated statements of comprehensive income.

f) Revenue and expense recognition

Dividends are recognized when the shareholders' 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 and interest income are all reported in Net investment income on the audited Consolidated statements of comprehensive income.

Transaction costs associated with financial instruments classified or designated as FVTPL are recognized on the audited Consolidated statements 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.

g) Restructuring and integration costs

A provision for restructuring costs is recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

The provision for restructuring costs is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Integration costs comprise consulting, branding and technology-related expenses incurred as a direct result of the acquisition process. Integration costs are recognized on the audited Consolidated statements of comprehensive income when they are incurred.

h) Income taxes

Income tax expense (benefit) comprises current and deferred tax. Income tax is recognized in Net income (loss) from continuing operations attributable to shareholders on the audited Consolidated statements of comprehensive income, except to the extent that it relates to discontinued operations, where it is recognized directly in Net income (loss) from discontinued operations, or to the extent that it relates to items recognized in OCI or directly to equity, where it is recognized directly in OCI or 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 sheet 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.

i) Employee future benefits

Pension and post-retirement plans

For the defined benefit pension and other retirement plans, the present value of the accrued benefit obligations, net of the fair value of plan assets, is recognized on the audited Consolidated balance sheets. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected unit credit method and management's best estimate assumptions. See Note 18 - *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 audited Consolidated statements of comprehensive income in the period in which they occur. Such actuarial gains and losses are also immediately recognized in Retained earnings on the audited Consolidated balance sheets and will not be reclassified to Net income (loss) attributable to shareholders in subsequent periods.

Cost, recognized on the audited Consolidated statements of comprehensive income, for employee future benefit plans includes:

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

For defined contribution plans, the Company pays specified contributions into a separate entity and has no legal or constructive obligation to pay further amounts. No liability therefore appears on the Company's audited Consolidated financial statements,

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except for the expense recognized for contributions due but not yet paid at the end of the reporting period. Obligations for contributions to defined contribution plans are recognized as an expense in Net income (loss) attributable to shareholders in the periods during which services are rendered by employees.

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 audited Consolidated statements of comprehensive income in the period the absence commences.

j) Share-based payments

The Company has three types of shared-based payment plans:

Long-term incentive plan

Certain key employees are entitled to a long-term incentive plan ("LTIP"). Under this plan, the employees are granted awards to receive common shares of the Company as a portion of their compensation. Each award vests and is paid out at the end of a three-year performance cycle. The value of the actual award varies based on a performance measure which compares the Company's three-year average return on equity relative to that of the Canadian P&C insurance industry. The common shares received are restricted for two years.

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. Most RSUs automatically vest three years from the year of the grant. Vesting for RSUs is not linked to the 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 the 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 RSUs with respect to the vesting of RSUs. 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, shares of the Company, 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 director for the purchase of shares of the Company 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 the current share price with any fluctuations in the liability also recorded as an expense until it is settled in cash.

k) Business combinations

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. Acquisition-related costs are recognized directly in Net income (loss) attributable to shareholders on the audited Consolidated statements of comprehensive income in the period they are incurred.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be assumed by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration resulting from additional information obtained after the acquisition date about facts and circumstances that existed at the acquisition date are considered measurement period adjustments and reflected in the provisional fair value of assets acquired and liabilities assumed. Subsequent changes in the fair value of the contingent consideration relating to events that occurred after the acquisition date are not considered measurement period adjustments and are recorded in the audited Consolidated statements of comprehensive income.

At the acquisition date, the identifiable assets acquired and liabilities assumed of the acquiree are estimated at their fair value. 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.

l) 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 (see Note 17 – *Goodwill and intangible assets*). 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 June 30. The Company currently has one CGU (see Note 3.1 q) – *Operating segments* for details). The recoverable amount of the CGU was determined based on the present value of expected future cash flows.

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. 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 audited Consolidated statements of comprehensive income.

The Company's intangible assets consist of distribution network, customer relationships, rights to offer renewals and internally developed software. The useful life of the distribution network has been assessed to be indefinite and, therefore, it is not subject to amortization, but is tested for impairment on an annual basis. The life of this asset is assessed to be indefinite since the related cash flows are expected to continue indefinitely: the projected compound growth it generates is expected to be higher than the loss of its volume. Customer relationships, rights to offer renewals and internally developed software have all been assessed as having finite lives and amortization methods and rates are shown below.

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

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m) Earnings per common share

Earnings per common share is computed by dividing Net income (loss) attributable to common 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 common share is the same as earnings per common share.

n) 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

o) Current vs non-current

Assets are considered 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 considered as non-current.

In line with industry practice for insurance companies, the Company's balance sheets are not presented using current and non-current classifications, but are rather presented broadly in order of liquidity. However, the following balances are generally considered to be current: Investments, Assets classified as held for sale, Accrued investment income, Premium receivables, Reinsurance assets, Income taxes receivable, Deferred acquisition costs, Liabilities directly associated with assets classified as held for sale, Unearned premiums, Financial liabilities related to investments, Income taxes payable and Other liabilities.

The following balances are generally considered non-current: Investments in associates and joint ventures, Deferred tax assets, Property and equipment, Intangible assets, Goodwill, Deferred tax liabilities and Debt outstanding.

p) 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 audited Consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

q) Operating segments

The Company's business activities comprise P&C 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 the Board of Directors.

3.2 Standards issued but not yet effective

The Company is currently analyzing the impact that the following standards will have on its audited Consolidated financial statements:

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 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 the principal and interest,
- All other financial assets are measured at fair value on the 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 profit or loss 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, 2015.

b) Consolidated financial statements

IFRS 10 - *Consolidated financial statements* replaces IAS 27 - *Consolidated and separate financial statements* and SIC-12 - *Consolidation - special purpose entities* and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The main features are as follows:

- The principle of control sets out the three elements of control: (1) power over the investee; (2) exposure, or rights, to variable returns from involvement with the investee; (3) the ability to use power over the investee to affect the amount of the investor's returns, and
- When preparing consolidated financial statements, an entity must use uniform accounting policies for reporting like transactions and other events in similar circumstances. Intragroup balances and transactions must be eliminated. Non-controlling interests in subsidiaries must be presented in the consolidated statements of financial position within equity, separately from the equity of the owners of the parent.

The standard is effective for years beginning on or after January 1, 2013.

c) Joint arrangements

IFRS 11 - *Joint arrangements* replaces IAS 31 - *Interest in joint ventures* and SIC-13 - *Jointly controlled entities - non-monetary contributions by venturers* and is to be applied by all entities that are a party to a joint arrangement, whereby two or more parties have joint control. The key features of this new standard are as follows:

- Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control,
- Joint arrangements are classified into two types - joint operations and joint ventures,
- An entity determines the type of arrangement in which it is involved by considering its rights and obligations,
- A joint operator will recognize and measure the assets, liabilities, revenues and expenses in relation to its interest in the arrangement, and
- A joint venturer will recognize an investment and measure it using the equity method.

The standard is effective for years beginning on or after January 1, 2013.

d) Disclosure of interests in other entities

IFRS 12 – *Disclosure of interests in other entities*, replaces the disclosure requirements of IAS 27 – *Consolidated and separate financial statements*, IAS 28 – *Investments in associates*, and IAS 31 – *Interests in joint ventures*. The IFRS 12 establishes disclosure objectives according to which an entity discloses information regarding consolidated entities, associates, joint arrangements, unconsolidated structured entities and non-controlling interests.

The standard is effective for years beginning on or after January 1, 2013.

e) Fair value measurement

In May 2011, the IASB issued IFRS 13 – *Fair value measurement* with a view to setting out a single IFRS framework for defining, measuring and disclosing fair value. Its main features are as follows:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date,
- The fair value measurement requires an entity to determine the following:
 - The particular asset or liability being measured;
 - For a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
 - The market in which an orderly transaction would take place for the asset or liability; and
 - The appropriate valuation technique(s) to use when measuring fair value. The technique(s) should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and
- The entity is to disclose those valuation techniques and inputs used to develop the fair value measurements.

The standard is effective for years beginning on or after January 1, 2013.

f) Employee benefits

In June 2011, the IASB completed its project to improve the accounting for pension and other post-employment benefits by issuing an amended version of IAS 19 – *Employee benefits*. The amendments aim to:

- Eliminate an option to defer the recognition of gains and losses, known as the “corridor method”, improving comparability and faithfulness of presentation,
- Streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the results of an entity’s day-to-day operations, and
- Enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The standard is effective for years beginning on or after January 1, 2013.

g) Financial statement presentation

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements

The standard is effective for years beginning on or after January 1, 2013.

3.3 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 during 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 type. 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.

b) Valuation of pension benefit obligation

The cost of defined benefit pension plans and other post employment medical benefits 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 18.4 – *Assumptions used*.

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. The assumptions used in this estimation of the recoverable amount are discussed in Note 17 – *Goodwill and intangible assets*.

Financial assets

The Company determines whether financial assets, other than those classified or designated as FVTPL, are impaired at each audited 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 AFS equity instrument and a loss event that has occurred impairing the expected cash flows of an AFS 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.

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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.

f) Business combinations

Upon initial recognition, the acquiree's assets and liabilities have been included in the audited Consolidated balance sheets at fair value. Management estimated the fair values using estimates on future cash flows and discount rates. However, actual results can be different from those estimates. The changes in the estimates that relate to new information obtained about facts and circumstances that existed as of the acquisition date, made at initial recognition with regard to items for which the valuation was incomplete, would have an impact on the amount of goodwill recognized. Any other changes in the estimates made at initial recognition would be reported in the audited Consolidated statements of comprehensive income. The detail on assets acquired and liabilities assumed is presented in Note 4 – *Business combination*.

Note 4 - Business combination

On May 31, 2011, the Company announced that it had signed a definitive agreement with AXA SA for the acquisition of all of the issued and outstanding shares of its subsidiary AXA Canada for a cash consideration of \$2,621 million and contingent consideration of up to \$100 million. Following receipt of all required regulatory approvals, the acquisition closed and AXA Canada became a wholly owned subsidiary on September 23, 2011. The combination of the Company and AXA Canada represents an opportunity to combine two of the leading P&C insurance operators in Canada and is consistent with the Company's strategy to grow through significant acquisitions in areas where it has strong expertise.

AXA Canada provided P&C insurance in Canada, principally through a network of independent brokers. It carried out its activities primarily through its wholly-owned insurance subsidiaries, AXA Insurance Inc., AXA Insurance (Canada), AXA Pacific Insurance Company, AXA General Insurance, and AXA Farm Insurance Inc. and offered life and health insurance products in Canada through its subsidiary AXA Life Insurance Inc. ("AXA Life Insurance"). The Company sold AXA Life Insurance as it does not relate to its core activities (see Note 5 – *Assets classified as held for sale and directly associated liabilities*).

The results of operations of AXA Canada are included in the audited Consolidated financial statements from the date of acquisition. The net premiums earned included in the audited Consolidated statements of comprehensive income contributed by AXA Canada are \$515 million and the net income (loss) attributable to shareholders is \$28 million excluding the effect of the related financial impact of the acquisition financing. Had AXA Canada been consolidated from January 1, 2011, the additional net premiums earned would have been \$1,886 million, the additional net income (loss) from continuing operations attributable to shareholders, \$277 million, and the additional net income (loss) from discontinuing operations attributable to shareholders \$33 million.

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The following table summarizes the consideration paid for AXA Canada, and the amounts recognized for the assets acquired and liabilities assumed at the acquisition date.

Table 4.1 - Business combination

As at (in millions of \$)	September 23, 2011
Cash consideration paid	\$ 2,621
Fair value of contingent consideration	48
Purchase price	2,669
Provisional fair value of assets acquired and liabilities assumed	
Investments (including cash and cash equivalents of \$75 million)	3,565
Assets classified as held for sale	1,459
Investments in associates and joint ventures	100
Premium receivables	679
Reinsurance assets	131
Deferred tax assets	89
Deferred acquisition costs	211
Property and equipment	13
Intangible assets	897
Other assets	64
Claims liabilities	(2,193)
Unearned premiums	(1,148)
Liabilities directly associated with assets classified as held for sale	(1,170)
Deferred tax liabilities	(128)
Other liabilities	(473)
Total identifiable net assets	2,096
Goodwill	\$ 573

The fair value of the acquired identifiable intangible assets is based on a discounted cash flow analysis of the distribution network and the customer relationships acquired. The useful life of the distribution network has been assessed as indefinite and is therefore not subject to amortization, but tested for impairment on an annual basis. Customer relationships are amortized over a period of 10 years.

Goodwill reflects the quality of the acquired business and the synergies expected following the integration of AXA Canada. None of the goodwill is expected to be deductible for tax purposes.

A contingent consideration contract clause requires the Company to pay up to an additional \$100 million to AXA SA based on the development of the consolidated reserves of AXA Canada, excluding the life and health business, as at December 31, 2010. The calculation period of this consideration ends on December 31, 2016.

During the fourth quarter of 2011, the Company assessed the fair value of the contingent consideration at \$48 million which was recorded as an increase in the purchase price and goodwill as at September 23, 2011. There were no other significant adjustments made to the fair value of assets acquired and liabilities assumed in the fourth quarter of 2011.

The determination of the fair value of the identifiable assets and liabilities acquired are complete, except for property and equipment, other assets and other liabilities. The review of the fair values of those assets will be completed by June 30, 2012.

Note 5 - Assets classified as held for sale and directly associated liabilities

As part of the acquisition of AXA Canada, the Company acquired AXA Life Insurance. On September 26, 2011, the Company announced that it had entered into a definitive share purchase agreement to sell this subsidiary to a third party. The transaction closed on January 1, 2012, following receipt of all regulatory approvals.

For the purpose of these audited Consolidated financial statements, AXA Life Insurance was measured at fair value less costs to sell and classified as a disposal group held for sale. Therefore, all its assets are grouped together in Assets classified as held for sale and all its liabilities are grouped together in Liabilities directly associated with assets classified as held for sale.

AXA Life Insurance qualifies as a discontinued operation as at December 31, 2011, given that the subsidiary was classified as a disposal group, acquired for resale purposes.

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Note 6 - Financial instruments

The following tables summarize the Company's investments.

Table 6.1 - Investments by classification

(in millions of \$)	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, loans and receivables	Total
As at December 31, 2011					
Cash and cash equivalents	-	-	-	206	206
Debt securities					
Short-term notes	244	-	-	-	244
Fixed income					
Investment grade					
Government	2,318	-	2,315	-	4,633
Corporate	1,170	3	1,583	-	2,756
Asset-backed	119	-	117	-	236
Below investment grade	9	-	9	-	18
Total debt securities	3,860	3	4,024	-	7,887
Preferred shares					
Investment grade					
Retractable	165	-	-	-	165
Fixed-rate perpetual	323	-	-	-	323
Other perpetual	792	-	-	-	792
Non rated	1	-	-	-	1
Total preferred shares	1,281	-	-	-	1,281
Common shares	1,063	435	553	-	2,051
Loans	-	-	-	403	403
Total investments	6,204	438	4,577	609	11,828
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	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

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Table 6.2 - Carrying value of investments

(in millions of \$)	FVTPL ¹		Other investments			Total investments
	At fair value	Unamortized cost	Unrealized gains	Unrealized losses	Net unrealized gains (losses)	At carrying value
As at December 31, 2011						
Cash and cash equivalents	-	206	-	-	-	206
Debt securities						
Short-term notes	-	244	-	-	-	244
Fixed income						
Investment grade						
Government	2,315	2,237	81	-	81	4,633
Corporate	1,586	1,153	18	(1)	17	2,756
Asset-backed	117	116	3	-	3	236
Below investment grade	9	9	-	-	-	18
Total debt securities	4,027	3,759	102	(1)	101	7,887
Preferred shares						
Investment grade						
Retractable	-	164	3	(2)	1	165
Fixed-rate perpetual	-	245	78	-	78	323
Other perpetual	-	715	83	(6)	77	792
Non rated	-	1	-	-	-	1
Total preferred shares	-	1,125	164	(8)	156	1,281
Common shares	988	1,019	89	(45)	44	2,051
Loans	-	403	-	-	-	403
Total investments	5,015	6,512	355	(54)	301	11,828
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	-	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

¹ Fair value through profit or loss.

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

As at December 31, 2011, the fair value of the loans was \$436 million (December 31, 2010 - \$330 million). 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. Preferred shares with a rating equal to or above P3 low are classified as investment grade.

6.2 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 December 31, 2011, the Company has loaned securities (which are reported in Investments) with a fair value of \$1,550 million (December 31, 2010 - \$1,332 million and January 1, 2010 - \$1,002 million).

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 underlying loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the securities loaned and amounts to \$1,628 million at December 31, 2011 (December 31, 2010 – \$1,399 million and January 1, 2010 - \$1,052 million).

6.3 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 related to investments on the audited Consolidated balance sheets.

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

Table 6.3 - Long and short positions

(in millions of \$)	As at December 31, 2011		As at December 31, 2010		As at 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	369	-	398	-	184	-
Short positions	(368)	377	(397)	407	(183)	183

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The following table shows the terms to maturity of the Company's investment portfolio.

Table 6.4 - Maturity of investments

(in millions of \$)	One year or less	Over one year to five years	Over five years	No specific maturity	Total
As at December 31, 2011					
Cash and cash equivalents	206	-	-	-	206
Short-term notes	244	-	-	-	244
Fixed income	741	4,136	2,766	-	7,643
Preferred shares	22	115	29	1,115	1,281
Common shares	1	-	-	2,050	2,051
Loans	42	171	183	7	403
Total investments	1,256	4,422	2,978	3,172	11,828
As at December 31, 2010					
Cash and cash equivalents	138	-	-	-	138
Short-term notes	363	-	-	-	363
Fixed income	346	2,639	1,473	-	4,458
Preferred shares	43	147	74	1,239	1,503
Common shares	-	-	-	1,877	1,877
Loans	35	157	114	8	314
Total investments	925	2,943	1,661	3,124	8,653
As at January 1, 2010					
Cash and cash equivalents	60	-	-	-	60
Short-term notes	211	-	-	-	211
Fixed income	141	3,045	1,387	-	4,573
Preferred shares	19	191	115	1,257	1,582
Common shares	-	-	-	1,312	1,312
Loans	33	155	121	10	319
Total investments	464	3,391	1,623	2,579	8,057

The following table details the Company's financial liabilities related to investments.

Table 6.5 - Details of the Company's financial liabilities related to investments

As at (in millions of \$)	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable to investment brokers on unsettled trades	4	10	13
Equities sold short positions (Table 6.3)	368	397	183
Derivative liabilities (Table 7.1)	23	16	16
Embedded derivatives (Note 7.2)	67	67	67
Net asset value attributable to third party unit holders	70	225	127
Total financial liabilities related to investments	532	715	406

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

Table 6.6 - Details of the Company's net investment income and net investment gains (losses)

For the years ended (in millions of \$)	December 31, 2011	December 31, 2010
Amounts reported in Net investment income		
Interest income from:		
Financial instruments at FVTPL	116	96
AFS financial instruments	84	75
Loans and receivables	21	19
Total interest income	221	190
Dividend income (expense) from:		
Dividends paid on equities sold short	(11)	(10)
Financial instruments at FVTPL, net	33	26
AFS financial instruments	109	109
Dividends from long-term investments, at cost	-	1
Total dividend income	131	126
Expenses	(26)	(22)
Net investment income	326	294
Amounts reported in Net investment gains (losses)		
Net realized gains (losses) from:		
Financial instruments classified as FVTPL	(16)	4
Financial instruments designated as FVTPL	46	45
Derivative financial instruments	(34)	(35)
AFS financial instruments	265	190
Embedded derivatives	(2)	(8)
Impairment losses of:		
Common shares	(52)	(14)
Retractable preferred shares	(13)	-
Other net gains (losses)	10	-
Net investment gains (losses)	204	182

Note 7 - Derivative financial instruments

7.1 Types of derivatives

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

The Company uses derivatives to mitigate certain risks described in Note 9 - *Financial risk*.

a) Forwards and futures

Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter market. Futures are standardized contracts with respect to amounts and settlement dates, and are traded on regular future exchanges.

Interest-rate forwards and futures are contractual obligations to buy or sell an interest rate sensitive financial instrument on a predetermined future date at a specified price.

Currency forwards and futures are contractual obligations to exchange one currency for another on a predetermined future date.

The Company uses forwards and futures for risk management purposes. Forwards are used to mitigate the risk arising from foreign currency fluctuations and futures are used to alter exposure to interest rate fluctuations.

b) Swaps

Total return swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates or value of an index, a basket of stocks or a single stock, applied to a notional amount.

Currency swaps include single-currency, cross-currency and cross-currency interest-rate swaps. Single-currency swaps are agreements where two counterparties exchange a series of payments based on different interest rates (such as fixed rates for floating rates) applied to a notional amount in a single currency. Cross-currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross-currency interest-rate swaps involve the exchange of both interest and principal amounts in two different currencies.

The Company uses swaps for risk management purposes, mainly in conjunction with other financial instruments to synthetically alter the cash flows of certain investments.

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c) Credit derivatives

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument from one counterparty to another.

The Company uses credit derivatives for risk management purposes, mainly to alter credit exposure to specific bond issuers.

The following table shows the fair values and the notional amounts of derivatives by terms of maturity. Positive fair values are reported in Other assets and negative fair values are reported in Financial liabilities.

Table 7.1 - Fair values and notional amounts of derivatives by term to maturity and nature of risk

(in millions of \$)	Fair value		Notional amount			Total
	Positive	Negative	One year or less	Over one year to five years	Over five years	
As at December 31, 2011						
Held for non-trading purposes						
Foreign currency exposure						
Forwards	-	4	285	-	-	285
Swaps	3	-	23	-	-	23
Interest rate exposure						
Futures	-	-	291	-	-	291
Swaps	3	-	-	130	-	130
Options	-	-	223	-	-	223
Equity exposure						
Total return swaps	-	15	554	-	-	554
Options	8	4	780	7	-	787
Credit exposure						
Credit default swaps	-	-	10	-	-	10
Inflation exposure						
Swaptions	-	-	-	180	77	257
Total	14	23				
As at December 31, 2010						
Held for non-trading purposes						
Foreign currency exposure						
Forwards	-	-	32	-	-	32
Swaps	4	-	4	23	-	27
Interest rate exposure						
Futures	-	-	75	-	-	75
Equity exposure						
Total return swaps	-	15	412	-	-	412
Options	-	-	2	11	-	13
Credit exposure						
Credit default swaps	-	1	-	50	-	50
Total	4	16				
As at January 1, 2010						
Held for non-trading purposes						
Foreign currency exposure						
Forwards	-	-	29	-	-	29
Swaps	2	-	-	28	-	28
Interest rate exposure						
Futures	-	-	-	-	-	-
Equity exposure						
Total return swaps	-	15	385	-	-	385
Options	1	-	1	12	3	16
Credit exposure						
Credit default swaps	-	1	-	52	-	52
Total	3	16				

7.2 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable. The fair value of the embedded derivatives amounted to \$67 million as at December 31, 2011, December 31, 2010 and January 1, 2010 and is linked entirely to the Company's investment in perpetual preferred shares. The Company did not attempt to establish a notional amount for these embedded derivatives but a proxy for that amount could be the original cost of these perpetual preferred shares which amounted to \$921 million as at December 31, 2011 (December 31, 2010 - \$964 million and January 1, 2010 - \$1,160 million). Embedded derivatives are reported in Financial liabilities related to investments on the audited Consolidated balance sheets.

Note 8 - Fair value measurement

8.1 Determination of fair value and fair value hierarchy

In accordance with IFRS 7 for financial instruments measured at fair value on the audited Consolidated balance sheets, the Company categorizes its fair value measurements according to a three-level hierarchy as described below:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

A financial instrument is regarded as quoted in an active market (Level 1) if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. When a quoted active market exists, the fair values of financial assets are based on bid prices and the fair values of financial liabilities are based on ask prices.

In the absence of an active market, fair values are based on inputs other than quoted prices that are observable for the asset or liability directly or indirectly (Level 2). Such inputs include prevailing market rates for instruments with similar characteristics and risk profiles, the closing price of the most recent trade date subject to liquidity adjustments or average brokers quotes when trades are too sparse to constitute an active market. The Company determines the fair values of some instruments by using valuation techniques commonly used by the market participants, which refer to observable market data, like discounted cash flow analyses and option pricing models. For some other financial instruments, the Company relies on the valuation services of third parties that developed the structure of these instruments. The third parties measure the fair values of the financial instruments using the following valuation techniques:

- When the financial instrument is a derivative, the fair value is calculated on the basis of observable market data and reflects the estimated amount that the Company would receive or might have to pay to terminate the contracts as at December 31,
- When the financial instrument is made up of underlying securities quoted on an active market, the third party uses bid prices for financial assets and ask prices for financial liabilities at the valuation date,
- When the financial instrument is made up of underlying funds, investments in the underlying mutual funds are valued at the net asset value of the shares held, as determined by the manager of the underlying funds at the valuation date.

In limited circumstances, the Company uses input parameters that are not based on observable market data (Level 3). Non-market observable inputs use fair values determined in whole or in part using a valuation technique or model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data.

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Level 3 financial instruments represent embedded derivatives related to the Company's perpetual preferred shares which are reported as a derivative liability in Financial liabilities and also reported within Preferred shares on the audited Consolidated balance sheets.

To determine the fair value of embedded derivatives, the Company uses several input parameters, the majority of which are based on observable market data. One significant parameter, the implied volatility, is unobservable and is calculated using an internally developed valuation model.

The distribution of the Company's financial instruments between each of the above-mentioned levels is presented below.

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

(in millions of \$)	Level 1	Level 2	Level 3	Total
As at December 31, 2011				
Investments				
Debt securities	244	-	-	244
Short-term notes				
Fixed income				
Investment grade				
Government	3,770	879	-	4,649
Corporate	1,551	1,207	-	2,758
Asset-backed	125	111	-	236
Total debt securities	5,690	2,197	-	7,887
Preferred shares				
Investment grade				
Retractable	165	-	-	165
Fixed rate perpetual	300	-	23	323
Other perpetual	748	-	44	792
Non-rated	1	-	-	1
Total preferred shares	1,214	-	67	1,281
Common shares	2,043	-	8	2,051
Total investments measured at fair value	8,947	2,197	75	11,219
Derivatives				
Derivative financial assets	8	6	-	14
Derivative financial liabilities	(4)	(19)	-	(23)
Embedded derivatives	-	-	(67)	(67)
Total derivatives	4	(13)	(67)	(76)
Equities sold short positions	368	-	-	368
Total other financial liabilities measured at fair value	368	-	-	368

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(in millions of \$)	Level 1	Level 2	Level 3	Total
As at December 31, 2010				
Investments				
Debt securities				
Short-term notes	363	-	-	363
Fixed income				
Investment grade				
Government	2,228	708	-	2,936
Corporate	944	526	-	1,470
Asset-backed	-	52	-	52
Total debt securities	3,535	1,286	-	4,821
Preferred shares				
Investment grade				
Retractable	266	-	-	266
Fixed rate perpetual	609	-	31	640
Other perpetual	555	-	36	591
Non-rated	6	-	-	6
Total preferred shares	1,436	-	67	1,503
Common shares	1,877	-	-	1,877
Total investments measured at fair value	6,848	1,286	67	8,201
Derivatives				
Derivative financial assets	-	4	-	4
Derivative financial liabilities	-	(16)	-	(16)
Embedded derivatives	-	-	(67)	(67)
Total derivatives	-	(12)	(67)	(79)
Equities sold short positions	397	-	-	397
Total other financial liabilities measured at fair value	397	-	-	397
As at January 1, 2010				
Investments				
Debt securities				
Short-term notes	211	-	-	211
Fixed income				
Investment grade				
Government	2,692	567	-	3,259
Corporate	262	949	-	1,211
Asset-backed	-	103	-	103
Total debt securities	3,165	1,619	-	4,784
Preferred shares				
Investment grade				
Retractable	321	-	-	321
Fixed-rate perpetual	787	-	35	822
Other perpetual	407	-	32	439
Total preferred shares	1,515	-	67	1,582
Common shares	1,312	-	-	1,312
Total investments measured at fair value	5,992	1,619	67	7,678
Derivatives				
Derivatives assets	-	3	-	3
Derivatives financial liabilities	-	(16)	-	(16)
Embedded derivatives	-	-	(67)	(67)
Total derivatives	-	(13)	(67)	(80)
Equities sold short positions	183	-	-	183
Total other financial liabilities measured at fair value	183	-	-	183

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Changes in the embedded derivatives are reported in Net investment gains (losses) on the audited Consolidated statements of comprehensive income. An equal change in the asset component is reported in OCI.

The following table shows a reconciliation of the opening and closing carrying values of the Company's embedded derivatives.

Table 8.2 - Reconciliation of Level 3 financial instruments

(in millions of \$)	Asset component (preferred shares)	Embedded derivatives (financial liabilities)
Carrying value as at January 1, 2011	67	(67)
Gains (losses) reported in Net investment gains (losses)	24	(2)
Gains (losses) reported in OCI	(22)	-
Purchases	24	(24)
Sales	(37)	37
Business combination (Note 4)	11	(11)
Carrying value as at December 31, 2011	67	(67)
Carrying value as at January 1, 2010	67	(67)
Gains (losses) reported in Net investment gains (losses)	(3)	(8)
Gains (losses) reported in OCI	11	-
Purchases	6	(6)
Sales	(14)	14
Carrying value as at December 31, 2010	67	(67)

Gains (losses) reported in Net investment gains (losses) for embedded derivatives still held as at December 31, 2011 amounted to \$21 million for 2011 (December 31, 2010 - \$12 million).

The following table shows the impact of changing the implied volatility by 10% on the carrying value of the Company's embedded derivatives and the resulting gains (losses). The Company believes that this percentage change provides a fair indication of how the Company's Net income (loss) attributable to shareholders would be impacted in the event of a significant change in this non-observable valuation parameter.

Table 8.3 - Sensitivity analysis for Level 3 financial instruments

As at December 31, 2011	10% increase in volatility	10% decrease in volatility
Asset component		
Increase (decrease) in preferred shares	10	(10)
Increase (decrease) in OCI	10	(10)
Embedded derivatives		
Increase (decrease) in financial liabilities	10	(10)
Increase (decrease) in net investment gains (losses)	(10)	10
As at December 31, 2010		
Asset component		
Increase (decrease) in preferred shares	12	(12)
Increase (decrease) in OCI	12	(12)
Embedded derivatives		
Increase (decrease) in financial liabilities	12	(12)
Increase (decrease) in net investment gains (losses)	(12)	12

Note 9 - Financial risk

The Company has a comprehensive risk management framework and internal control procedures designed to manage and monitor various risks in order to protect the Company's business, clients, shareholders and employees. The risk management programs aim to avoid risks that could materially impair the Company's financial position, accept risks that contribute to sustainable earnings and growth and disclose these risks in a full and complete manner.

Effective risk management consists in identifying, understanding and communicating all risks that the Company is exposed to in the course of its operations. In order to make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of Directors ensures that the Company's management has put appropriate risk management programs in place. The Board of Directors, directly and in particular through its Audit and Risk Review Committee ("Audit Committee"), oversees the Company's risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the Risk Management Department through the Chief Risk Officer, internal auditors and the independent auditors. A summary of the Company's key risks arising from its financial instruments and the processes for managing and mitigating them is outlined below. For more information on the risks arising from the Company's financial instruments and its overall operations, see the *Risk management* section of the 2011 Management Discussion and Analysis related to these audited Consolidated financial statements.

The majority of the investment portfolio is invested in well established, active and liquid markets. See Note 8 - *Fair value measurement* for information about how the Company categorizes its fair value measurements according to a three-level hierarchy.

9.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other market price risk, such as equity price risk. The Company's exposures to market risk together with the Company's risk management practices used to mitigate these risks are explained below. The Company's investment policies establish principles and limits pertaining to these risks. The Investment Committee regularly monitors compliance with these investment policies.

a) Equity price risk

Equity price risk is the risk of losses arising from movements in equity market prices. The Company is significantly exposed to changes in equity market prices.

Sensitivity analysis is one risk management technique that assists management in ensuring that risks assumed remain within the Company's risk tolerance level. Sensitivity involves varying a single factor to assess the impact that this would have on the Company's results and financial condition.

As at December 31, 2011, a 10% increase in equity markets and a 5% increase in the price of preferred shares, excluding the impact of any impairment, would decrease Net income (loss) before income tax expense (benefit) by \$20 million (\$14 million as at December 31, 2010). However, it would increase OCI by \$187 million (\$177 million as at December 31, 2010). Excluding the impact of any impairment, a 10% decrease in equity prices and a 5% decrease in preferred share prices would have the corresponding opposite effect, lowering OCI by the same amount.

The impact resulting from changes in equity markets, described above, is generally a linear relationship to the change in the equity markets. Therefore, the impact will increase or decrease in linear proportion to the changes in equity markets.

The above sensitivity analysis was prepared using the following key assumptions:

- The securities in the Company's portfolio are not impaired,
- Interest rates and equity prices move independently,
- Shifts in yield curve are parallel,
- Credit and liquidity risks have not been considered, and

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- For the Company's FVTPL debt securities, the estimated impact on Net income (loss) before income tax expense (benefit) is assumed to be offset by the market yield adjustment ("MYA"). In addition, it is important to note that AFS securities in an unrealized position, as reflected in OCI, may at some point in the future be realized either through a sale or impairment.

To mitigate these risks, the Company's investment policies set forth limits for each type of investment and compliance with the policies is closely monitored by the Investment Committee. The Company manages market risk through asset class and economic sector diversification and, in some cases, the use of derivatives.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is significantly exposed to changes in interest rates. Movements in short-term and long-term interest rates, including changes in credit spreads, cause changes in realized and unrealized gains and losses. To mitigate interest rate risk, the Company uses interest rate futures and bond forwards to hedge the variability in cash flows related to the issuance of its debt.

As at December 31, 2011, a 100 basis point increase in interest rates would increase Net income (loss) before income tax expense (benefit) by approximately \$7 million (\$22 million as at December 31, 2010), as a result of marking to market the written call option liabilities embedded in the Company's redeemable preferred shares. A 100 basis point increase would also decrease OCI by approximately \$ 188 million (\$167 million as at December 31, 2010). Conversely, a 100 basis point decrease in interest rates would lower Net income (loss) before income tax expense (benefit) and increase OCI by the same amounts, respectively.

The above sensitivity analysis was prepared using the following key assumptions:

- 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, and
- For the Company's FVTPL debt securities, the estimated impact on Net income (loss) before income tax expense (benefit) is assumed to be offset by the MYA. In addition, it is important to note that AFS instruments in an unrealized loss position, as reflected in OCI, may be realized at some point in the future through a sale or impairment.

The Company's exposure to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates is detailed in Table 9.1.

Interest rate risk exposures are reported based on the earlier of financial instruments contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown in the table below represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value. The following table does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates.

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Table 9.1 - Exposure to interest rate risk

(in millions of \$, except as otherwise noted)	Floating rates	Fixed rate			Non-rate sensitive	Total
		Under 12 months	Over 1 to 5 years	Over 5 years		
As at December 31, 2011						
Assets						
Cash on hand net of overdrafts	76	-	-	-	88	164
Cash equivalents	-	42	-	-	-	42
Effective interest rate		0.86%				
Short-term notes	-	244	-	-	-	244
Effective interest rate		0.87%				
Fixed income	88	724	4,070	2,761	-	7,643
Effective interest rate		1.60%	1.80%	2.55%		
Preferred shares	70	21	838	352	-	1,281
Effective interest rate		5.48%	5.01%	4.78%		
Common shares	-	-	-	-	2,051	2,051
Loans	-	42	164	117	80	403
Effective interest rate		5.85%	5.90%	5.86%		
Reinsurance assets	-	111	116	52	131	410
Effective interest rate		2.30%	2.30%	2.30%		
Other assets	3	3	-	-	7,509	7,515
Total assets	237	1,187	5,188	3,282	9,859	19,753
Liabilities and shareholders' equity						
Claims liabilities	-	2,741	2,858	1,287	-	6,886
Effective interest rate		2.30%	2.30%	2.30%		
Debt outstanding	400	-	-	893	-	1,293
Effective interest rate				5.53%		
Financial liabilities related to investments	23	3	31	20	455	532
Effective interest rate			4.95%	4.76%		
Other liabilities	-	-	-	-	6,701	6,701
Shareholders' equity	-	-	-	-	4,341	4,341
Total liabilities and shareholders' equity	423	2,744	2,889	2,200	11,497	19,753
Net long (short) exposure	(186)	(1,557)	2,299	1,082	(1,638)	-
As at December 31, 2010						
Assets						
Cash on hand net of overdrafts	(32)	-	-	-	-	(32)
Cash equivalents	-	170	-	-	-	170
Effective interest rate		0.94%				
Short-term notes	-	363	-	-	-	363
Effective interest rate		1.17%				
Fixed income	15	346	2,624	1,473	-	4,458
Effective interest rate		2.00%	2.49%	3.51%		
Preferred shares	120	34	628	721	-	1,503
Effective interest rate		5.06%	4.80%	5.15%		
Common shares	-	-	-	-	1,877	1,877
Loans	-	35	157	122	-	314
Effective interest rate		5.85%	5.92%	5.84%		
Reinsurance assets	-	77	109	30	19	235
Effective interest rate		3.39%	3.39%	3.39%		
Other assets	-	1	3	-	3,183	3,187
Total assets	103	1,026	3,521	2,346	5,079	12,075
Liabilities and shareholders' equity						
Claims liabilities	-	1,555	2,220	604	-	4,379
Effective interest rate		3.39%	3.39%	3.39%		
Debt outstanding	-	-	-	496	-	496
Effective interest rate				5.91%		
Financial liabilities related to investments	29	9	23	32	622	715
Effective interest rate			4.26%	5.08%	2.25%	
Other liabilities	-	-	-	-	3,516	3,516
Shareholders' equity	-	-	-	-	2,969	2,969
Total liabilities and shareholders' equity	29	1,564	2,243	1,132	7,107	12,075
Net long (short) exposure	74	(538)	1,278	1,214	(2,028)	-

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(in millions of \$, except as otherwise noted)	Floating rates	Fixed rate			Non-rate sensitive	Total
		Under 12 months	Over 1 to 5 years	Over 5 years		
As at January 1, 2010						
Assets						
Cash on hand net of overdrafts	(32)	-	-	-	-	(32)
Cash and cash equivalents	-	92	-	-	-	92
Effective interest rate		0.19%				
Short-term notes	-	211	-	-	-	211
Effective interest rate		0.21%				
Fixed income	14	141	3,031	1,387	-	4,573
Effective interest rate		1.38%	2.62%	4.04%		
Preferred shares	119	12	514	937	-	1,582
Effective interest rate		5.08%	5.00%	5.50%		
Common shares	-	-	-	-	1,312	1,312
Loans	-	33	154	132	-	319
Effective interest rate		5.94%	5.90%	5.76%		
Reinsurance assets	-	100	108	35	18	261
Effective interest rate		3.71%	3.71%	3.71%		
Other assets	-	-	3	-	2,990	2,993
Total assets	101	589	3,810	2,491	4,320	11,311
Liabilities and shareholders' equity						
Claims liabilities	-	1,768	1,892	610	-	4,270
Effective interest rate		3.71%	3.71%	3.71%		
Debt outstanding	-	-	-	398	-	398
Effective interest rate				5.78%		
Financial liabilities related to investments	32	13	16	35	310	406
Effective interest rate		-	4.53%	5.51%	2.25%	
Other liabilities	-	-	-	-	3,320	3,320
Shareholders' equity	-	-	-	-	2,917	2,917
Total liabilities and shareholders' equity	32	1,781	1,908	1,043	6,547	11,311
Net long (short) exposure	69	(1,192)	1,902	1,448	(2,227)	-

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not significantly exposed to changes in foreign exchange rates. The Company is exposed to some foreign exchange risks arising from securities in some of its U.S. dollar-denominated assets; however, the general policy is to minimize foreign currency exposure. The Company mitigates foreign exchange rate risks by buying or selling successive monthly foreign exchange forward contracts or entering into foreign exchange swaps.

9.2 Basis risk

The Company's use of derivatives exposes it to a number of risks, including credit risk as well as interest rate and equity market fluctuations. The hedging of certain risks with derivatives results in basis risk. Basis risk is the risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company monitors the effectiveness of its hedges on a regular basis.

9.3 Credit risk

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to us. The Company's credit risk exposure is concentrated primarily in its debt portfolios, preferred share portfolios, over-the-counter derivatives and, to a lesser extent, in its reinsurance recoverable and annuity agreements entered into with various life insurance companies.

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a) Maximum exposure to credit risk

The table below details the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements available to the Company to mitigate this risk. For on-balance sheet exposures, maximum credit exposure is defined as the carrying value of the asset. Detail on these credit risk exposures including information on how the Company mitigates these, is given in the remaining part of the note.

Table 9.2 - Maximum exposure to credit risk

As at (in millions of \$)	December 31, 2011	December 31, 2010	January 1, 2010
On-balance sheet credit risk exposure			
Cash and cash equivalents	206	138	60
Debt securities	7,887	4,821	4,784
Preferred shares	1,281	1,503	1,582
Common shares	2,051	1,877	1,312
Loans	403	314	319
Derivative financial assets (Table 7.1)	14	4	3
Premium receivables	2,487	1,762	1,640
Reinsurance assets	410	235	261
Other financial assets ¹	371	362	349
Total on-balance sheet credit risk exposure	15,110	11,016	10,310
Off-balance sheet credit risk exposure			
Original price of annuities purchased ²	598	456	426
Total off-balance sheet credit risk exposure	598	456	426

¹ Other financial assets include the following amounts as reported on the audited Consolidated balance sheets: Other receivables, Accrued investment income, Income taxes receivable and Long-term investments at cost.

² See paragraph titled Structured settlements below for details.

b) Structured settlements

The Company has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments. Therefore, the net risk to the Company is any credit risk related to the life insurers. Since the Company deals with registered life insurers, this credit risk is minimal.

At December 31, 2011, none of the life insurers from which the Company had purchased annuities was in default. The original purchase price of the annuities totalled \$598 million (December 31, 2010 - \$456 million and January 1, 2010 - \$426 million). The risk-adjusted balance is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount and is \$1 million at December 31, 2011, December 31, 2010 and as at January 1, 2010.

c) Investments

The Company's risk management strategy is to invest in debt instruments and preferred shares of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The Company's investment policy requires that, at the time of the investment, substantially all debt securities have a minimum credit rating of BBB and preferred shares have a minimum credit rating of P3. Management monitors subsequent credit rating changes on a regular basis.

For the Company's OSFI-regulated subsidiaries, the assets invested in any entity or group of related entities are limited by OSFI to 5% of the subsidiaries' assets. The Company also monitors aggregate concentrations of credit risk by country of issuance and by industry. See Table 9.3 hereafter.

The Company receives guarantees for loans.

d) Derivative-related risk

Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

The Company subjects its derivative-related credit risk to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a quarterly review by the Investment Committee.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of netting clauses in master derivative agreements. The netting clauses in a master derivative agreement provide for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Company's financial obligations toward the counterparty to such an agreement can be set off against obligations such counterparty has toward the Company. The Company uses netting clauses in master derivative agreements to reduce derivative-related credit exposure. The overall exposure to credit risk that is reduced through the netting clauses may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as by changes in underlying market rates and values.

The use of collateral is another significant credit mitigation technique for managing derivative-related counterparty credit risk. Mark-to-market provisions in the Company's agreements with some counterparties provide the Company with the right to request that the counterparty pay down or collateralize the current market value of its derivatives positions when the value passes a specified threshold amount.

The replacement cost of \$6 million (December 31, 2010 – \$4 million) represents the total fair value of all outstanding contracts in a gain position, before factoring in the master netting agreements of \$1 million (December 31, 2010 – nil) and excludes fair values relating to exchange traded instruments as they are subject to daily margining and are deemed to have no credit risk.

The credit equivalent amount of \$45 million (December 31, 2010 – \$37 million) is the sum of the replacement cost plus an add-on amount for potential future credit exposure as defined by OSFI. The risk-adjusted balance is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount.

e) Reinsurance

The Company relies on reinsurance to manage underwriting risk. Although reinsurance makes the assuming reinsurer liable to the Company to the extent of the risk ceded, the Company is not relieved of its primary liability to its policyholders as the direct insurer. As a result, the Company bears credit risk with respect to its reinsurers. There is no certainty that its reinsurers will pay all reinsurance claims on a timely basis or at all.

The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. In addition, the Company has minimum rating requirements for its reinsurers. Substantially all reinsurers are required to have a minimum credit rating of A- at inception of the treaty. Rating agencies used are A.M. Best and Standard & Poor's. The Company also requires that most of its treaties have a security review clause allowing the Company to replace a reinsurer during the treaty period should the reinsurer's credit rating fall below the level acceptable to the Company. Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at the year-end date.

The Company is the assigned beneficiary of collateral consisting of cash, trust accounts and letters of credit totalling \$183 million as at December 31, 2011 (December 31, 2010 - \$66 million) as guarantees from unlicensed reinsurers. This collateral is held in support of policy liabilities of \$130 million at December 31, 2011 (December 31, 2010 - \$45 million) and could be used should these reinsurers be unable to meet their obligations.

f) Concentration of credit risk

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or specific industries. The Company has a significant concentration of its investments in the financial sector. This risk concentration is closely monitored by the Company and it hedges some of the risk as it deems necessary.

Table 9.3 - Concentrations of credit risk for investments

As at	December 31, 2011	December 31, 2010	January 1, 2010
By country of issuer			
Canada	91.5%	93.0%	92.8%
U.S.	2.3%	0.8%	0.7%
Other	6.2%	6.2%	6.5%
Total	100.0%	100.0%	100.0%
By industry			
Government	42.2%	38.9%	43.4%
Banks, insurance and diversified financial services	35.2%	37.3%	37.3%
Energy	8.8%	7.9%	5.0%
Other	13.8%	15.9%	14.3%
Total	100.0%	100.0%	100.0%

9.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations associated with financial liabilities. To manage its cash flow requirements, the Company maintains a portion of its investments in liquid securities. A maturity analysis for non-derivative financial assets is presented in Table 6.4, a maturity analysis of derivative financial assets (corresponding to the fair-value positive amounts) is presented in Table 7.1 and a maturity analysis of claims liabilities is presented in Table 9.1. See Note 19 - *Debt outstanding* for the maturity profile of the Company's medium term notes.

The Company's liquidity management is governed by establishing a prudent policy that identifies oversight responsibilities as well as by setting limits and implementing effective techniques to monitor, measure and control exposure to liquidity risk. A portion of investments is maintained in short-term (less than one year) highly liquid money market securities, which are used to manage the operational requirements of the Company. A large portion of the investments are held in highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements. The Company also has an unsecured committed credit facility, see Note 19.2 - *Credit facilities*.

Note 10 - Insurance risk

10.1 Insurance risk and management

The Company principally underwrites automobile, home and commercial property contracts to individuals and small to medium size businesses. Insurance contract risk mostly comprises risk 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.

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a) Underwriting

The majority of the insurance risk to which the Company is exposed is of a short-tail nature. 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 average duration of claims liabilities is 2.4 years.

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 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 insurance, legislation is in place at a provincial level and this creates differences in the benefits provided among the provinces.

As at December 31, 2011, direct premiums written were derived from Personal Auto 47% (December 31, 2010 – 49%), Personal Property 24% (December 31, 2010 – 24%), Commercial Automobile 8% (December 31, 2010 – 8%) and Commercial P&C 21% (December 31, 2010 – 19%). The provincial split of direct premiums written was Ontario 45% (December 31, 2010 – 46%), Quebec 26% (December 31, 2010 – 25%), Alberta 18% (December 31, 2010 – 18%) and other provinces 11% (December 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

One 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 its 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 Insurance Committee, strict claim review policies are in place to assess all new and ongoing claims. In addition, regular detailed reviews of claims handling procedures and frequent investigations of possible fraudulent claims reduce the Company's risk exposure. 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 established a Large Loss Committee responsible for analyzing large losses and contentions matters 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 the 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.

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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 the obligations that is 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 not dependent on a single reinsurer and the Company's operations are not 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 types of coverage 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 liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience.

Claims liabilities estimates are also 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 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 claim liabilities' sensitivity to certain key assumptions are outlined below. It has not been possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process. 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.

Table 10.1 - Sensitivity analysis

Sensitivity factors	Change in assumptions	Impact on Net income (loss) before income tax expense (benefit)	Impact on Shareholders' equity
Average number of claims (frequency)	+5%	(52)	(38)
Average claim cost (severity)	+5%	(305)	(225)

Note 11 - Claims liabilities

11.1 Movement of claims liabilities

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

The following table presents movements in the Company's net claims liabilities during the year.

Table 11.1 - Movement of the net claims liabilities

(in millions of \$)	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
As at December 31, 2011			
Balance, beginning of year	4,379	216	4,163
Current year claims	3,464	108	3,356
Prior year (favourable) unfavourable claims development	(212)	11	(223)
Total claims incurred	3,252	119	3,133
Increase (decrease) due to changes in discount rate	84	3	81
Claims paid	(3,022)	(76)	(2,946)
Business combination (Note 4)	2,193	106	2,087
Balance, end of year	6,886	368	6,518
As at December 31, 2010			
Balance, beginning of year	4,270	243	4,027
Current year claims	3,014	55	2,959
Prior year (favourable) unfavourable claims development	(194)	(1)	(193)
Total claims incurred	2,820	54	2,766
Increase (decrease) due to changes in discount rate	38	2	36
Claims paid	(2,749)	(83)	(2,666)
Balance, end of year	4,379	216	4,163

The following table presents movements in the Company's unearned premiums during the year.

Table 11.2 - Unearned premiums

(in millions of \$)	Direct unearned premiums	Ceded unearned premiums	Net unearned premiums
As at December 31, 2011			
Balance, beginning of year	2,586	19	2,567
Premiums written	5,126	160	4,966
Premiums earned	(5,070)	(163)	(4,907)
Business combination (Note 4)	1,148	25	1,123
Balance, end of year	3,790	41	3,749
As at December 31, 2010			
Balance, beginning of year	2,463	17	2,446
Premiums written	4,475	123	4,352
Premiums earned	(4,352)	(121)	(4,231)
Balance, end of year	2,586	19	2,567

Intact Financial Corporation
Notes to the audited Consolidated financial statements

Net claims liabilities by line of business and nature of risk

Table 11.3 - Net claims liabilities

(in millions of \$)	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
December 31, 2011			
Personal lines			
Automobile	3,546	24	3,522
Property	761	154	607
Total personal lines	4,307	178	4,129
Commercial lines			
Automobile	543	6	537
P&C	2,036	184	1,852
Total commercial lines	2,579	190	2,389
Total	6,886	368	6,518
December 31, 2010			
Personal lines			
Automobile	2,562	25	2,537
Property	462	81	381
Total personal lines	3,024	106	2,918
Commercial lines			
Automobile	358	4	354
P&C	997	106	891
Total commercial lines	1,355	110	1,245
Total	4,379	216	4,163
January 1, 2010			
Personal lines			
Automobile	2,413	24	2,389
Property	495	92	403
Total personal lines	2,908	116	2,792
Commercial lines			
Automobile	343	3	340
P&C	1,019	124	895
Total commercial lines	1,362	127	1,235
Total	4,270	243	4,027

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Notes to the audited Consolidated financial statements

Table 11.4 - Unearned premiums

(in millions of \$)	Direct unearned premiums	Ceded unearned premiums	Net unearned premiums
December 31, 2011			
Personal lines			
Automobile	1,782	1	1,781
Property	935	1	934
Total personal lines	2,717	2	2,715
Commercial lines			
Automobile	259	2	257
P&C	814	37	777
Total commercial lines	1,073	39	1,034
Total	3,790	41	3,749
 December 31, 2010			
Personal lines			
Automobile	1,301	-	1,301
Property	664	-	664
Total personal lines	1,965	-	1,965
Commercial lines			
Automobile	171	1	170
P&C	450	18	432
Total commercial lines	621	19	602
Total	2,586	19	2,567
 January 1, 2010			
Personal lines			
Automobile	1,253	-	1,253
Property	616	-	616
Total personal lines	1,869	-	1,869
Commercial lines			
Automobile	164	-	164
P&C	431	18	413
Total commercial lines	595	18	577
Total	2,464	18	2,446

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Notes to the audited Consolidated financial statements

11.2 Fair value of net claims liabilities

The Company estimates that the fair value of net claims liabilities approximate their carrying values. There was no premium deficiency at the audited Consolidated balance sheet dates.

Table 11.5 - Carrying value of claims liabilities

(in millions of \$)	Direct claims liabilities	Ceded claims liabilities	Net claims liabilities
December 31, 2011			
Undiscounted value	6,587	356	6,231
Effect of time value of money using a discount rate of 2.30% (2010 – 3.39%)	(370)	(17)	(353)
Provision for adverse deviation	669	29	640
Carrying value	6,886	368	6,518
December 31, 2010			
Undiscounted value	4,289	213	4,076
Effect of time value of money using a discount rate of 3.39% (2009 – 3.71%)	(324)	(15)	(309)
Provision for adverse deviation	414	18	396
Carrying value	4,379	216	4,163
January 1, 2010			
Undiscounted value	4,218	239	3,979
Effect of time value of money using a discount rate of 3.71% (2008 – 4.24%)	(345)	(17)	(328)
Provision for adverse deviation	397	21	376
Carrying value	4,270	243	4,027

A 1% decrease (increase) in the discount rate would cause an increase (decrease) of \$164 million in the fair value of claims liabilities at December 31, 2011.

11.3 Reinsurance

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

Table 11.6 - Reinsurance net retention and coverage limits by nature of risk¹

(in millions of \$, except as otherwise noted)	December 31, 2011	December 31, 2010
Single risk events²		
Net retentions:		
On special risks property policies	1.5	-
On property policies	2 - 5	5
On liability policies	5 - 10	10
Multi-risk events and catastrophes		
Net retentions	15 - 25	25
Coverage limit	1,430 - 1,500	1,500
Risk retained based on the loss exposure:		
\$0 - \$15 million	100.0%	100.0%
\$15 - \$25 million	32.5% - 100.0%	26.5%
\$25 - \$50 million	0.0% - 35.0%	26.5%
\$50 - \$1,000 million	0.0% - 10.0%	10.0%
\$1,000-\$1,500 million	0.0%	0.0%

¹ The return and reinsurance coverage limits on contracts acquired following the acquisition of AXA Canada are similar in substance. However, the amounts and percentages of retention are sometimes lower.

² For certain special classes of business or types of risks, the retention may be lower through specific treaties or the use of optional reinsurance.

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Notes to the audited Consolidated financial statements

Table 11.7 - Net income (loss) from reinsurance included on the audited Consolidated statements of comprehensive income

As at (in millions of \$)	December 31, 2011	December 31, 2010
Reduction in:		
Net premiums earned	(163)	(121)
Net claims incurred	122	55
Underwriting expenses	21	20
Net income (loss) before income tax expense (benefit)	(20)	(46)

11.4 Prior-year claims development

The following tables show the estimates of cumulative incurred claims, including IBNR, for the five most recent accident years, with subsequent developments during the periods and together with cumulative payments to date. The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still open or claims still unreported.

Table 11.8 - Prior-year claims development - direct

(in millions of \$)	Accident year					2007 & earlier
	Total	2011¹	2010	2009	2008	
Undiscounted claims liabilities outstanding at end of accident year		3,630	1,483	1,461	1,370	3,993
Revised estimates						
One year later		-	1,390	1,398	1,375	3,817
Two years later		-	-	1,408	1,345	3,744
Three years later		-	-	-	1,347	3,665
Four years later		-	-	-	-	3,612
Current estimate		3,630	1,390	1,408	1,347	3,612
Paid claims in subsequent periods						
One year later		-	(559)	(599)	(619)	(1,175)
Two years later		-	-	(174)	(157)	(570)
Three years later		-	-	-	(139)	(481)
Four years later		-	-	-	-	(327)
Cumulative payment to date		-	(559)	(773)	(915)	(2,553)
Direct undiscounted claims liabilities	6,587	3,630	831	635	432	1,059
Discounting and change in discount rate	299	-	-	-	-	-
Direct claims liabilities	6,886	-	-	-	-	-

¹ In September 2011, the operations of AXA Canada were integrated into the Company's operations. Total direct claims liabilities include \$2,131 million (all accident years combined) related to AXA Canada.

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Notes to the audited Consolidated financial statements

Table 11.9 - Prior-year claims development - net

(in millions of \$)	Accident year					2007 & earlier
	Total	2011 ¹	2010	2009	2008	
Undiscounted claims liabilities outstanding at end of accident year		3,456	1,459	1,409	1,361	3,736
Revised estimate						
One year later		-	1,357	1,349	1,359	3,578
Two years later		-	-	1,358	1,330	3,511
Three years later		-	-	-	1,332	3,427
Four years later		-	-	-	-	3,375
Current estimate		3,456	1,357	1,358	1,332	3,375
Paid claims in subsequent periods						
One year later		-	(530)	(568)	(607)	(1,137)
Two years later		-	-	(167)	(156)	(559)
Three years later		-	-	-	(138)	(463)
Four years later		-	-	-	-	(322)
Cumulative payment to date		-	(530)	(735)	(901)	(2,481)
Net undiscounted claims liabilities	6,231	3,456	827	623	431	894
Discounting and change in discount rate	287	-	-	-	-	-
Net claims liabilities	6,518	-	-	-	-	-

¹ In September 2011, the operations of AXA Canada were integrated into the Company's operations. Total net claims liabilities include \$2,025 million (all accident years combined) related to AXA Canada.

Note 12 - Revenue

Table 12.1 - Total revenue

For the years ended (in millions of \$)	December 31, 2011	December 31, 2010
Net premiums earned	4,907	4,231
Interest income (Table 6.6)	221	190
Dividend income (Table 6.6)	131	126
Net investment gains (losses) (Table 6.6)	204	182
Share of profit from investments in associates and joint ventures (Table 14.2)	16	15
Other revenues	50	44
Total revenue for the year	5,529	4,788

Table 12.2 - Premiums written and earned

For the years ended (in millions of \$)	December 31, 2011	December 31, 2010
Premiums written		
Direct	5,126	4,475
Ceded	(160)	(123)
Net	4,966	4,352
Changes in unearned premiums	(59)	(121)
Net premiums earned	4,907	4,231

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Notes to the audited Consolidated financial statements

Note 13 - Income taxes

13.1 Income tax expense (benefit)

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

Table 13.1 - Audited Consolidated statements of comprehensive income

(in millions of \$)	December 31, 2011	December 31, 2010
Current tax expense (benefit)		
Current year	129	125
Prior year adjustment	(5)	(4)
Benefit arising from a previously unrecognized tax loss or temporary difference	(4)	-
	120	121
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	17	18
	17	18
Income tax expense (benefit)	137	139
Income tax recorded in OCI		
Net actuarial gains (losses) on employee future benefits	(34)	(11)
Net changes in unrealized gains (losses) on derivatives designated as cash flow hedges	(2)	-
Reclassification to income of net (gains) losses on derivatives designated as cash flow hedges		-
Net changes in unrealized gains (losses) on AFS instruments	15	73
Reclassification to income of net (gains) losses on AFS instruments	(49)	(50)
Total income tax expense (benefit) recorded in OCI	(70)	12

13.2 Effective income tax rate

The effective rates of income tax on the audited Consolidated statements of comprehensive income are different from the combined Canadian federal and provincial income tax rate of 23.1% (2010 - 22.0%). The difference is broken down in Table 13.2.

The audited Consolidated statements of comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense (benefit) to differ from what it would have been if based on statutory tax rates.

Table 13.2 - Effective tax rate reconciliation

For the years ended	December 31, 2011	December 31, 2010
Income tax expense (benefit) calculated at statutory tax rates	28.0%	30.4%
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	(6.7)%	(6.3)%
Non-deductible (non-taxable) other loss (income)	3.9%	(0.3)%
(Non-taxable) non-deductible portion of capital (gains) losses	(0.4)%	(0.3)%
Recovery of tax asset not recognized	(2.0)%	(0.6)%
Other	0.3%	(0.9)%
Effective income tax rate	23.1%	22.0%

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Notes to the audited Consolidated financial statements

13.3 Components of deferred tax assets and liabilities

Table 13.3 - Components of deferred income tax assets and liabilities

(in millions of \$)	Audited Consolidated balance sheets			Audited Consolidated statements of comprehensive income	
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010
Deferred tax assets					
Net claims liabilities	80	56	58	(1)	(1)
Investments		-	3	-	-
Deferred expenses for tax purposes	79	35	36	15	(1)
Property and equipment		3	4	-	(2)
Losses available for carry forward	15	16	15	-	-
Post-employment benefit plans	79	10	3	37	6
Other	3	1	1	1	-
Total deferred tax assets	256	121	120	52	2
Deferred tax liabilities					
Deferred income for tax purposes	55	77	42	(21)	35
Deferred gains and losses on specified debt obligations	22	23	28	(3)	(4)
Investments		2	-	6	4
Property and equipment	9	8	6	6	-
Intangible assets	135	10	9	2	-
Other		-	-	2	1
Total deferred tax liabilities	221	120	85	(10)	36
Reported in:					
Deferred tax assets	158	29	56		
Deferred tax liabilities	123	28	21		
Income tax expense (benefit) reported to Net income (loss) attributable to shareholders				17	18
Income tax expense (benefit) reported in OCI				(79)	16

At December 31, 2011, the Company had not recognized a deferred tax asset of \$4 million (December 31, 2010 – nil) of unused non-capital losses. The Company has recognized a deferred tax asset for all other unused non-capital losses as at December 31, 2011, December 31, 2010 and January 1, 2010.

At December 31, 2011, the Company had allowable capital losses of \$38 million (December 31, 2010 – \$56 million), 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.

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Notes to the audited Consolidated financial statements

Note 14 - Investments in associates and joint ventures

The investments in associates and joint ventures are investments in private entities.

Table 14.1 - Summarized aggregate financial information of associates and joint ventures

As at (in millions of \$)	December 31, 2011	December 31, 2010	January 1, 2010
Current assets	309	96	85
Non-current assets	428	316	239
Total assets	737	412	324
Current liabilities	211	67	64
Non-current liabilities	290	232	200
Total liabilities	501	299	264
Net assets	236	113	60
Investments in associates and joint ventures	241	119	98

Table 14.2 - Share of profit from investments in associates and joint ventures

For the years ended December 31, (in millions of \$)	2011	2010
Revenue	259	190
Net income (loss)	37	28
Share of profit from investments in associates and joint ventures	16	15

Investments in associates and joint ventures are initially recorded at the amount of consideration paid, which includes the fair value of tangible assets, intangible assets and goodwill identified on acquisition.

During the reporting period, there were no events or changes in circumstances that indicated that the carrying values of these investments may not be recoverable.

Note 15 - Property and equipment

Table 15.1 - Reconciliation of carrying value

(in millions of \$)	Cost	Accumulated depreciation	Carrying value
December 31, 2011			
Computer equipment	41	26	15
Furniture and equipment	76	49	27
Leasehold improvements	42	17	25
Total property and equipment	159	92	67
December 31, 2010			
Computer equipment	25	18	7
Furniture and equipment	64	44	20
Leasehold improvements	39	20	19
Total property and equipment	128	82	46
January 1, 2010			
Computer equipment	79	73	6
Furniture and equipment	64	42	22
Leasehold improvements	35	17	18
Total property and equipment	178	132	46

Intact Financial Corporation
Notes to the audited Consolidated financial statements

Table 15.2 - Reconciliation of movement

(in millions of \$)	Computer equipment	Furniture and equipment	Leasehold improvements	Total
As at December 31, 2011				
Carrying value, beginning of year	7	20	19	46
Acquisitions	12	8	2	22
Disposals	-	(1)	-	(1)
Depreciation expense	(5)	(5)	(4)	(14)
Business combination (Note 4)	1	5	8	14
Carrying value, end of year	15	27	25	67
As at December 31, 2010				
Carrying value, beginning of year	6	22	18	46
Acquisitions	5	4	5	14
Disposals	-	-	-	-
Depreciation expense	(4)	(6)	(4)	(14)
Carrying value, end of year	7	20	19	46
As at January 1, 2010				
Carrying value, beginning of year	8	23	18	49
Acquisitions	4	5	5	14
Disposals	-	-	-	-
Depreciation expense	(6)	(6)	(5)	(17)
Carrying value, end of year	6	22	18	46

Note 16 - Other assets and other liabilities

16.1 Components of other assets

Table 16.1 - Components of other assets

As at (in millions of \$)	December 31, 2011	December 31, 2010	January 1, 2010
Other receivables	231	248	245
Employee future benefit assets (Note 18)	21	56	60
Long-term investments, at cost	16	19	21
Prepays	14	9	8
Other	11	3	2
Total other assets	293	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.

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Notes to the audited Consolidated financial statements

16.2 Components of other liabilities

Table 16.2 - Components of other liabilities

As at (in millions of \$)	December 31, 2011	December 31, 2010	January 1, 2010
Premium and sale taxes payable	132	104	93
Commissions payable	277	170	119
Industry pools payable	202	216	229
Employee future benefit liabilities (Note 18)	320	96	71
Restructuring provision	27	-	-
Contingent consideration (Note 4)	90	-	-
Other payables	393	238	221
Total other liabilities	1,441	824	733

The restructuring provision has been established based on the decisions communicated as at December 31, 2011 and the greater part of the provision is expected to be paid in 2012. The corresponding expense is presented in Integration and restructuring costs on the audited Consolidated statements of comprehensive income. Following the announcement of the acquisition of AXA Canada, the Company established an integration plan directed at integrating the acquired business with its own business and capturing cost synergies across the combined entities, including shared services and corporate functions.

Integration and restructuring costs are primarily related to employee-related costs, consulting, branding and technology-related expenses. These costs totalling \$71 million are included in line Integration and restructuring costs on the audited Consolidated statements of comprehensive income.

As at December 31, 2011, the fair value of the contingent consideration was reassessed from \$48 million to \$89 million. The \$41 million increase in value is recorded in Change in fair value of contingent consideration on the audited Consolidated statements of comprehensive income. The total consideration as at December 31, 2011 includes \$1 million in interest and is payable during the first quarter of 2012.

Note 17 - Goodwill and intangible assets

Table 17.1 - Reconciliation of carrying value

(in millions of \$)	Cost	Accumulated amortization	Carrying value
December 31, 2011			
Goodwill	794	-	794
Distribution network	820	-	820
Customer relationships and rights to offer renewals	192	58	134
Internally developed software	206	92	114
Total intangible assets	1,218	150	1,068
 December 31, 2010			
Goodwill	211	-	211
Distribution network	-	-	-
Customer relationships and rights to offer renewals	110	45	65
Internally developed software	171	66	105
Total intangible assets	281	111	170
 January 1, 2010			
Goodwill	179	-	179
Distribution network	-	-	-
Customer relationships and rights to offer renewals	94	35	59
Internally developed software	143	43	100
Total intangible assets	237	78	159

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Notes to the audited Consolidated financial statements

Table 17.2 - Reconciliation of movements

(in millions of \$)	Intangible assets			Total intangible assets	Goodwill
	Distribution network	Customer relationships and rights to offer renewals	Internally developed software		
As at December 31, 2011					
Carrying value, beginning of year	-	65	105	170	211
Acquisitions and costs capitalized	-	5	35	40	10
Dispositions	-	-	-	-	-
Business combination (Note 4)	820	77	-	897	573
Amortization expense	-	(13)	(26)	(39)	-
Carrying value, end of year	820	134	114	1,068	794
As at December 31, 2010					
Carrying value, beginning of year	-	59	100	159	179
Acquisitions and costs capitalized	-	18	28	46	47
Dispositions	-	(2)	-	(2)	(15)
Amortization expense	-	(9)	(24)	(33)	-
Carrying value, end of year	-	66	104	170	211

17.2 Goodwill

The carrying value of goodwill is allocated to a single CGU, which is to the Company's sole operating segment, P&C insurance operations.

17.3 Intangible assets

Management has determined that intangible assets with finite lives are not impaired. Intangible assets with indefinite useful lives and intangible assets which are under development are subject to annual impairment testing. The carrying values of these intangible assets have been allocated to the P&C insurance operations CGU, being the lowest level at which there are separately identifiable cash flows.

17.4 Impairment test and assumptions

The Company performs an annual goodwill impairment test, as well as an impairment test for intangible assets with an indefinite useful lives and for intangible assets under development. The most recent tests were performed as at June 30, 2011. As at this date, the P&C insurance operations CGU was tested for impairment using a value-in-use calculation based on the following key estimates and assumptions:

- Cash flow projections for the next five years are based on financial budgets approved by management and are determined by budgeted margins based on past performance and management expectations for the Company and the industry,
- Cash flows beyond the five-year period were extrapolated using estimated growth rates of 3.0% (December 31, 2010 - 3.0%), which do not exceed the long-term average past growth rate for the insurance business in which the Company operates, and
- A pre-tax, company specific risk adjusted discount rate of 11.5% was used (December 31, 2010 - 12.3%).

The test results indicate that the recoverable amount of the P&C insurance operations CGU exceeds its carrying value and no impairment loss for goodwill or intangible assets has been recognized for the year ended December 31, 2011 or in prior periods.

The Company is not aware of any reasonably possible change in any of the above key assumptions that would cause the carrying value of the CGU to exceed its recoverable amount. The carrying value of the CGU would remain below its recoverable amount even with a decrease in budgeted margins of 10% (December 31, 2010 - 10%) or a decrease in the growth rate of 3% (December 31, 2010 - 3%).

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Notes to the audited Consolidated financial statements

Note 18 - Employee future benefits

The Company has a number of defined benefit and defined contribution pension plans. The Company offers employer-paid post-retirement benefit (“PRB”) plans to its employees providing life insurance and health and dental benefits to certain retirees, which are closed to active employees. It also offers post-employment benefit plans that provide health, dental, disability and life insurance coverage. The post-retirement and post-employment benefit plans are unfunded.

The measurement date for the defined benefit pension plans, as well as for the post-retirement and post-employment benefit plans is December 31 and the latest actuarial valuations were performed as at the Company’s IFRS transition date (January 1, 2010) and at December 31, 2010.

18.1 Plan movements

Table 18.1 - Pension plan movements

(in millions of \$)	Expenses (revenue)	Net actuarial gains (losses) recognized in OCI	Present value of benefit obligation	Fair value of plan assets
Balance as at January 1, 2011	-	(40)	(705)	682
Current service cost – defined benefit plans	37	-	(37)	-
Interest costs on benefit obligation	44	-	(44)	-
Expected return on assets	(48)	-	-	48
Amortization of past service cost	7	-	(21)	-
Settlement/curtailment/termination benefits	(6)	-	6	-
Expense recognized on the audited Consolidated statements of comprehensive income	34			
Net actuarial gains (losses) recognized in OCI		(140)	(170)	30
Employee contributions		-	(8)	8
Employer contributions		-	-	63
Benefit payments		-	42	(42)
Business combination (Note 4)		-	(434)	304
Balance as at December 31, 2011		(180)	(1,371)	1,093
Balance as at January 1, 2010	-	-	(566)	570
Current service cost – defined benefit plans	25	-	(25)	-
Interest costs on benefit obligation	36	-	(36)	-
Expected return on assets	(39)	-	-	39
Expense recognized on the audited Consolidated statements of comprehensive income	22			
Net actuarial gains (losses) recognized in OCI		(40)	(92)	52
Employee contributions		-	(7)	7
Employer contributions		-	-	35
Benefit payments		-	21	(21)
Balance as at December 31, 2010		(40)	(705)	682

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Notes to the audited Consolidated financial statements

Table 18.2 - Post-retirement and post-employment benefit plan movements

(in millions of \$)	Expenses (revenue)	Net actuarial gains (losses) recognized in OCI	Present value of benefit obligation	Fair value of plan assets
Balance as at January 1, 2011	-	(1)	(17)	-
Current service cost	1	-	(1)	-
Interest costs on benefit obligation	1	-	(1)	-
Settlement and curtailment	(6)	-	6	-
Expense recognized on the audited Consolidated statements of comprehensive income	(4)			
Net actuarial gains (losses) recognized in OCI	-	1	1	-
Employer contributions	-	-	-	1
Benefit payments	-	-	1	(1)
Business combination (Note 4)	-	-	(24)	-
Balance as at December 31, 2011		-	(35)	-
Balance as at January 1, 2010	-	-	(15)	-
Current service cost	-	-	-	-
Interest costs on benefit obligation	1	-	(1)	-
Net actuarial gains (losses) recognized in OCI	1	(1)	(2)	-
Expense recognized on the audited Consolidated statements of comprehensive income	2			
Employer contributions		-	-	1
Benefit payments		-	1	(1)
Balance as at December 31, 2010		(1)	(17)	-

18.2 Funding status

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

Table 18.3 - Funding status

As at (in millions of \$)	Pension plans			Post-retirement and post-employment benefit plans		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Benefit obligation	(1,371)	(705)	(566)	(35)	(17)	(15)
Fair value of plan assets	1,093	682	570	-	-	-
Surplus (deficit)	(278)	(23)	4	(35)	(17)	(15)
Unamortized past service costs	14	-	-	-	-	-
Net benefit liability	(264)	(23)	4	(35)	(17)	(15)
Reported on the audited Consolidated balance sheets in:						
Other assets	21	56	60	-	-	-
Other liabilities	(285)	(79)	(56)	(35)	(17)	(15)

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 \$83 million in 2012.

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Table 18.4 - Pension plans status and experience adjustments on plan liabilities and plan assets for the current and previous four periods

As at December 31, (in millions of \$)	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(1,371)	(705)	(566)	(449)	(553)
Fair value of plan assets	1,093	682	570	460	586
Surplus (deficit)	(278)	(23)	4	11	33
Experience adjustments on plan liabilities	(17)	(6)	(28)	-	(2)
Experience adjustments on plan assets	30	52	67	(154)	(6)

Table 18.5 - Post-retirement and post-employment benefit plans status and experience adjustments on plan liabilities for the current and previous four periods

As at December 31, (in millions of \$)	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(35)	(17)	(15)	(15)	(16)
Surplus (deficit)	(35)	(17)	(15)	(15)	(16)
Experience adjustments on plan liabilities	2	(1)	1	-	(2)

18.3 Composition of pension plan assets

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

Table 18.6 - Composition of pension plan assets

As at	December 31, 2011	December 31, 2010	January 1, 2010
Equity securities	44.3%	40.6%	50.3%
Debt securities	55.4%	58.2%	45.1%
Cash and cash equivalents	0.3%	1.2%	4.6%

18.4 Assumptions used

The following table summarizes the key weighted average assumptions used in measuring of the Company's pension and post-retirement and post-employment benefit plans and related expenses.

Table 18.7 - Assumptions

	Pension plans			Post-retirement and post-employment benefit plans		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
To determine benefit obligation at end of period						
Discount rate	4.4%	5.3%	6.1%	4.2%	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	8.5%	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 (recovery) for the period						
Discount rate	5.3%	6.1%	6.7%	4.9%	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	6.3%	6.8%	7.0%	n/a	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	9.0%	8.5%	9.0%
Dental care cost trend rate	n/a	n/a	n/a	4.5%	4.5%	4.5%

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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 the 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.

18.5 Effect of a change in the health care cost trend

A 1% increase or decrease in the health care and dental care cost trend rate would not significantly affect on the Company's results or financial position as at the balance sheet date.

Note 19 - Debt outstanding

19.1 Term notes

On August 18, 2011, as part of the AXA Canada acquisition financing, the Company completed an offering of a \$300 million principal amount of unsecured medium term notes (the "Series 4" notes). These notes bear interest at a fixed annual rate of 4.70% until maturity on August 18, 2021, payable in equal semi-annual instalments which will commence on February 18, 2012. In relation to this offering, the Company entered into future contracts to manage the interest risk on a portion of the notes for the period from the announcement of the acquisition of AXA Canada to the offering closing. These futures were designated as a cash flow hedge and terminated on August 12, 2011.

On July 8, 2011, also as part of the AXA Canada acquisition financing, by way of a private placement in Canada, the Company issued a \$100 million principal amount of unsecured 50-Year term notes (the "Series 3" notes) due July 8, 2061. These notes bear interest at a fixed annual rate of 6.20%, payable in equal semi-annual instalments which will commence on January 8, 2012.

On March 23, 2010, the Company completed an additional Series 2 offering of a \$100 million principal amount of unsecured medium term notes. The medium term notes bear interest at a fixed annual rate of 6.40% until maturity on November 23, 2039, payable in equal semi-annual instalments which commenced on May 23, 2010.

Table 19.1 - Term notes outstanding terms

	Series 1	Series 2	Series 3	Series 4
Date issued	August 31, 2009	November 23, 2009	July 8, 2011	August 18, 2011
Date of supplemental issue		March 23, 2010		
Maturity date	September 3, 2019	November 23, 2039	July 8, 2061	August 18, 2021
Principal amount outstanding	\$250	\$250	\$100	\$300
Fixed annual rate	5.41%	6.40%	6.20%	4.70%
Semi-annual coupon payment due each year on:	March 3	May 23	January 8	February 18
	September 3	November 23	July 8	August 18

19.2 Credit facilities

On September 23, 2011, to fund a portion of the purchase price for the acquisition of AXA Canada, the Company obtained a loan of \$100 million from a two-year term loan facility (the "Tranche A Facility") and obtained a loan of a \$300 million from a three-year term loan facility (the "Tranche B Facility"). Both loans bear interest at the prime rate plus a margin or at the bankers' acceptance rate plus a margin.

Effective September 23, 2011, the Company obtained a four-year unsecured revolving term facility of \$250 million maturing on September 23, 2015 to replace a previous revolving term facility of \$250 million that was due to mature 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. As at December 31, 2011, this facility was undrawn.

As part of the covenants of the loans under the credit facilities, the Company is required to maintain certain financial ratios which were fully met as at December 31, 2011.

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The following table present details of debt outstanding:

Table 19.2 - Fair value and carrying value of debt outstanding

(in millions of \$)	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Term notes, series 1	249	275	249	265	249	253
Term notes, series 2	247	282	247	269	149	147
Term notes, series 3	99	110	-	-	-	-
Term notes, series 4	298	307	-	-	-	-
Tranche A Facility	100	100	-	-	-	-
Tranche B Facility	300	300	-	-	-	-
Total debt outstanding	1,293	1,374	496	534	398	400

The term notes and loans under the credit facilities are accounted for at amortized cost which equals their carrying value. The 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. The loans under the credit facilities may be repaid and cancelled by the Company at any time.

Interest expense on term notes and credit facilities are presented as Finance costs on the audited Consolidated statements of comprehensive income.

Note 20 - Common shares and preferred shares

20.1 Authorized

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

20.2 Issued and outstanding

Table 20.1 - Issued and outstanding shares

Classes of shares	Number of shares	Amount (in millions \$)	Dividends declared per share (in \$)
As at December 31, 2011			
Common	129,553,665	1,889	1.48
Class A			
Series 1 Preferred	10,000,000	244	0.49
Series 3 Preferred	10,000,000	245	0.39
		489	
As at December 31, 2010			
Common	112,179,565	993	1.36
As at January 1, 2010			
Common	119,906,567	1,061	1.28

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Common

On the acquisition closing date for AXA Canada, the Company converted its 20,125,000 subscription receipts (“receipts”) into 20,125,000 common shares. The Company had completed its offering of the 20,125,000 receipts on June 9, 2011 at \$47.80 per receipt for gross proceeds of \$962 million. For this offering, the Company incurred \$42 million in share issuance costs, net of \$10 million of taxes, which were accounted for as a reduction in common shares on the audited Consolidated balance sheets.

Class A

Issued and outstanding Class A shares rank both prior to common shares for dividends and return of capital.

Series 1 Preferred

On July 12, 2011, the Company issued 10,000,000 non-cumulative rate reset Class A shares Series 1 (the “Series 1 Preferred Shares”), at a price of \$25.00 per share, for aggregate gross proceeds of \$250 million. For this offering, the Company incurred \$6 million in share issuance costs, net of \$2 million in taxes, which were accounted for as a reduction in preferred shares on the audited Consolidated balance sheets.

The holders of these shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of the Company, on a quarterly basis for the initial fixed-rate period ending on December 31, 2017, based on an annual rate of 4.20%. The dividend rate will be reset on December 31, 2017 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 1.72%. Subject to certain conditions, on December 31, 2017 and on December 31 every five years thereafter, the holders of Series 1 Preferred Shares will have the right to convert their shares into Non-cumulative Floating Rate Class A Shares Series 2 (the “Series 2 Preferred Shares”). In addition, the Company has the option to redeem the Series 1 and Series 2 Preferred Shares on the same dates.

Series 3 Preferred

On August 18, 2011, the Company completed a Series 3 offering of preferred shares by issuing 10,000,000 non-cumulative rate reset Class A shares Series 3 (the “Series 3 Preferred Shares”), at a price of \$25.00 per share, for aggregate gross proceeds of \$250 million. For this offering, the Company incurred \$5 million in share issuance costs, net of \$2 million of taxes, which were accounted for as a reduction in preferred shares on the audited Consolidated balance sheets.

The holders of these shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of the Company, on a quarterly basis, for the initial fixed rate period ending on September 30, 2016, based on an annual rate of 4.20%. The dividend rate will be reset on September 30, 2016 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 2.66%. Subject to certain conditions, on September 30, 2016 and on September 30 every five years thereafter, holders of Series 3 Preferred Shares will have the right to convert their shares into Non-cumulative Floating Rate Class A Shares Series 4 (the “Series 4 Preferred Shares”). In addition, the Company has the option to redeem the Series 3 and Series 4 Preferred Shares on the same dates.

Table 20.2 - Reconciliation of number of common shares outstanding

	December 31, 2011 (in shares)	December 31, 2010 (in shares)
Balance, beginning of the year	112,179,565	119,906,567
Common shares repurchased for cancellation	2,750,900	7,727,002
Common shares issued	20,125,000	-
Balance, end of the year	129,553,665	112,179,565

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Notes to the audited Consolidated financial statements

Table 20.3 - Reconciliation of number of Class A shares outstanding

	December 31, 2011 (in shares)	December 31, 2010 (in shares)
Balance, beginning of the year	-	-
Series 1 Preferred shares issued	10,000,000	-
Series 3 Preferred shares issued	10,000,000	-
Balance, end of the year	20,000,000	-

20.3 Normal course issuer bid

On February 22, 2010, the Company commenced a normal course issuer bid ("NCIB") to purchase during the following twelve 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 twelve-month period. However, following the acquisition of AXA Canada, the Company suspended its NCIB program. As at December 31, 2011, 2,750,900 (December 31, 2010 – 7,727,002) common shares had been repurchased for cancellation under the NCIB at an average price of \$47.03 (December 31, 2010 - \$44.06) per share for a total consideration of \$129 million (December 31, 2010 - \$341 million). 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 \$105 million (December 31, 2010 - \$273 million) was charged to retained earnings.

Note 21 - Earnings per share

Earnings per common share were calculated by dividing the profit attributable to the common shares of the Company by the average number of common shares outstanding during the year. Dilution is not applicable. The profit attributable to the common shares and the average number of common shares outstanding during the year are calculated as follows:

Table 21.1 - Earnings per share

As at (in millions of \$, except as otherwise noted)	December 31, 2011	December 31, 2010
Net income (loss) attributable to common shares		
Net income from continuing operations	457	498
Less: Dividends declared on preferred shares, net of tax	8	-
Adjusted net income (loss) from continuing operations attributable to common shares	449	498
Net income (loss) from discontinued operations	8	-
Total net income (loss) attributable to common shares	457	498
Weighted average number of common shares outstanding		
Number of common shares outstanding at beginning of the year	112,179,565	119,906,567
Adjustment for weighted average shares issued at the date of acquisition of AXA Canada	5,513,699	-
Adjustment for weighted average common shares repurchased under the NCIB program	(2,384,771)	(4,809,677)
Weighted average number of common shares outstanding at end of year	115,308,493	115,096,890
EPS – basic and diluted (in dollars)	3.96	4.32

Note 22 - Share-based payments

22.1 Long-Term Incentive Plans

The following table shows the outstanding units and fair value for each of the Company's performance cycles.

Table 22.1 - Outstanding units and fair value by performance cycle

	Number of units	Per unit fair value at grant date (in \$)	Amount (in millions of \$)
As at December 31, 2011			
2009-2011 performance cycle	368,242	23.06	8
2010-2012 performance cycle	419,617	35.06	15
2011-2013 performance cycle	227,832	48.06	11
Total	1,015,691	33.63	34
As at December 31, 2010			
2008-2010 performance cycle	47,563	32.76	2
2009-2011 performance cycle	224,201	23.06	5
2010-2012 performance cycle	357,873	35.06	12
Total	629,637	30.61	19

The following table shows the movements in the Long-Term Incentive Plans ("LTIP") share units during the year.

Table 22.2 - Movements in LTIP

	December 31, 2011 (in units)	December 31, 2010 (in units)
LTIP (share equivalents)		
Outstanding, beginning of year	629,637	163,060
Net change in estimate during the year	386,054	466,577
Outstanding, end of year	1,015,691	629,637
LTIP (restricted common shares)		
Outstanding, end of year	50,719	53,495

The amount charged to Other expenses in the audited Consolidated statements of comprehensive income for LTIP was \$19 million for the year ended December 31, 2011 (December 31, 2010 – expense of \$13 million).

22.2 Employee Share Purchase Plan

The following table shows the movements in Employee Share Purchase Plan ("ESPP") restricted common shares during the year.

Table 22.3 - Movements in ESPP

	December 31, 2011 (in units)	December 31, 2010 (in units)
ESPP (restricted common shares)		
Outstanding, beginning of year	107,562	108,546
Awarded during the year	112,250	100,490
Vested or forfeited during the year	(99,495)	(101,474)
Outstanding, end of year	120,317	107,562

The amount charged to Other expenses in the audited Consolidated statements of comprehensive income for the ESPP was \$5 million for the year ended December 31, 2011 (December 31, 2010 - \$4 million).

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22.3 Deferred share unit plan

The deferred share units are cash-settled awards for which the provision recorded as at December 31, 2011 is \$3 million (2010 - \$2 million). The amount charged to Other expenses on the audited Consolidated statements of comprehensive income was \$1 million for the year ended December 31, 2011 (December 31, 2010 - \$1 million).

Note 23 - Additional information on the audited Consolidated statements of cash flows

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

Table 23.1 - Additional information on the audited Consolidated statements of cash flows

(in millions of \$)	December 31, 2011	December 31, 2010
Adjustments for non-cash items		
Net investment (gains) losses	(204)	(182)
Deferred income tax expense (benefit)	17	18
Depreciation of property and equipment	14	14
Amortization of intangible assets	39	33
Net premiums on debt securities classified as available-for-sale	18	11
Other	4	4
Total as reported on the audited Consolidated statements of cash flows	(112)	(102)
Changes in other operating assets and liabilities		
Assets classified as held for sale	(172)	-
Liabilities directly associated with assets classified as held for sale	160	-
Unearned premiums, net	56	122
Deferred acquisition costs, net	(21)	(24)
Premium and other receivables	(29)	(125)
Income taxes payable, net	(84)	(36)
Other operating assets	63	4
Other operating liabilities	(67)	(112)
Total as reported on the audited Consolidated statements of cash flows	(94)	(171)
Composition of cash and cash equivalents		
Cash, net of bank overdrafts	164	(32)
Cash equivalents	42	170
Total cash and cash equivalents	206	138
Other relevant cash flow disclosures		
Interest paid – financing activities	33	30
Interest received – operating activities	233	181
Dividends received – operating activities	131	137
Income taxes paid (recovered) – operating activities	208	150

Note 24 - Contingencies, commitments and guarantees

24.1 Contingencies

In the normal course of operations, various insurance claims and legal proceedings are instituted against the Company. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Company has made adequate provision for, or has adequate insurance to cover all insurance claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the Company's consolidated future operating results and financial position.

The Company provides indemnification agreements to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements.

24.2 Commitments

The Company has entered into commercial operating leases on certain property and equipment. These leases have an average life of one to fourteen years with renewal options included in the contracts. Future minimum rental payments under non-cancellable operating leases as at the end of the reporting period are as follows:

Table 24.1 - Operating lease commitments

As at (in millions of \$)	December 31, 2011
Within one year	98
After one year but not more than five years	234
More than five years	111
Total operating lease rental payments	443

24.3 Guarantees

As at December 31, 2011, a \$1 million structured settlements provision has been taken representing an amount equal to the estimated fair value of the financial guarantees issued (Note 9.3 b).

Note 25 - Related party transactions

The Company enters into transactions with associates and joint ventures in the normal course of business, as well as key management personnel and post-employment plans. Transactions with related parties are at normal market prices and mostly comprise commissions for insurance policies and interest and principle payments on loans.

25.1 Transactions with associates and joint ventures

Table 25.1 - Revenues and expenses with associates and joint ventures

For the years ended (in millions of \$)	December 31, 2011	December 31, 2010
Reported in:		
Income		
Net investment income	7	4
Expenses		
Underwriting expenses	131	100

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Notes to the audited Consolidated financial statements

Table 25.2 - Audited Consolidated balance sheets amounts with associates and joint ventures

As at (in millions of \$)	December 31, 2011	December 31, 2010
Reported in:		
Assets		
Loans	222	70
Liabilities		
Other liabilities	44	41

25.2 Compensation of key management personnel

Key management personnel are comprised of all members of the Board of Directors and the Named Officers (as defined in Form 51-102F6 Statement of Executive compensation and disclosed in the Company's Management Proxy Circular in connection with its annual meeting of shareholders). The summary of compensation of key management personnel for the year is as follows:

Table 25.3 - Compensation of key management personnel

For the years ended (in millions of \$)	December 31, 2011	December 31, 2010
Salary	2	2
Share-based awards	6	4
Annual incentive plans ¹	3	3
Pension value	1	1
Total compensation of key management personnel	12	10

¹ Annual incentive plans are based on the Company's performance versus the industry. Figures are preliminary as industry data will only be available in March 2012. The Company's proxy circular will reflect the final figures.

Key management personnel can purchase insurance products offered by the Company in the normal course of business. The terms and conditions of such transactions are essentially the same as those available to clients and employees of the Company.

25.3 Post-employment plans

The Company's transactions with post-employment plans comprise the contributions paid to the plans, which represent for the year ended December 31, 2011, \$63 million for the pension plans (December 31, 2010 – \$35 million) and \$1 million for other post-employment plans (December 31, 2010 – \$1 million).

The Company did not conclude any other transactions with post-employment plans and there are no payable amounts as at December 31, 2011 and 2010.

Note 26 - Capital management

The Company's objectives for managing capital consist in maintaining sufficient capital to support claims liabilities and ensure the confidence of policyholders, support competitive pricing strategies, meet regulatory capital requirements, provide returns for its shareholders and maintain a leadership position in the Canadian P&C insurance industry.

The federally chartered P&C insurance subsidiaries of the Company are subject to regulatory capital requirements as defined by OSFI and the *Insurance Companies Act* ("ICA"). Provincially chartered subsidiaries are subject to the requirements set by the Autorité des marchés financiers ("AMF") and the *Act respecting insurance* (Québec). OSFI and AMF have established a Minimum Capital Test ("MCT") guideline which sets out 100% as the minimum and 150% as the supervisory target MCT standard for Canadian P&C insurance companies. To ensure that it attains its objectives, the Company has established an internal target of 170% in excess of which, under normal circumstances, the Company will maintain its capital.

The following table presents the aggregate MCT for the Company's P&C insurance subsidiaries.

Table 26.1 - Minimum capital test

As at (in millions of \$, except as otherwise noted)	December 31, 2011¹	December 31, 2010
Total capital available	3,285	2,969
Total capital required	1,668	1,272
Excess capital	1,617	1,697
MCT %	197%	233%
Excess capital at 150%	783	1,061

¹ Estimated.

Total capital available and total capital required represent aggregate amounts applicable to the Company's regulated P&C insurance subsidiaries and are determined in accordance with prescribed regulatory rules. Total capital available mostly represents total shareholders' equity less specific deductions for disallowed assets including goodwill and intangible assets. Total capital required is calculated by categorizing assets and liabilities and applying prescribed risk factors to each category. The Company elected to apply the exemption permitted by OSFI in order to phase in over a period of two years the impact of IFRS conversion on total capital available for MCT calculation purposes. As at December 31, 2011, the Company's P&C insurance subsidiaries were in compliance with regulatory requirements as well as internal targets.

Annually, the Company performs Dynamic Capital Adequacy Testing on the MCT to ensure that the Company has adequate capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The 2011 results indicated that the Company's capital position is strong. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

Note 27 - Subsequent events

On January 1, 2012, the Company completed the sale of AXA Life Insurance Inc. to SSQ, Life Insurance Company Inc. The transaction was concluded for an amount of \$ 300 million.

No other matters or circumstances have arisen since the end of the financial reporting period which are not otherwise dealt with in the audited Consolidated financial statements, which have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

Note 28 - Disclosures on rate regulation

The Company's insurance subsidiaries are licensed under insurance legislation in each of the provinces and territories in which they conduct business. Automobile insurance is a compulsory product and is subject to different regulations across the provinces and territories in Canada, including those with respect to rate setting. Rate setting mechanisms generally fall under three categories:

Category	Description
File and use	Insurers file their rates with the relevant authorities and wait for a prescribed period of time and then implement the proposed rates.
File and approve	Insurers must wait for specific approval of filed rates before they may be used.
Use and file	Rates are filed following use.

The following table lists the provincial authorities which regulate automobile insurance rates. Automobile direct written premiums in these provinces totalled \$2,707 million in 2011 (\$2,528 million as at December 31, 2010) and represented approximately 96.5% (99.2% as at December 31, 2010) of direct automobile premiums written.

Table 28.1 - Provincial authorities and rate filings

Province	Rate filing	Regulatory authority
Alberta	File and approve or file and use	Alberta Automobile Insurance Rate Board
Ontario	File and approve	Financial Services Commission of Ontario
Quebec	Use and file	Autorité des marchés financiers
Nova Scotia	File and approve	Nova Scotia Utility and Review Board
New Brunswick	File and approve	New Brunswick Insurance Board
Prince Edward Island	File and approve	Island Regulatory Appeals Commission
Newfoundland and Labrador	File and approve	Board of Commissioners of Public Utilities

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. At December 31, 2011 and 2010, the Company had no significant regulatory asset or liability.

Note 29 - First-time adoption of IFRS

29.1 Accounting policies – basis of preparation

The audited Consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with IFRS, as issued by the IASB. Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (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.

29.2 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 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 this exemption, any goodwill and intangible assets arising on 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 and equipment

IFRS 1 provides the option to retrospectively apply IAS 16 - *Property, plant, and equipment*, for the determination of net book value 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. Upon transition, the Company elected not to change the classification or designation of its financial assets or liabilities from previous Canadian GAAP.

e) IFRS 4 transitional provisions

IFRS 1 provides the option to apply the transitional provisions of IFRS 4 - *Insurance contracts*, by which the Company need not disclose information about claims development that occurred more than five years before the end of the first financial year in which it applies IFRS.

29.3 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 the 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 audited Consolidated statements 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.

29.4 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.

Under IFRS, entities have the choice of recognizing ongoing actuarial gains and losses in the audited Consolidated statements of comprehensive income 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 OCI and are not reclassified to Net income (loss) attributable to shareholders. The present value of the accrued benefit obligations, net of the fair value of plan assets are recognized on the audited Consolidated balance sheets.

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, in 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 instrument 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 tax include the effect of recording, where applicable, the deferred tax effect on differences between Canadian GAAP and IFRS.

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Notes to the audited Consolidated financial statements

29.5 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 audited Consolidated balance sheets and audited Consolidated statements of comprehensive income.

Table 29.1 - Legend to tables in Note 29.5

Reference in tables below	Reference to
a.	Note 29.4 a) – <i>Employee future benefits</i>
b.	Note 29.4 b) – <i>Financial instruments</i>
c.	Note 29.4 c) – <i>Income taxes</i>

Table 29.2 - Reconciliation of the audited Consolidated balance sheets as of January 1, 2010

Canadian GAAP accounts (in millions of \$, except as otherwise noted)	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measurement adjustments	IFRS balance	IFRS accounts (in millions of \$, except as otherwise noted)
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 and joint ventures
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 taxes receivable
Future income tax asset	38	-	38	c 18	56	Deferred tax assets
Deferred acquisition costs	396	-	396	a -	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	406	-	406	-	406	Financial liabilities related to investments
Income taxes payable	102	-	102	-	102	Income taxes payable
Future income tax liability	26	-	26	c (5)	21	Deferred tax liabilities
Other liabilities	703	-	703	a 30	733	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 (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 shareholders' equity	\$ 11,351	-	11,351	(40)	\$ 11,311	Total liabilities and shareholders' equity

Intact Financial Corporation
Notes to the audited Consolidated financial statements

Table 29.3 - Reconciliation of the audited Consolidated balance sheets as of December 31, 2010

Canadian GAAP accounts (in millions of \$, except as otherwise noted)	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measurement adjustments	IFRS balance	IFRS accounts (in millions of \$, except as otherwise noted)
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 and joint ventures
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 taxes 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	715	-	715	-	715	Financial liabilities related to investments
Income taxes payable	78	-	78	-	78	Income taxes payable
Future income tax liability	54	-	54	c (26)	28	Deferred tax liabilities
Other liabilities	771	-	771	a 53	824	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 (329)	1,565	Retained earnings
Accumulated other comprehensive loss	87	-	87	b 228	315	Accumulated other comprehensive income (loss)
	3,070	-	3,070	(101)	2,969	
Total liabilities and shareholders' equity	\$ 12,149	-	12,149	(74)	\$ 12,075	Total liabilities and shareholders' equity

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Notes to the audited Consolidated financial statements

Table 29.4 - Reconciliation of the audited Consolidated statements of comprehensive income as of December 31, 2010

Canadian GAAP accounts (in millions of \$, except as otherwise noted)	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measurement adjustments	IFRS balance	IFRS accounts (in millions of \$, except as otherwise noted)
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 (losses)	64	-	64	b 118	182	Net investment gains (losses) Share of profit of investments in associates and joint ventures
	-	15	15	-	15	
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
						Net income (loss) before income tax expense (benefit)
Income before income taxes	525	-	525	112	637	
Income tax expense (benefit)	105	-	105	c 34	139	Income tax expense (benefit)
						Net income (loss) attributable to shareholders
Net income	\$ 420	-	420	78	\$ 498	
Earnings per share, basic and diluted (dollars)	3.65				4.32	Earnings per share, basic and diluted (dollars)
	-	-	-	a (42)	(42)	Net actuarial gains (losses) on employee future benefits Available-for-sale securities:
Net decrease (increase) in unrealized losses on available-for-sale securities	257	-	257	-	257	Net changes in net unrealized gains (losses)
Income taxes	(70)	70	-	-	-	
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	(113)	38	Other comprehensive income (loss) for the year
Comprehensive income (loss)	\$ 571	-	571	(35)	\$ 536	Total comprehensive income (loss) attributable to shareholders