Intact Financial Corporation

Management's Discussion and Analysis

For the year ended December 31, 2011

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February 7, 2012

The following MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors for the year ended December 31, 2011. This MD&A is intended to enable the reader to assess our results of operations and financial condition for the three- and twelve-month periods ended December 31, 2011, compared to the same periods in 2010, and as at December 31, 2011 compared to 2010. It should be read in conjunction with our audited Consolidated financial statements and accompanying notes for our fiscal year ended December 31, 2011. All amounts herein are expressed in Canadian dollars.

We use both IFRS and certain non-IFRS measures to assess performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. See Section 16 - *Non-IFRS financial measures* for the definition and reconciliation to the most comparable IFRS measures. Management analyzes performance based on underwriting ratios such as combined, expenses and claims ratios, as well as other performance measures such as NOIPS, ROE, AROE, OROE, AEPS, MCT and debt-to-capital ratio. These measures and other insurance-related terms are defined in our glossary available on our web site at www.intactfc.com in the "Investor Relations" section. Additional information about Intact Financial Corporation, including the Annual Information Form, may be found online on SEDAR at www.sedar.com.

First reporting year under IFRS

The year-ended December 31, 2011 MD&A reflects our adoption of IFRS as issued by the IASB. The comparative figures as at December 31, 2010 and January 1, 2010 and for the three- and twelve-month periods ended December 31, 2010 have been restated to comply with IFRS.

Note 29 - *First-time adoption of IFRS* to the accompanying audited Consolidated financial statements contains a detailed description of our conversion to IFRS, including accounting policies adopted and a line-by-line reconciliation of financial statements previously prepared under Canadian GAAP to those under IFRS for the year ended December 31, 2010 and as at December 31, 2010.

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

Forward-looking statements

This document contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereafter or in our 2011 Annual Information Form. Please read the cautionary note in Section 17 – *Cautionary note regarding forward-looking statements*.

Certain totals, subtotals and percentages may not agree due to rounding. A change column has been provided for convenience showing the variation between the current period and the prior period. Not applicable (n/a) is used to indicate that the current and prior year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%. "Intact", the "Company", "IFC", "we" and "our" are terms used throughout the document to refer to Intact Financial Corporation and its subsidiaries.

Important notes:

- All references to DPW in this MD&A exclude industry pools, unless otherwise noted.
- All references to "excess capital" in this MD&A include excess capital in the P&C subsidiaries at 170% minimum capital test plus liquid assets in the holding company, unless otherwise noted.
- Catastrophe claims are any one claim, or group of claims, equal to or greater than $5 million, related to a single event (see Section 6.7 – *Weather conditions* for the new threshold starting January 1, 2012).
- Except if noted otherwise, all underwriting results and related ratios exclude the MYA but include our share of the results of our jointly held insurance operation.

Glossary of abbreviations

This MD&A contains abbreviations which are defined as follows:

AEPS	Adjusted EPS	**KPI**	Key performance indicators
AFS	Available-for-sale	**MCT**	Minimum capital test
AMF	Autorité des marchés financiers	**MD&A**	Management's discussion and analysis
AOCI	Accumulated OCI	**MYA**	Market yield adjustment
AROE	Adjusted ROE	**NCIB**	Normal course issuer bid
DPW	Direct premiums written	**NOI**	Net operating income
EPS	Earnings per share to common shareholders	**NOIPS**	NOI per share
FVTPL	Fair value through profit and loss	**OCI**	Other comprehensive income
GAAP	Generally accepted accounting principles	**OROE**	Operating ROE
IASB	International Accounting Standards Board	**OSFI**	Office of the Superintendent of Financial Institutions
IBNR	Incurred but not reported	**P&C**	Property and casualty
ICA	Insurance Companies Act	**PfAD**	Provision for adverse deviation
IFRS	International financial reporting standards	**ROE**	Return on equity
IRR	Internal rate of return	**U.S.**	United States

Section 1 - Profile

1.1 Overview

On September 23, 2011, we acquired AXA Canada Inc. ("AXA Canada"), the 6th largest provider of home, auto and business insurance in the country. The acquisition confirms our leadership position in the Canadian market and will accelerate our efforts toward building a world-class P&C insurer. Since September 23, 2011, our financial results include those of AXA Canada.

We are the largest provider of P&C insurance in Canada with $6.7 billion in DPW (pro forma AXA Canada for a full year in 2011), with an estimated market share of 16.5%. We insure more than five million individuals and businesses through our insurance subsidiaries, and are the largest private sector provider of P&C insurance in British Columbia, Alberta, Ontario, Quebec and Nova Scotia. We distribute insurance under the Intact Insurance brand through a wide network of brokers and our wholly-owned subsidiary, BrokerLink. We also distribute insurance direct to consumers through our Belairdirect and GP Car and Home brands. We manage our own investment portfolio totalling approximately $11.8 billion.

Section 2 - Key performance indicators

Our most relevant KPI are defined in the tables below. NOI, NOIPS, AROE, OROE and AEPS are considered non-IFRS financial measures. See Section 16 - *Non-IFRS financial measures* for the reconciliation to the most comparable IFRS measures.

Growth indicators

DPW growth	The total amount of premiums written during a specified period compared to the same period last year (in percentage).
Written insured risks growth	The number of vehicles in automobile insurance, the number of premises in personal property insurance and the number of policies in commercial insurance (excluding commercial auto insurance) compared to the same period last year (in percentage).

Profitability indicators

NOI	As detailed in Table 2 - *Components of NOI*.
NOIPS	NOI for a specific period less preferred share dividends, divided by the weighted-average number of common shares for the same period.
ROE	Net income for a 12-month period less preferred share dividends, divided by the average shareholders' equity (excluding preferred shares) over the same 12-month period. Net income and shareholders' equity are determined in accordance with IFRS. The average shareholders' equity is the mean of shareholders' equity at the beginning and end of the period, adjusted for significant capital transactions, if appropriate.
AROE	Net income from continuing operations for a 12-month period less preferred share dividends, plus the after-tax impact of integration and restructuring costs, change in fair value of contingent consideration and amortization of intangible assets recognized in business combinations, divided by the average shareholders' equity (excluding preferred shares) over the same 12-month period. Net income from continuing operations and shareholders' equity are determined in accordance with IFRS. The average shareholders' equity is the mean of shareholders' equity at the beginning and end of the period, adjusted for significant capital transactions, if appropriate.
OROE	NOI for the last 12-months divided by the average shareholders' equity (excluding preferred shares and AOCI) over the same 12-month period. The average shareholders' equity is the mean of shareholders' equity at the beginning and the end of the period, adjusted for significant capital transactions, if appropriate.
EPS	As reported in the audited Consolidated statements of comprehensive income.
AEPS	Net income from continuing operations for a specific period less preferred share dividends, plus the after-tax impact of integration and restructuring costs, change in fair value of contingent consideration and amortization of intangible assets recognized in business combinations, divided by the weighted-average number of common shares for the same period.
IRR	The rate of return expected to be produced on the shareholders' capital deployed over the life of a project or acquisition.

Performance and execution indicators

Claims ratio	Claims incurred, net of reinsurance, during a specific period and expressed as a percentage of net premiums earned for the same period.
Expense ratio	Underwriting expenses including commissions, premium taxes and all general and administrative expenses incurred in underwriting income during a specific period and expressed as a percentage of net premiums earned for the same period.
Combined ratio	The sum of the claims ratio and the expense ratio. A combined ratio below 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result.

Capital management

Book value per share	Shareholders' equity (excluding preferred shares) divided by the number of outstanding common shares at the same date. Shareholders' equity is determined in accordance with IFRS.
MCT	Minimum capital test, as defined by OSFI.
Debt-to-capital ratio	Total debt outstanding divided by the sum of total shareholders' equity and total debt outstanding, at the same date.

Incentive compensation is based on the comparison of results for DPW growth, combined ratio, NOIPS and ROE defined above against those of the Canadian P&C insurance industry's 20 largest companies. See Section 6 - *Business developments and operating environment* for more details on our performance versus the industry.

Section 3 - Overview of our consolidated performance

3.1 Quarterly highlights

- Premium growth of nearly 50%, bolstered by the addition of AXA Canada and a rebound in organic growth
- Net operating income per share of $1.14 in Q4, up 61%, leading to an operating ROE of 15.3%
- Combined ratio of 92.7% on excellent underwriting results across the Company
- Book value per share increased 12% in 2011; quarterly dividend raised 8% to $0.40 per share
- AXA Canada integration on-track

3.2 Consolidated financial results

Table 1 – Financial highlights

(in millions of dollars, except as otherwise noted)	Q4-2011	Q4-2010	Change	2011	2010	Change
Selected highlights						
DPW	**1,576**	1,060	49%	**5,099**	4,498	13%
Net underwriting income (table 4)	**118**	21	462%	**273**	193	41%
Combined ratio	**92.7%**	98.0%	(5.3) pts	**94.4%**	95.4%	(1.0) pts
Net investment income (table 9)	**103**	71	45%	**326**	294	11%
Integration and restructuring costs	**42**	-	n/a	**71**	-	n/a
Change in fair value of contingent consideration	**41**	-	n/a	**41**	-	n/a
Finance costs	**15**	7	114%	**41**	28	46%
Net income before income tax expense (table 10)	**116**	136	(15)%	**594**	637	(7)%
Income tax expense	**40**	29	38%	**137**	139	(1)%
Effective income tax rate	**34.3%**	21.7%	12.6 pts	**23.1%**	22.0%	1.1 pts
Net income from continuing operations	**76**	107	(29)%	**457**	498	(8)%
Net income from discontinued operations	**8**	-	n/a	**8**	-	n/a
Net income	**84**	107	(21)%	**465**	498	(7)%
Preferred shares dividends	**(5)**	-	n/a	**(8)**	-	n/a
Net income attributable to common shareholders	**79**	107	(26)%	**457**	498	(8)%
EPS – basic and diluted (in dollars)	**0.62**	0.95	(35)%	**3.96**	4.32	(8)%
AEPS - basic and diluted (in dollars) [1]	**1.14**	0.96	19%	**4.82**	4.38	10%
NOI (table 2) [1]	**152**	80	90%	**460**	402	14%
NOIPS (in dollars) [1]	**1.14**	0.71	61%	**3.91**	3.49	12%
ROE for the last 12 months [2]	**14.3%**	16.9%	(2.6) pts			
AROE for the last 12 months [1,2]	**17.4%**	17.2%	0.2 pts			
OROE for the last 12 months [1,2]	**15.3%**	15.1%	0.2 pts			
Book value per share (in dollars)	**29.73**	26.47	12%			

[1] Refer to the Non-IFRS financial measures section.
[2] In 2011, the average shareholders' equity calculation has been adjusted on a pro rata basis to account for the $921 million of common shares issued as at September 23, 2011.

Fourth quarter 2011

DPW growth of 49% reflects the addition of AXA Canada (approximately 45 points) and a rebound in our organic growth from 2% in Q3-2011 to an estimated 4% in the fourth quarter. Our organic growth benefited from a recovery in the performance of our direct auto business, from growth of -4% in Q3 to 4% in Q4.

We reported an excellent underwriting performance in Q4-2011 with a combined ratio of 92.7%, 5.3 points improved versus Q4-2010, due to a 9.7 point improvement in personal auto. Catastrophe losses of $32 million are considered a "normal" level, given the Company's larger size following the acquisition of AXA Canada, while favourable prior year claims development of 2.8% of opening reserves was below our historical range of 3%-4%. The underlying current year loss ratio (excluding catastrophes and prior year claims development) improved 8.3 points year-over-year.

Net investment income of $103 million in the fourth quarter was up 45% from a year ago as a result of the additional investments related to the AXA Canada acquisition. Aside from these additional assets, declining yields continue to offset the underlying growth in our portfolio of investments; the market-based yield of 3.9% was down from 4.1% in Q4-2010. Investments amounted to $11.8 billion, up $3.2 billion from one year ago.

The agreement for the acquisition of AXA Canada includes a contingent consideration which requires us to pay up to an additional $100 million to AXA SA based on the development of the consolidated reserves of AXA Canada as at December 31, 2010. During the fourth quarter of 2011 we determined that, based on development of AXA Canada's reserves prior to September 23, 2011, the fair value of the contingent consideration as at September 23, 2011 was $48 million. That contingent consideration was recorded as an increase in goodwill and a payable to AXA SA.

As at December 31, 2011, the fair value of the contingent consideration was reassessed to be $89 million. The increase in value of $41 million was recorded as a non-operating expense. Any future amounts payable, up to an additional $11 million, will also be recorded in a similar manner. This expense is not deductible for tax purposes and results in a higher effective tax rate for the quarter.

We ended 2011 in a solid financial position, with an estimated MCT of 197%, $435 million in excess capital, and a book value per share of $29.73, 12% higher than a year ago. The five point reduction in MCT from the third quarter mainly reflects the impact of the change in fair value of the contingent consideration and the impact of integration and restructuring costs. At an estimated 197%, our MCT remains well above our minimum target, and is appropriate given potential headwinds from volatility in equity markets and interest rates.

Full year 2011

DPW increased 13% versus 2010, reflecting the inclusion of the acquired AXA Canada business in the fourth quarter. Organic growth of 3% was somewhat muted in 2011, particularly in personal auto (up 1%), from the slower growth in our direct businesses during the first nine months of the year.

Net underwriting income increased $80 million in 2011, with a combined ratio of 94.4%, versus 95.4% in 2010. The change was driven by improved current year results in our personal auto business. This offset a significant increase in catastrophe losses, which grew from $95 million in 2010 to $208 million in 2011, attributable to the Slave Lake wildfires, Tropical Storm Irene and a number of other severe storms. The underlying current year loss ratio (excluding catastrophes and prior year claims development) improved 3.5 points versus 2010.

Net investment income was $326 million, 11% higher than 2010 primarily from the acquisition of AXA Canada. The market-based yield declined 20 basis points versus 2010 to 4.0%; down as a result of declining interest rates and a higher proportion of fixed income securities following the inclusion of AXA Canada's portfolio.

Discontinued operations

Net income from discontinued operations relates to AXA Life Insurance Inc. ("AXA Life"), which was acquired as part of the acquisition of AXA Canada. The subsequent sale of AXA Life to SSQ, Life Insurance Company Inc. was completed on January 1, 2012 for proceeds of $300 million. During the fourth quarter, net income of $8 million was reported for AXA Life. This net income from discontinued operations does not impact NOIPS nor AEPS, but does positively impact EPS and book value per share measures.

Section 4 - Operating results

4.1 Net operating income

The details of NOI and related indicators are as follows:

Table 2 - Components of NOI

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Net underwriting income (table 4)	**118**	21	462%	**273**	193	41%
Net investment income (table 9)	**103**	71	45%	**326**	294	11%
Other income (expense), net[1]	**(11)**	4	(375)%	**(3)**	13	(123)%
Pre-tax operating income (table 3)	**210**	96	119%	**596**	500	19%
Tax impact	**(58)**	(16)	263%	**(136)**	(98)	39%
NOI[2]	**152**	80	90%	**460**	402	14%
Preferred share dividends	**(5)**	-	n/a	**(8)**	-	n/a
NOI to common shareholders	**147**	80	84%	**452**	402	12%
Weighted-average number of common shares (millions)	**130**	113	17	**115**	115	-
NOIPS (in dollars)[2]	**1.14**	0.71	61%	**3.91**	3.49	12%

[1] Includes corporate and distribution income.
[2] Refer to the Non-IFRS financial measures section.

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

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

(in millions of dollars)	Q4-2011	2011
Pre-tax operating income, as reported in 2010 (IFRS adjusted)[1]	**96**	**500**
Changes in net underwriting income :		
Change in favourable prior year claims development	**(15)**	**30**
Other changes in net underwriting income	**118**	**163**
Change in catastrophe losses	**(6)**	**(113)**
Total change in net underwriting income	**97**	**80**
Change in net investment income	**32**	**32**
Change in other income, net	**(15)**	**(16)**
Total change in pre-tax operating income	**114**	**96**
Pre-tax operating income, as reported in 2011[1]	**210**	**596**

[1] Refer to the Non-IFRS financial measures section.

4.2 Underwriting results

Table 4 - Components of underwriting results

(in millions of dollars, except as otherwise noted)	Q4-2011	Q4-2010	Change	2011	2010	Change
Net premiums earned	**1,616**	1,091	48%	**4,880**	4,231	15%
Net claims:						
Current year claims (excluding catastrophes)	**1,009**	773	31%	**3,133**	2,864	9%
Current year loss ratio	***62.5%***	*70.8%*	*(8.3) pts*	***64.2%***	*67.7%*	*(3.5) pts*
Current year catastrophes	**32**	26	23%	**208**	95	119%
(Favourable) prior year claims development	**(38)**	(53)	(28)%	**(223)**	(193)	16%
Total net claims	**1,003**	746	34%	**3,118**	2,766	13%
Claims ratio	***62.0%***	*68.3%*	*(6.3) pts*	***63.9%***	*65.4%*	*(1.5)pts*
Commissions, premium taxes, general expenses	**495**	324	53%	**1,489**	1,272	17%
Expense ratio	***30.7%***	*29.7%*	*1.0 pts*	***30.5%***	*30.0%*	*0.5 pts*
Net underwriting income	**118**	21	462%	**273**	193	41%
Combined ratio	***92.7%***	*98.0%*	*(5.3) pts*	***94.4%***	*95.4%*	*(1.0) pts*

Fourth quarter 2011

Net underwriting income of $118 million in Q4-2011 was up $97 million from the same period of 2010. The increase was due to the substantial growth in underwriting income from the addition of AXA Canada, which helped generate an impressive 8.3 point improvement in the current year loss ratio, driven by improved results from our personal lines businesses. Losses from catastrophes, primarily relating to a severe wind storm in Calgary during the quarter, amounted to $32 million.

Favourable prior year claims development, at 2.8% of opening reserves on an annualized basis, was less than the 5.3% recorded in Q4-2010 and slightly below our historical level of 3%-4%. Reserves related to Ontario auto reflect the impact of a recent court decision related to the stacking of physical and psychological impairments when determining catastrophic injuries. We also continue to maintain reserves at a level consistent with the uncertainty of the potential outcomes in the mediation process.

The expense ratio increased by one point in the fourth quarter versus Q4-2010, as increased commission expenses from a combination of higher profitability and the shift in our business mix following the acquisition of AXA Canada more than offset a decline in general expenses.

Full year 2011

The strong underwriting performance in the fourth quarter drove an $80 million improvement in net underwriting income versus 2010. Net premiums earned were up 15% in 2011, largely due to the acquisition of AXA Canada. The current year loss ratio was 3.5 points improved from the same period of 2010, largely driven by improved results from our auto businesses. Favourable prior year claims development, at 4.9% of opening reserves on an annualized basis, was in line with 2010 and above our historical level.

The improved net underwriting income was generated despite significant losses from catastrophes, including Slave Lake, Tropical Storm Irene and numerous wind and water events during the year, amounting to $208 million, and a 50 basis point increase in the expense ratio, from higher commissions, marketing initiatives and staff-related expenses.

4.3 Underwriting results by lines of business – personal lines

We are the largest personal auto and property insurer in Canada. We hold the number one position in both segments of personal insurance, with an estimated market share of 18% in both automobile and property. The market as a whole is fragmented – the top five P&C insurers represent slightly more than 40% of annual premiums written in Canada.

Table 5 - Underwriting results for personal lines

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
DPW						
Automobile	**664**	494	34%	**2,419**	2,236	8%
Property	**363**	257	41%	**1,208**	1,072	13%
Total	**1,027**	751	37%	**3,627**	3,308	10%
Written insured risks (thousands)						
Automobile	**778**	542	44%	**2,723**	2,475	10%
Property	**522**	380	38%	**1,742**	1,614	8%
Total	**1,300**	922	41%	**4,465**	4,089	9%
Net premiums earned						
Automobile	**754**	556	36%	**2,406**	2,157	12%
Property	**364**	255	43%	**1,129**	982	15%
Total	**1,118**	811	38%	**3,535**	3,139	13%
Net underwriting income (loss)						
Automobile	**52**	(18)	389%	**219**	41	434%
Property	**41**	21	95%	**(40)**	35	(214)%
Total	**93**	3	n/a	**179**	76	136%

Table 6 - Underwriting ratios for personal lines

	Q4-2011	Q4-2010	Change	2011	2010	Change
Personal auto						
Claims ratio	**68.2%**	78.4%	(10.2) pts	**65.8%**	73.0%	(7.2) pts
Expense ratio	**25.1%**	24.6%	0.5 pts	**25.1%**	25.1%	-
Combined ratio	**93.3%**	103.0%	(9.7) pts	**90.9%**	98.1%	(7.2) pts
Personal property						
Claims ratio	**53.6%**	57.4%	(3.8) pts	**68.4%**	61.7%	6.7 pts
Expense ratio	**35.0%**	34.3%	0.7 pts	**35.1%**	34.8%	0.3 pts
Combined ratio	**88.6%**	91.7%	(3.1) pts	**103.5%**	96.5%	7.0 pts
Personal lines – total						
Claims ratio	**63.4%**	71.8%	(8.4) pts	**66.6%**	69.4%	(2.8) pts
Expense ratio	**28.3%**	27.6%	0.7 pts	**28.4%**	28.1%	0.3 pts
Combined ratio	**91.7%**	99.4%	(7.7) pts	**95.0%**	97.5%	(2.5) pts

Fourth quarter 2011

DPW in personal auto increased 34% versus Q4-2010, mainly from the addition of AXA Canada. Our underlying growth improved from -1% in Q3-2011 to 3% in Q4-2011, due in part to a recovery in our direct businesses. As anticipated, our earlier decision to restart marketing in the direct channel in Ontario proved successful, generating growth of 4% in the quarter, versus -4% in Q3-2011. The combined ratio improved significantly from last year to 93.3%, on meaningful improvement in our loss ratio in Ontario and fewer catastrophe losses, partially offset by lower favourable prior year claims development. We maintain our optimism that the benefits from the Ontario auto reforms and our actions will materialize as previously outlined, but remain disciplined in this market and continue our prudent reserving practices (see Section 6.4 *Ontario auto* for further details). The underlying current year loss ratio (excluding catastrophes and prior year claims development) was better by 11.8 points year-over-year.

DPW growth in personal property reached 41% versus Q4-2010, primarily from the addition of AXA Canada. Our underlying growth was solid as written insured risks increased for the first time in four years. Benefits from our actions and relatively mild winter conditions resulted in a very strong combined ratio of 88.6%, a 3.1 point improvement versus Q4-2010. The underlying current year loss ratio (excluding catastrophes and prior year claims development) was better by 5.3 points year-over-year.

Full year 2011

Personal auto underwriting results improved significantly versus 2010 with the combined ratio progressing from 98.1% to 90.9% in 2011, mainly due to the continued improvement in Ontario auto. DPW increased 8% versus 2010, reflecting the inclusion of the AXA Canada business in the fourth quarter, somewhat muted by the slower growth in our direct businesses prior to rebounding in the fourth quarter.

The drop in underwriting income versus 2010 in personal property was due to an elevated level of catastrophe losses in the first nine months of 2011, versus more favourable weather conditions in the same period of 2010. The overall combined ratio deteriorated from 96.5% in 2010 to 103.5%, but improved from 94.0% to 92.2% excluding catastrophes and prior year claims development in 2011. DPW increased 13% overall, reflecting the addition of AXA Canada and higher average premiums.

4.4 Underwriting results by lines of business – commercial lines

We are the largest player in commercial insurance in Canada. The market as a whole is fragmented – the top five P&C insurers represent less than 45% of annual written premiums in Canada. We write business in most sectors of economic activity as well as in all lines of insurance with a significant share of the small- to medium-size commercial segment. These two segments make up more than 90% of our commercial premiums. We also write a small volume of specialty lines representing less that 15% of our annual commercial premium income.

Table 7 - Underwriting results for commercial lines

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
DPW						
Automobile	**130**	85	53%	**396**	336	18%
P&C	**419**	224	87%	**1,076**	854	26%
Total	**549**	309	78%	**1,472**	1,190	24%
Written insured risks (thousands)						
Automobile	**101**	71	42%	**325**	282	15%
P&C	**107**	61	75%	**294**	243	21%
Total	**208**	132	58%	**619**	525	18%
Net premiums earned						
Automobile	**130**	84	55%	**384**	326	18%
P&C	**368**	196	88%	**961**	766	25%
Total	**498**	280	78%	**1,345**	1,092	23%
Net underwriting income						
Automobile	**10**	6	67%	**52**	46	13%
P&C	**15**	12	25%	**42**	71	(41)%
Total	**25**	18	39%	**94**	117	(20)%

Table 8 - Underwriting ratios for commercial lines

	Q4-2011	Q4-2010	Change	2011	2010	Change
Commercial auto						
Claims ratio	**63.2%**	64.5%	(1.3) pts	**56.7%**	56.1%	0.6 pts
Expense ratio	**29.8%**	29.4%	0.4 pts	**29.8%**	29.9%	(0.1) pts
Combined ratio	**93.0%**	93.9%	(0.9) pts	**86.5%**	86.0%	0.5 pts
Commercial P&C						
Claims ratio	**57.5%**	55.4%	2.1 pts	**56.7%**	52.6%	4.1 pts
Expense ratio	**38.2%**	38.4%	(0.2) pts	**38.9%**	38.1%	0.8 pts
Combined ratio	**95.7%**	93.8%	1.9 pts	**95.6%**	90.7%	4.9 pts
Commercial lines – total						
Claims ratio	**59.0%**	58.1%	0.9 pts	**56.7%**	53.6%	3.1 pts
Expense ratio	**36.0%**	35.7%	0.3 pts	**36.3%**	35.7%	0.6 pts
Combined ratio	**95.0%**	93.8%	1.2 pts	**93.0%**	89.3%	3.7 pts

Fourth quarter 2011

DPW growth in commercial auto reached 53% versus Q4-2010, reflecting the addition of AXA Canada. The combined ratio at 93.0% was slightly improved from last year's 93.9% on lower current accident year results. The underlying current year loss ratio (excluding catastrophes and prior year claims development) was better by 2.2 points year-over-year.

The inclusion of AXA Canada's business drove an 87% jump in commercial P&C DPW in the fourth quarter. The combined ratio increased from 93.8% to 95.7% as a result of lower favourable prior year claims development, coupled with higher catastrophe

losses (including a non-weather related fire loss). The underlying current year loss ratio (excluding catastrophes and prior year claims development) was better by 2.6 points year-over-year.

Full year 2011

Overall, the inclusion of the acquired AXA Canada business in the fourth quarter led to a 24% increase in commercial lines' DPW in 2011 with an 18% increase in written insured risks.

The very robust 2011 underwriting performance in commercial auto, with a combined ratio of 86.5%, is largely in line with last year as the drop in current year results was partially offset by higher favourable prior year claims development. In commercial P&C, underwriting results were less strong than in 2010, with a combined ratio of 95.6% as higher favourable prior year claims development was more than offset by the combination of higher catastrophe losses and weaker current accident year results. The underlying 2011 current year loss ratio (excluding catastrophes and prior year claims development) deteriorated by 1.7 points year-over-year.

4.5 Investment income

As at December 31, 2011, all investments of the Company, including the additional investments from the AXA Canada acquisition, are managed internally by IFC's subsidiary, Intact Investment Management Inc. ("IIM"). The asset mix is designed to maximize interest and dividend income while ensuring an optimal mix of risk and return. Assets are managed according to an investment policy and a significant portion of our portfolio is invested in fixed income securities. In order to maximize dividend income, we also actively invest in common shares of large-cap companies that pay dividends and preferred shares.

Table 9 – Investment income

(in millions of dollars, except as otherwise noted)	Q4-2011	Q4-2010	Change	2011	2010	Change
Interest income	**75**	46	63%	**221**	190	16%
Dividend income	**36**	32	13%	**131**	126	4%
Investment income, before expenses	**111**	78	42%	**352**	316	11%
Expenses	**(8)**	(7)	14%	**(26)**	(22)	18%
Net investment income	**103**	71	45%	**326**	294	11%
Average investments[1]	**10,881**	7,868	38%	**8,887**	7,648	16%
Market-based yield[2]	**3.9%**	4.1%	(0.2) pts	**4.0%**	4.2%	(0.2) pts

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

Fourth quarter 2011

Net investment income of $103 million in the fourth quarter was up 45% from a year ago as a result of the additional investments related to the AXA Canada acquisition, as reflected in the level of average investments. Aside from these additional assets, declining yields continue to offset the underlying growth in our portfolio of investments; the market-based yield of 3.9% was down from 4.1% in Q4-2010.

Full year 2011

Net investment income was $326 million, 11% higher than 2010 primarily from the acquisition of AXA Canada. The market-based yield declined 20 basis points versus 2010 to 4.0%; down as a result of declining interest rates, fewer preferred shares and a higher proportion of fixed income securities after including AXA Canada's portfolio.

Our increased level of assets under management will contribute to improve our net investment income. We also expect that the increased asset base will lead to investment expenses efficiencies in 2012. However, assuming rates remain at current levels, we expect our market-based yield to continue to decrease as securities are reinvested in lower yielding assets.

Section 5 - Non operating results

Non operating results include net investment gains and losses excluding FVTPL fixed-income securities, market yield effect, amortization of intangible assets recognized in business combinations and non-recurring charges (i.e. integration and restructuring costs and change in fair value of contingent consideration), all on a pre-tax basis. These costs are not representative of our operating performance because they relate to special items, bear significant volatility from one period to the other, or because they are not part of our normal activities. As a result, these costs are excluded from the measurement of NOI and related measures.

5.1 Net income before income tax expense

A summary of changes in net income before income tax expense is as follows:

Table 10 - Changes in net income before income tax expense (year-over-year)

(in millions of dollars)	Q4-2011	2011
Net income before income tax expense, as reported in 2010 (IFRS adjusted)	**136**	**637**
Operating results		
Change in pre-tax operating income (table 3)	**114**	**96**
Non-operating results		
Change in net investment gains (losses) excluding FVTPL fixed-income securities (table 11)	**(56)**	**(21)**
Change in market yield effect (table 12)	**7**	**(2)**
Change in amortization of intangible assets recognized in business combinations	**(2)**	**(4)**
Change in integration and restructuring costs	**(42)**	**(71)**
Change in fair value of contingent consideration	**(41)**	**(41)**
Net income before income tax expense, as reported in 2011	**116**	**594**
Income tax expense	**(40)**	**(137)**
Net income from continuing operations	**76**	**457**
Net income from discontinued operations	**8**	**8**
Net income	**84**	**465**
Preferred share dividends	**(5)**	**(8)**
Net income attributable to common shareholders	**79**	**457**
Weighted-average number of common shares (millions)	**130**	**115**
Net income attributable to common shareholders per share (in dollars)	**0.62**	**3.96**

Fourth quarter 2011

The substantial increase in underwriting and net investment income lead to a $114-million improvement in pre-tax operating income in Q4-2011. This was offset by $42-million of integration and restructuring costs, a $41-million change in fair value of contingent consideration and a $56-million drop in net investment gains.

Full year 2011

Net income before income tax expense declined by $43 million in 2011 versus 2010, as higher pre-tax operating income was offset by $71 million in integration and restructuring costs, a $41-million change in fair value of contingent consideration and a $21 million decline in net investment gains (as discussed in Section 5.2 – *Net investment gains (losses)*).

5.2 Net investment gains (losses)

Table 11 – Net investment gains (losses)

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Debt securities						
Gains on AFS securities	**12**	6	6	**26**	27	(1)
Losses on derivatives	**(19)**	5	(24)	**(34)**	4	(38)
Impairment reversal	**-**	1	(1)	**-**	1	(1)
Gains (losses) on fixed income securities and related derivatives	**(7)**	12	(19)	**(8)**	32	(40)
Equity securities						
Gains, net of stand-alone derivatives	**37**	55	(18)	**215**	151	64
Impairment losses	**(30)**	(6)	(24)	**(65)**	(14)	(51)
Losses on embedded derivatives	**(6)**	(11)	5	**(2)**	(8)	6
Gains on equity securities and related derivatives	**1**	38	(37)	**148**	129	19
Total gains (losses) excluding FVTPL fixed-income securities	**(6)**	50	(56)	**140**	161	(21)
Gains (losses) on FVTPL fixed income securities[1]	**(1)**	(37)	36	**64**	21	43
Net investment gains (losses)	**(7)**	13	(20)	**204**	182	22

[1] These gains (losses) on FVTPL fixed-income securities are offset by a MYA, with an objective of a minimal impact to net income. The difference between the MYA and the gains (losses) on fixed-income securities is referred to as the 'market yield effects' in this MD&A. See table 12.

Net investment losses (excluding FVTPL fixed-income securities) of $6 million compare to gains of $50 million in Q4-2010, as $30 million in equity impairments offset gains on equity securities and brokerage investments.

5.3 Market yield effect

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

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

Table 12 - Market yield effect

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Negative impact of MYA on underwriting	**-**	29	(29)	**(81)**	(36)	(45)
Gains (losses) on FVTPL fixed income securities	**(1)**	(37)	36	**64**	21	43
Market yield effect	**(1)**	(8)	7	**(17)**	(15)	(2)

5.4 Integration and restructuring costs

In connection with the acquisition of AXA Canada, we established an integration plan directed at integrating the acquired business with our own business and capturing cost synergies across the combined entities, including shared services and corporate functions.

Integration and restructuring costs are included in net income and include amounts related to system conversions, severance and other employee-related charges as well as other integration amounts, such as consulting fees and marketing costs related to customer communications and rebranding activities. We recorded $42 million and $71 million of such expenses in the fourth

quarter and full year 2011 respectively. We estimate that nearly half of our ultimate level of integration and restructuring costs were recorded in 2011 and expect the majority of future expenses to occur in 2012.

Section 6 - Business developments and operating environment

6.1 AXA Canada acquisition

On September 23, 2011, we completed the acquisition of AXA Canada. The total consideration amounted to $2.6 billion plus a contingent consideration of up to $100 million. The completion of this transaction represents a defining milestone in our history. Consistent with our strategy, this acquisition has strengthened our product offerings, improved our capabilities to support insurance brokers, expanded our distribution platform, reinforced competencies in risk selection and deepened the quality of our management team.

With the acquisition, we have enhanced our leading position in Canada by increasing our market share to approximately 16.5% and our DPW to $6.7 billion (pro forma AXA Canada for a full year in 2011). We have solidified our top market positions in Alberta, Ontario, Quebec and Nova Scotia and expanded our presence in British Columbia, New Brunswick and Newfoundland. It is expected that the acquisition will ultimately allow us to expand our growth potential, solidify our industry outperformance and, through greater product and geographic diversification, increase the stability of our earnings.

We estimate an IRR from the acquisition – our primary metric when measuring potential targets – of at least 20%. In order to fully reap the benefits of the acquisition, we remain committed to the following five objectives:

1. Create one team with common values.
2. Grow current and acquired portfolios.
3. Ensure that the acquisition is accretive to NOIPS in 2012, and up to 15% in the mid term.
4. Complete the integration within 18 months of closing.
5. Achieve $100 million of after-tax synergies from a combination of systems-related costs savings, external loss adjustment expense reductions, shared services savings and operational and claims efficiencies.

Ensuring that the AXA Canada customers embrace our offer has been among the top goals we have had as a company since announcing the acquisition in late May of last year. To improve the attractiveness of our offer and ease their transition to Intact, we established and have executed a plan consisting of the following:

- Ensure our track record of top-notch service is maintained.
- Establish a management team for the Company comprised of top talent from both IFC and AXA Canada.
- Maintain the vast majority of AXA Canada front-line staff with broker relationships.
- Add a conversion team of more than 200 individuals to maintain high quality service and accelerate integration efforts.
- Manage rate dislocation for AXA Canada renewals.

The initial response has been favourable. However, we remain in the early stage of the integration and the fourth quarter did not provide enough information to determine an ongoing success rate.

We maintain our $100 million after-tax synergies target and expect to reach this run-rate progressively by the second half of 2013; including a $18-million run rate at the end of 2011 and a target of $50 million by the end of 2012. In addition, we continue to believe further opportunities for benefits exist in the mid-term related to segmentation and additional supply chain benefits.

Integration and restructuring costs typically occur earlier in the integration process than synergies, as they are often required to enable the generation of synergies. During the fourth quarter we recorded $42 million of such expenses, bringing the full year 2011 level to $71 million. The Q4 level was below our previous guidance, but our overall view of integration and restructuring costs has not changed.

We have increased our catastrophe reinsurance coverage to bring the combined entity's coverage back up to our standard. The additional cost of catastrophe reinsurance coverage for the combined organization in 2012 is approximately $30 million, half of which relates to the integration of AXA Canada. We continue to expect short-term supply chain benefits to offset the $15 million increase in AXA-related reinsurance premiums.

6.2 Sale of AXA Life

On January 1, 2012, we completed the sale of AXA Canada's life insurance business to SSQ, Life Insurance Company Inc. for proceeds of $300 million. There was no gain or loss on the transaction as the sale proceeds correspond to the net value recorded on the Company's Consolidated balance sheet for this business. Most of the proceeds from the sale are expected to be applied to reduce debt outstanding.

6.3 Canadian P&C insurance industry results – YTD Q3-2011 comparison

The Canadian P&C insurance results for YTD Q3-2011 are available. Highlights are as follows:

Table 13 – Canadian P&C insurance results

	P&C industry[1]	Top 20 Benchmark[2]	IFC
DPW growth	4.0%	4.1%	2.6%
Combined ratio[3]	100.9%	101.7%	98.0%
ROE (YTD annualized)	7.4%	6.8%	19.1%

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

We continued to outperform the Canadian P&C insurance industry's 20 largest companies ("Top 20 Benchmark") through the first three quarters of 2011. While our DPW growth was below the Top 20 Benchmark, we delivered a combined ratio 3.7 percentage points better than the Top 20 Benchmark during the first nine months of 2011. The combination of superior underwriting results, investment results and capital management led to a ROE outperformance of 12.3 percentage points versus our industry Top 20 Benchmark, despite having over $758 million of excess capital, prior to the close of the AXA Canada acquisition in late September.

6.4 Ontario auto

In September of 2010, the Ontario government's auto reforms were implemented, offering greater choice for consumers while creating a more stable cost environment. The reforms also directly targeted abuse and fraud in the auto insurance system, which increase costs and lead to higher premiums. As time elapsed following implementation, the initial encouraging signs gained credibility, and resulted in performance improvements for that line of business.

Apart from the government reforms, we have taken actions to combat fraud and abuse in the system:

- We introduced a number of claims initiatives that were aimed at combating fraud and abuse.
- We tightened our acceptance processes for assessments and treatment plans and introduced a centralized payment team.
- We created a special handling and investigations unit for fraudulent cases and have made a number of improvements to our systems to be able to better track and manage the claim costs.

We remain positive that the benefits from the Ontario auto reforms and our actions will materialize as previously outlined, but remain prudent and disciplined in this market for the following reasons:

- The reforms became effective in September of 2010 and since that time approximately 20% of our open claims are disputed through mediation. At the industry level, a significant mediation backlog of about one year currently exists. The size of this backlog maintains a fair level of uncertainty with respect to the interpretation of the new regulations implemented through the reforms.
- A recent court decision has allowed the stacking of physical and psychological impairments when determining catastrophic injuries.

According to industry results, the loss ratio in Ontario auto for year to date Q3-2011, excluding IFC and AXA Canada, was 84.0%, improved from 99.1% in the first nine months of 2010, aided by continued rate increases and as the benefits from auto reforms began to take hold. In the fourth quarter of 2011, the Financial Services Commission of Ontario ("FSCO") approved rate increases of 0.8% (46% of companies filed a request with an average increase of 1.8%). In total, industry rate increases have amounted to 7.2% since September 2010, despite the beneficial impact of the reforms.

6.5 Capital markets

The Canadian equity market improved marginally in the fourth quarter, following two consecutive quarters of decline, as the S&P/TSX Index rose 2.8% while the preferred share index increased 1.1%. For the full year, the S&P/TSX Index declined 11.1% whereas the preferred share index was relatively flat, up 0.4%. Movements in our equity investment values are generally in line with the equity markets' performance, although our exposures to individual sectors may be different. The continued fall in interest rates was largely offset by the widening of corporate bond spreads during the fourth quarter. As such, the improvement in our pre-tax unrealized gain position was primarily attributable to an improvement in equity markets. Tables 11, 23 and 24 provide detailed information on the net investment gains (losses), and unrealized gains (losses) of our investment portfolio.

6.6 Industry pools

Industry pools consist of the "residual market" (or Facility Association) as well as risk-sharing pools ("RSP") in Alberta, Ontario, Quebec, New Brunswick and Nova Scotia. In the fourth quarter, the net impact of industry pools negatively impacted personal auto net underwriting income by $8.4 million year-over-year, excluding MYA. This variance reflects less favourable prior year claims development in Q4-2011, versus significant favourable development related to expected improvement from reforms in Ontario in Q4 of last year. Results for industry risk sharing pools tend to fluctuate between periods.

6.7 Weather conditions

Overall weather conditions were challenging during 2011 and our personal property business incurred the majority of the weather-related claims. Losses from catastrophes rose sharply to $208 million (plus an additional $23 million in reinsurance reinstatement premiums), compared to $95 million last year (with another $16 million in reinstatement premiums). By far the largest catastrophe event in 2011 was the Slave Lake wildfires, followed by hailstorms in Ontario and the effects of Tropical Storm Irene in Quebec.

Q4-2011 experienced quite benign weather conditions, which lead to very strong results in our personal property business. The only weather-related catastrophe event was a severe windstorm that hit Calgary in late November.

To reflect our increased scale following the AXA Canada acquisition, the catastrophe claim threshold will be increased from $5 million to $7.5 million starting January 1, 2012.

6.8 Seasonality of the business

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

Table 14 - Seasonal indicator

	2011	**2010**	**2009**	**2008**	**2007**	**2006**	**Six-year average**
Q1	**1.00**	0.98	1.00	1.03	1.01	1.02	1.01
Q2	**1.03**	0.98	0.97	0.98	0.99	0.93	0.98
Q3	**0.99**	1.01	1.07	0.97	1.02	1.01	1.01
Q4	**0.98**	1.03	0.96	1.02	0.98	1.05	1.00

Section 7 - Strategy and Outlook

7.1 Canadian P&C insurance industry 12-month outlook

We are well-positioned to continue outperforming the P&C insurance industry in the current environment due to our pricing and underwriting discipline, claims management capabilities, as well as our prudent investment and capital management practices.

Our two primary objectives are to outperform the industry ROE by at least 500 basis points every year, and to grow our NOIPS by 10% per year over time.

	P&C insurance industry	Our strategy
Pricing and claims environment (12-month outlook)	• Industry premiums are likely to increase at a similar rate as in 2011, with mid single digit growth in personal auto (driven by Ontario), upper single digit growth in personal property (reflecting the impact of water related losses and more frequent and/or severe storms) and low single digit growth in commercial lines. • Loss ratio improvement is expected from personal auto (from rate increases, and as Ontario reforms bring the anticipated cost savings and are effective at slowing claims inflation) and personal property (as a result of the benefit from continued premium increases). • We do not anticipate loss ratio improvement in commercial lines, but expect pricing conditions to improve at a moderate pace over time, following several years of soft industry pricing. • Reinsurance market conditions will likely support firmer premium levels.	• We maintain our disciplined pricing strategy while capitalizing on our strong position to grow organically in the prevailing market conditions. • We restarted our growth efforts in mid-2011 in the Ontario auto market as the results of the reforms unfolded in a positive manner and our efforts to curb fraud and abuse proved successful. • In home insurance, we maintain our focus on the actions already taken, and continue to monitor and adapt to the increasing level of severe weather occurrences, to create a sustainable competitive advantage. • In commercial lines, we intend to build on our 7-point historical loss ratio advantage, and to accelerate our penetration in small to mid-sized businesses. The addition of AXA Canada has bolstered our product offering and enables us to meaningfully grow in the mid-sized segment.
Capital markets	• Recent economic data and comments from the Bank of Canada lead us to believe that interest rates, which are currently very low, might remain low for the foreseeable future. As a result, we estimate that the industry's pre-tax investment yield will decline 50-75 basis points, given its asset mix and duration, which could support firmer conditions in pricing. • Capital markets remain volatile, as economic data (particularly outside of Canada) raise questions about the sustainability of the global recovery. Industry capital levels could be negatively impacted if volatility results in downward pressure on market values. • Global capital requirements are evolving quickly and generally becoming more stringent. This is also true in Canada where OSFI recently published 2012 MCT guidelines which could reduce industry capital ratios.	• We maintain a solid financial position with $435 million in excess capital and a debt-to-capital ratio of 22.9% as at the end of Q4-2011. We intend to allocate the majority of the $300-million proceeds from the sale of AXA Canada's life insurance business towards the term loan facility used to partially finance the acquisition. As a result, our debt-to-capital ratio is expected to be back in line with our target of 20% early in 2012. • Our $11.8-billion cash and investment portfolio is largely Canadian dollar-denominated with minimal foreign exposure (European Government debt and to U.S. debt market represent less than 5% of total portfolio). • We expect our market-based yield to continue to decline, offsetting the growth in our investment portfolio. Investment income will be affected accordingly. • We expect the new MCT guidelines to be capital neutral in 2012, but slightly negative in 2013, based on the current composition of our investment portfolio.
Overall	• The industry's ROE was approximately 7% in both 2010 and through nine months of 2011. Although the combined ratio may improve modestly, we believe this would in large part be offset by a reduction in the level of investment income. Consequently, we do not expect material improvement in ROEs in the near term.	• We strongly believe we are likely to outperform the industry's ROE by at least 500 basis points in the next 12 months, due to the following: – Our outperformance was nearly 1,200 basis points through nine months of 2011. – We expect to maintain a combined ratio advantage, due to continued robust action plans across all lines of business and the addition of AXA Canada.

7.2 Critical capabilities

We have several critical capabilities which have enabled us to sustain a performance advantage over other P&C insurers in Canada. These critical capabilities are described in the table below:

Scale	The key benefit of scale is our large database of customer and claims information that enables us to identify trends in claims and more accurately model the risk of each policy. We also use our scale to negotiate preferred terms with suppliers, priority service on repairs, quality guarantees on workmanship and lower material costs.
Sophisticated pricing and underwriting	We have superior underwriting expertise and proprietary segmentation models used to price risks. These models are continuously being refined to create a pricing advantage over competitors and identify certain segments of the market that are more profitable than others. Our objective is to establish pricing that will continue to both attract new clients and maintain existing clients with profitable profiles.
In-house claim expertise	Substantially all of our claims are handled in-house. By managing claims in-house, claims are settled faster and less expensively, and a more consistent service experience is created for the customer.
Broker relationships	The broker channel represents approximately 80% of annual DPW. We have more than 2,000 broker relationships across Canada for customers that prefer the highly-personalized, community-based service that insurance brokers provide. We provide a variety of services including technology, sales training and financing to brokers to enable them to continue to grow and expand their businesses.
Multi-channel distribution	We have a multi-channel distribution strategy including broker and direct-to-consumer brands. This strategy maximizes growth in the market and enables us to appeal to different customer preferences and to be more responsive to consumer trends.
Proven industry consolidator	We are a proven industry consolidator with 12 successful acquisitions since 1988, the most recent being AXA Canada. Our strategy is to target large-scale acquisitions of $500 million or more in DPW and to pursue acquisitions in lines of business where we have an expertise. Our acquisition targets are to achieve an internal rate of return of at least 15%, to bring the loss ratio of the acquired book of business to our average loss ratio and to bring the expense ratio to two points below our ratio, within 18 to 24 months.
Strong expertise in investments portfolio management	Over the years, we have built a strong expertise in investment management. In-house management provides greater flexibility in support of our insurance operations at competitive costs. In establishing our asset allocation, we consider a variety of factors including prospective risk and return of various asset classes, the duration of claim obligations, the risk of underwriting activities and the capital supporting our business. Our primary investment objective is to generate consistent after-tax income while minimizing the potential for extremely larges losses. We focus mostly on Canadian income products while preserving capital, diversifying risk and considering capital requirement in evaluating the attractiveness of different investment alternatives.

Section 8 - Financial condition

8.1 IFRS Condensed Balance sheet

The table below shows the significant audited Consolidated balance sheet captions:

Table 15 – Balance sheet

	As at			
(in millions of dollars)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**	**Additions from AXA Canada acquisition as at September 23, 2011**
Investments				
Cash and cash equivalents	**206**	138	60	**75**
Debt securities	**7,887**	4,821	4,784	**3,076**
Preferred shares	**1,281**	1,503	1,582	**214**
Common shares	**2,051**	1,877	1,312	**121**
Loans	**403**	314	319	**79**
Total investments	**11,828**	8,653	8,057	**3,565**
Assets classified as held for sale	**1,631**	-	-	**1,459**
Premiums receivables	**2,487**	1,762	1,640	**679**
Deferred acquisition costs	**652**	420	396	**211**
Reinsurance assets	**410**	235	261	**131**
Intangible assets and goodwill	**1,862**	381	338	**1,470**
Other assets	**883**	624	619	**266**
Total assets	**19,753**	12,075	11,311	**7,781**
Liabilities classified as held for sale	**1,330**	-	-	**1,170**
Claims liabilities	**6,886**	4,379	4,270	**2,193**
Unearned premiums	**3,790**	2,586	2,464	**1,148**
Financial liabilities related to investments	**532**	715	406	**40**
Other liabilities	**1,581**	930	856	**561**
Debt outstanding	**1,293**	496	398	**-**
Total liabilities	**15,412**	9,106	8,394	**5,112**
Share capital and contributed surplus	**2,493**	1,089	1,144	
Retained earnings	**1,642**	1,565	1,527	
AOCI	**206**	315	246	
Shareholders' equity	**4,341**	2,969	2,917	
Book value per common share (dollars)	**29.73**	26.47	24.33	

Total assets increased to $19.8 billion as at December 31, 2011, from $12.1 billion as at December 31, 2010. The increase is mainly driven by the acquisition of AXA Canada in September 2011.

Analysis of the most significant balance sheet items

Investments

Total investments stood at $11.8 billion, representing approximately 60% of our total assets as at December 31, 2011. The 37%-increase year-over-year is mainly due to the acquisition of AXA Canada in September 2011. See Section 8.2 – *Investments* hereafter for more details.

Claims liabilities

Claims liabilities amounted to $6.9 billion as at December 31, 2011, an increase of $2.5 billion compared to December 31, 2010. The increase is explained in large part by the acquisition of AXA Canada, as well as by the consistent business growth and lower discount rates in 2011. See Section 8.3 – *Claims liabilities* hereafter for more details.

Shareholders' equity

The increase in shareholders' equity from $3.0 billion to $4.3 billion as at December 31, 2011 is mainly explained by:

- common and preferred shares issued in connection with the acquisition of AXA Canada ($1,421 million); and
- net income less dividends declared ($287 million); partially offset by:
- negative variation in AOCI, mainly due to the reclassification to income of net gains on AFS securities ($109 million);
- net after-tax actuarial losses on employee future benefits ($105 million); and
- common shares repurchased for cancellation in connection with the NCIB ($129 million).

See section 8.4 – *Shareholders' equity* for more details.

Other significant variances

Assets and liabilities classified as held for sale

Assets and liabilities classified as held for sale relate to the life insurance activities acquired as part of the acquisition of AXA Canada for which we had entered into a definitive share purchase agreement with SSQ, Life Insurance Company Inc. The sale of these activities was completed on January 1, 2012 for proceeds of $300 million.

Premiums receivables and unearned premiums

The 41% increase in premiums receivables and the 47% increase in unearned premiums are mainly due to the acquisition of AXA Canada in September 2011.

Intangible assets and goodwill

The increase is related to goodwill and intangible assets recognized in connection with the acquisition of AXA Canada. The acquired intangible assets relate to the distribution network and customer relationships acquired.

Other liabilities

Other liabilities amounted to $1.6 billion as at December 31, 2011, an increase of $0.7 billion compared to December 31, 2010. The increase mainly results from the acquisition of AXA Canada and the contingent consideration payable ($90 million).

Debt outstanding

The $0.8-billion increase is related to financing obtained in connection with the acquisition of AXA Canada, more specifically term notes issuance ($400 million) and loans ($400 million). See Section 9.1 – *Financing of AXA Canada acquisition* hereafter for more details.

8.2 Investments

As at December 31, 2011, our total investments reached $11.8 billion, an increase of $3.2 billion from 2010 driven by the acquisition of AXA Canada. Our investment portfolio is mainly comprised of Canadian securities and includes a mix of fixed income securities, common and preferred shares, cash and short term notes. Nearly all investments are denominated in Canadian dollars and any currency exposure is hedged.

Our portfolio is managed in accordance with our investment policy. The overall risk profile of the portfolio is designed to balance the investment return required to satisfy our liabilities while optimizing the investment opportunities available in the marketplace. Management monitors and enforces compliance with our investment policy.

Fixed-income securities We invest in corporate and government bonds and approximately 98% of our fixed income portfolio is rated 'A' or better. We have no exposure to leveraged capital notes in structured investment vehicles, directly or through the use of derivatives. As at December 31, 2011, we have $236 million ($52 million at December 31, 2010) in asset-backed securities mostly comprised of Canadian credit card loans ($158 million as at December 31, 2011, $40 million as at December 31, 2010) and commercial mortgage-backed securities ($78 million as at December 31, 2011, $12 million as at December 31, 2010). All of these are rated AAA.

Common shares Common equity exposure is focused primarily on dividend-paying Canadian equities. We seek enhanced returns by identifying and investing in shares that are likely to pay increased dividends or special dividends. Management undertakes intensive analysis of investment opportunities to identify special dividend candidates. Similar evaluations are conducted to assess securities most likely to increase dividends. In addition, our equity portfolios are also actively managed to maximize dividend income throughout the year.

Preferred shares We invest in preferred shares to achieve our objective of maximizing dividend income, as such income is not taxable under Canadian laws, provided certain conditions are met. Generally, our preferred share portfolio is not traded and our shares are held until they are called. Consequently, our non-operating results are generally impacted only when preferred shares are impaired, or when the shares are called or sold to avail of selected market opportunities. The preferred share portfolio is comprised entirely of Canadian issuers with a high proportion of the portfolio invested in securities that are at least P2 in their credit rating.

Derivatives We use derivative financial instruments for hedging purposes and to modify the risk profile of the investment portfolio as long as the resulting exposures are within investment policy guidelines.

Investment mix

The following table provides an overview of the investment mix:

Table 16 - Investment mix

(in millions of dollars, except as otherwise noted)	**December 31, 2011**	**As a % of Total**	**December 31, 2010**	**As a % of Total**	**Fair value of AXA Canada Investments as at September 23, 2011**
Short-term notes, including cash and cash equivalents	**450**	**4%**	501	6%	**125**
Fixed income securities	**7,643**	**65%**	4,458	52%	**3,026**
Preferred shares	**1,281**	**11%**	1,503	17%	**214**
Common shares	**2,051**	**17%**	1,877	22%	**121**
	11,425	**97%**	8,339	97%	**3,486**
Loans	**403**	**3%**	314	3%	**79**
Total investments	**11,828**	**100%**	8,653	100%	**3,565**

As part of our investment strategies, we have both long and short equity positions in order 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. We also use strategies where a long equity position is hedged using swap agreements or other hedging instruments.

In November 2011, we sought protection against equity market volatility by adopting a put spread strategy to economically hedge us against declines within a certain range.

The following table reconciles the total investments before and after reflecting the hedging strategies.

Table 17 - Reconciliation to total investments (net of hedging positions)

(in millions of dollars)	**December 31, 2011**	**December 31, 2010**
Total investments (table 16)	**11,828**	8,653
Less: equities sold short positions	**(368)**	(397)
Less: equity exposure reduction	**(49)**	-
Less: swap agreements and other derivatives	**(76)**	(80)
Less: net asset value attributable to third party unit holders	**(70)**	(225)
Total investments (net of hedging positions)(table 18)	**11,265**	7,951

The following tables illustrate our total investments and asset mix after reflecting the impact of hedging strategies and financial liabilities. The investment mix (net of hedging positions) represents our economic exposure by class of assets.

Table 18 - Investment mix (net of hedging positions)

(in millions of dollars, except as otherwise noted)	**December 31, 2011**	**As a % of total**	**December 31, 2010**	**As a % of total**	**AXA Canada investments as at September 23, 2011**
Short-term notes, including cash and cash equivalents	**450**	**4%**	501	6%	125
Fixed income securities	**8,185**	**73%**	4,857	61%	3,026
Preferred shares	**1,214**	**11%**	1,252	16%	214
Common shares	**1,013**	**9%**	1,027	13%	121
	10,862	**97%**	7,637	96%	3,486
Loans	**403**	**3%**	314	4%	79
Total investments (net of hedging positions)	**11,265**	**100%**	7,951	100%	3,565

The investment mix as at December 31, 2011 compared to 2010 reflects the impact of the AXA Canada acquisition and a shift towards a higher proportion of fixed-income securities.

Sector mix by asset class

The following table shows sector exposures by asset class as a percentage of total investments (excluding cash and cash equivalents and loans) as at December 31, 2011.

Table 19 - Investment mix (net of hedging positions)

			Common shares		
	Fixed income	**Preferred shares**	**IFC**	**S&P/TSX Weighting**	**IFC Total**
Energy	**2%**	**8%**	**40%**	**27%**	**6%**
Materials	**-**	**-**	**6%**	**21%**	**1%**
Industrials	**2%**	**-**	**8%**	**6%**	**3%**
Information technology	**-**	**-**	**1%**	**1%**	**-**
Telecommunication	**1%**	**8%**	**15%**	**5%**	**3%**
Consumer discretionary	**-**	**1%**	**7%**	**4%**	**1%**
Consumer staples	**1%**	**-**	**4%**	**3%**	**1%**
Health care	**-**	**-**	**1%**	**1%**	**-**
Financials	**33%**	**79%**	**13%**	**30%**	**37%**
Utilities	**3%**	**4%**	**4%**	**2%**	**2%**
Government	**58%**	**-**	**1%**	**-**	**46%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total in millions	**8,429**	**1,214**	**1,013**	**n/a**	**10,656**

Our investment portfolio is concentrated mainly in the financial and government sectors. This is due to the fact that our principal investment strategy for equities focuses primarily on dividend-paying Canadian equities, most of which are issued by Canadian financial institutions. This also explains why we have limited exposure to materials and information technology companies. Our portfolio also includes a significant portion of Canadian government fixed-income securities which provide liquidity and stability to our balance sheet.

Portfolio credit quality

The following table highlights the credit quality of our fixed income securities portfolio:

Table 20 – Credit quality of the fixed income securities

	December 31, 2011		December 31, 2010	
(in millions of dollars, except as otherwise noted)	**Fair value**	**As a % of total**	**Fair value**	**As a % of total**
Fixed income securities[1]				
AAA	**2,534**	**33%**	1,702	38%
AA	**2,955**	**39%**	1,616	36%
A	**2,008**	**26%**	1,076	24%
BBB	**128**	**2%**	64	2%
BB	**18**	**-**	-	-
Total	**7,643**	**100%**	4,458	100%

[1] Source: Standard & Poor's ("S&P") or Dominion Bond Rating Services.

As at December 31, 2011, the weighted-average rating of our fixed income portfolio was AA+, unchanged since December 31, 2010. The average duration of our bond portfolio was 4.2 (3.8 net of the impact of derivatives used to reduce overall interest rate exposure)

The following table includes the credit quality of our preferred share portfolio:

Table 21 – Credit quality of the preferred share portfolio

	December 31, 2011		December 31, 2010	
(in millions of dollars, except as otherwise noted)	**Fair value**	**As a % of total**	**Fair value**	**As a % of total**
Preferred shares[1]				
P1	**691**	**54%**	799	53%
P2	**393**	**31%**	403	27%
P3	**196**	**15%**	295	20%
Non rated	**1**	**-**	6	-
Total	**1,281**	**100%**	1,503	100%

[1] Source: Standard & Poor's ("S&P") or Dominion Bond Rating Services.

The weighted-average rating of our preferred share portfolio was P2 as at December 31, 2011, unchanged since December 31, 2010.

The following table provides our portfolio breakdown by region of issuer as at:

Table 22 – Portfolio breakdown by region of issuer

As at	**December 31, 2011**	December 31, 2010
Canada	**92%**	93%
U.S.	**2%**	1%
Europe[1]	**4%**	4%
Other	**2%**	2%
Total	**100%**	100%

[1] European Government debt represents 2% of our portfolio as at December 31, 2011 (3% as at December 31, 2010).

Our investment portfolio is mainly comprised of Canadian securities. The continued uncertainties surrounding both the economies of Europe and the U.S., combined with the deterioration of the European Government debt situation are placing pressure on the global economy. While we are closely monitoring the situation and the impact it may have on our results, our exposure to European Government debt and to the U.S. debt market remained below 5% as at December 31, 2011.

Net pre-tax unrealized gains and losses on AFS securities

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

The following table presents the net pre-tax unrealized gains (losses) on AFS securities:

Table 23 – Net pre-tax unrealized gains (losses) on AFS securities

(in millions of dollars)	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**	**December 31, 2010**
Fixed-income securities	**101**	91	40	19	37
Common shares	**44**	(43)	56	101	139
Preferred shares	**156**	156	245	281	262
Net pre-tax unrealized gain (loss) position	**301**	204	341	401	438

During the fourth quarter, our pre-tax unrealized gain position improved by $97 million. The improvement was essentially driven by an improvement in equity markets. Impairment losses of $30 million were recorded in the quarter.

Unrealized gains on equities decreased by $201 million year-over-year mainly as a result of the sale of preferred and common shares and by the impairment of certain securities for $65 million. These were offset by a $64 million increase in the value of fixed-income securities due to falling interest rates.

Gains and losses in the common share portfolio are generally realized on an ongoing basis under normal capital market conditions reflecting the trading strategy in the high-dividend common share portfolio.

Impairment recognition

Common shares classified as AFS are assessed for impairment if the current market value drops significantly below the book value, or if there has been a prolonged declined in faire value below book value. Management also assessed whether there are reasons to believe that the decline in the market value is permanent. Based on our assessment, we recorded impairment losses amounting to $30 million and $52 million in the fourth quarter and total year 2011 respectively on AFS common shares.

Table 24 - Aging of unrealized losses on AFS common shares

(in millions of dollars)	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**	**December 31, 2010**
Less than 25% below book value	**36**	50	24	8	10
More than 25% below book value for less than 6 consecutive months	**4**	44	3	2	-
More than 25% below book value for more than 6 consecutive months	**5**	-	4	-	1
Unrealized losses on AFS common shares	**45**	94	31	10	11

8.3 Claims liabilities

Assessing claims reserve adequacy

Effectively assessing claims reserve adequacy is a critical skill required to effectively manage any P&C insurance business and is a strong determinant of the long-term viability of the organization. The total claims reserve is made up of two main elements: 1) reported claim case reserves, and 2) claims that are IBNR. IBNR reserves supplement the case reserves by taking into account:

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

Case reserves and IBNR should be sufficient to cover all expected claims liabilities for events that have already occurred, whether reported or not, taking into account a PfAD and a discount for the time value of money (see Section 5.3 - *Market yield effect*). The discount is applied to the total claims reserve and adjusted on a regular basis based on changes in market yields. If market yields rise, the discount would increase and reduce total claims liabilities and therefore, positively impact net underwriting income in that period, all else being equal. If market yields decline, it would have the opposite effect. IBNR and the PfAD are reviewed and adjusted at least quarterly.

Prior year claims development (excluding MYA)

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

Table 25 – Prior year claims development

(in millions of dollars, except as otherwise noted)	Total	Accident year									
		2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001 & earlier**
Original reserve[1]		2,004	1,736	1,576	1,415	1,278	1,175	1,153	1,009	862	2,004
(Favourable) unfavourable development during Q4-2011[2]	**(38)**	(19)	1	1	(10)	(2)	(3)	(6)	(3)	(3)	6
(Favourable) unfavourable development during 2011[2]	**(223)**	(135)	4	(8)	(30)	(16)	(14)	(11)	(9)	(7)	3
As a % of original reserve[3]		(8.8)%	0.3%	(0.6)%	(2.2)%	(1.4)%	(1.2)%	(1.0)%	(0.9)%	(0.9)%	0.2%

[1] Comprises of Intact original reserve, as well as AXA Canada reserve as of September 23, 2011.
[2] Including AXA Canada.
[2] Calculated using a pro-rata to account for AXA reserve as of September 23, 2011.

Table 26 - Annualized rate of favourable prior year claims development

(annualized rate)	Q4-2011	Q4-2010	2011	2010
(Favourable) unfavourable prior year claims development (as a % of opening reserves)	**(2.8)%**	(5.3)%	**(4.9)%**	(4.8)%

Favourable prior year claims development, at 2.8% of opening reserves on an annualized basis, was less than the 5.3% recorded in Q4-2010 and below our historical level of 3%-4%. Reserves related to Ontario auto reflect the impact of a recent court decision related to the stacking of physical and psychological impairments when determining catastrophic injuries. We also continue to maintain reserves at a level consistent with the uncertainty of the potential outcomes in the mediation process.

2011 favourable prior year claims development, at 4.9% of opening reserves, was in line with 2010 and above our historical level of 3%-4%.

8.4 Shareholders' equity

Issuance of common shares

On the date of the closing of the acquisition of AXA Canada, we converted our 20,125,000 subscription receipts ("receipts") into 20,125,000 common shares. We had completed our offering of the 20,125,000 receipts at $47.80 per receipt for gross proceeds of $962 million on June 9, 2011. We incurred $42 million in share issuance costs, net of $10 million of taxes, which were accounted for as a reduction in common shares.

Issuance of preferred shares

On July 12, 2011, we issued and sold 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, we incurred $6 million in share issuance costs, net of $2 million of taxes, which were accounted for as a reduction in preferred shares.

On August 18, 2011, we completed a Series 3 offering of preferred shares by issuing and selling 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, we incurred $5 million in share issuance costs, net of $2 million of taxes, which were accounted for as a reduction in preferred shares.

Dividends

Total dividends declared and paid on common shares and preferred shares amounted to $178 million for 2011, compared to $156 million for 2010. The dividends declared for each class of actions are reported in Section 14 – *Investor information* hereafter.

NCIB program

Management believes that a buy-back program is an effective and flexible mean to return excess capital to shareholders. Over the past two years, $470 million was returned to shareholders in the form of share buy-backs at an average share price of $44.86.

On February 22, 2010, we launched a NCIB program to purchase during the next twelve months ending February 21, 2011, up to 5% of our public float. On August 5, 2010, we increased the maximum number of shares we could repurchase under the NCIB program from 5% to 10% of our public float. During 2010, 7.7 million common shares had been repurchased for cancellation under the NCIB at an average price of $44.06 per share for a total consideration of $341 million.

On February 9, 2011, we renewed our NCIB program to repurchase another 5% of our outstanding shares. The new program began on February 22, 2011 for a 12-month period. We ceased buying back shares on the day we announced the acquisition of AXA Canada and there were no repurchases since then. The NCIB expires on February 21, 2012 and the Company has decided not to renew the program immediately upon expiry.

Table 27 - Normal course issuer bid

	Maximum shares to be purchased (in units)	YTD December 31, 2011	From inception to December 31, 2011
February 22, 2010 to February 21, 2011 program	11,955,826		
Number of common shares repurchased for cancellation (in units)		**1,979,500**	9,706,502
Weighted-average price per share		**$46.69**	$44.61
Consideration paid (in millions)		**$92**	$433
February 22, 2011 to February 21, 2012 program	5,523,548		
Number of common shares repurchased for cancellation (in units)		**771,400**	771,400
Weighted-average price per share		**$47.89**	$47.89
Consideration paid (in millions)		**$37**	$37
Total for the period			
Number of common shares repurchased for cancellation (in units)		**2,750,900**	n/a
Weighted-average price per share		**$47.03**	n/a
Consideration paid (in millions)		**$129**	n/a

8.5 Employee benefit programs

We sponsor a number of defined benefit pension plans and defined contribution pension plans. We also offer paid post-retirement benefit plans providing life insurance and health and dental benefits to certain retirees, which are generally closed to active employees. We also offer post-employment benefit plans that provide health, dental, disability and life insurance coverage. The post-retirement and post-employment benefit plans are unfunded.

Table 28 – Change in net benefit liabilities

(in millions of dollars)	
Balance as at December 31, 2010	**40**
Net liability acquired from AXA Canada as at September 23, 2011	**154**
Negative impact of variations in discount rate assumptions (recognized in OCI)	**155**
Other actuarial losses (plan experience) (recognized in OCI)	**14**
Actual return on plan assets[1]	**(78)**
Employer contributions	**(64)**
Interest costs on benefit obligation	**45**
Current service costs	**38**
Amortization of past service costs	**7**
Curtailments , settlements gains and termination benefits	**(12)**
Balance as at December 31, 2011	**299**

[1] Comprised of expected return on plan assets ($48 million) recognized in income and of actuarial gains on pension plan assets ($30 million) recognized in OCI. See Note18 – *Employee benefits* to the accompanying audited Consolidated financial statements for details.

Net benefit liabilities increased sharply during 2011, mainly due to lower discount rates which went from 5.30% as at December 31, 2010, down to 4.40% as at December 31, 2011. Net benefit liabilities as at December 31, 2011 also include the net liability from the acquisition of AXA Canada.

Benefit obligations are dependent on assumptions, such as the discount rate and the rate of compensation increase. The discount rate, which is used to determine the present value of estimated future benefit payments at the measurement date, is one of the key assumptions of the calculation. We have little discretion in selecting the discount rate, as it must represent the market rate for high-quality corporate fixed-income investments available for the period to maturity of the benefits. As a result, discount rate changes are based on market conditions. A lower discount rate increases the benefit obligation. Our benefit obligations as at December 31, 2011 increased year-over-year by $155 million due to negative variations in discount rate.

The fair value of our pension plan assets amounted to $1.1 billion as at December 31, 2011, of which 57% is invested in fixed-income securities. The remaining portion is essentially invested in equity securities. Plan assets are highly dependent on the pension fund's asset performance and on the level of contributions. During 2011, we achieved a good return on plan assets of 9.4 % and we made pension contributions totalling $64 million. Based on an extrapolation of the latest actuarial valuations results of all our plans, adjusted for economic conditions at the end of the current period, our total cash contributions to the pension plans, with respect to the defined benefit component, are expected to be approximately $83 million in 2012.

Table 29 – Impact of changes in key assumptions

(in millions of dollars)	**Net liability as at December 31, 2011**
Impact of a change of 1% in key assumptions: increase (decrease)	
Discount rate:	
Increase	**(216)**
Decrease	**268**
Rate of compensation increase:	
Increase	**65**
Decrease	**(60)**

Refer to Note 18 – *Employee future benefits* to the accompanying audited Consolidated financial statements for more details on our pension plans, post-retirement and post-employment benefit plans.

Section 9 - Liquidity and capital resources

9.1 Financing of AXA Canada acquisition

In connection with the acquisition of AXA Canada, we secured long-term financing at attractive rates, despite a volatile capital market environment. The $2.6-billion acquisition was financed with the proceeds from the issuance of subscription receipts exchanged for common shares, as well as from the issuance of preferred shares and term notes, in an aggregate amount of approximately $1.9 billion. This long-term financing (excluding the common shares) was realized at a weighted-average after-tax cost of approximately 3.5%.

Table 30 – Current year long-term financing (nominal amount)

(in millions of dollars, except as otherwise noted)	Coupon	Dividend	Maturity	Total
Common shares	n/a	Discretionary	n/a	**962**
Series 1 Preferred shares	n/a	4.2%[1]	n/a	**250**
Series 3 Preferred shares	n/a	4.2%[1]	n/a	**250**
Series 3 Term notes	6.2%	n/a	July 8, 2061	**100**
Series 4 Term notes	4.7%	n/a	August 18, 2021	**300**
Total				**1,862**

[1] The dividend rate will be reset on December 31, 2017 for the Series 1 Preferred shares and on September 30, 2016 for the Series 3 Preferred shares.

The balance of the acquisition cost was funded from loans under credit facilities for an aggregate amount of $400 million, as well as from our excess capital. The payment of the contingent consideration will be funded from our cash provided by operating activities.

As a result of the acquisition funding structure, we ended the year 2011 with a debt-to-total-capital ratio of 22.9%, temporarily above our target of 20%.

We intend to allocate most of the $300-million proceeds from the sale of AXA Life towards the term loan facility used. As a result, our debt-to-total-capital ratio is expected to be back in line with our target early in 2012.

Term Notes

On July 8, 2011, as part of the AXA Canada acquisition financing, by way of a private placement in Canada, we issued $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 August 18, 2011, also as part of the AXA Canada acquisition financing, we completed an offering of $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 with this offering, we entered into future contracts to manage the interest risk on a portion of the notes for the period from the announcement to the offering closing. These futures were designated as a cash flow hedge and terminated on August 12, 2011. The effective interest rate including the impact of the hedge is 5.0%.

Acquisition credit facilities

On September 23, 2011, to fund a portion of the purchase price for the acquisition of AXA Canada, we obtained a loan of $100 million from a two-year term loan facility (the "Tranche A Facility") and obtained a loan of $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.

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

9.2 Financing strategy

The Company does not generally require financing for its operations. It uses financing instruments, with a preference for long tenures, to optimize its balance sheet or to support growth initiatives. We believe our optimal capital structure is one where the debt-to-capital ratio is 20% and we intend to operate at this level or below on an ongoing basis. We may exceed this level from time to time to capture market opportunities, but we will strive to return to our target within a reasonable time frame.

9.3 Revolving term credit facility

Effective September 23, 2011, we obtained a four-year unsecured revolving term credit facility of $250 million which matures on September 23, 2015 in replacement of a previous revolving term facility of $250 million that was expected 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 and 2010, we had not drawn down under this facility. This facility will be used for temporary funding purposes that may occur from time to time.

9.4 Credit ratings

Following the acquisition of AXA Canada, DBRS affirmed our rating mainly based on the strategic fit, strong financial performance of AXA Canada, robust projected pro forma earnings coverage and our intention to reduce leverage over the near term. Moody's downgraded IFC and its regulated subsidiaries by one notch as they believe that benefits from the enhanced business profile are offset by higher leverage and a significant increase in goodwill and intangible assets. A.M. Best placed IFC and its regulated subsidiaries under review with negative implications to reflect increased financial leverage, significant amount of goodwill and intangible assets and execution risk associated with the integration. A.M. Best placed former AXA Canada's regulated subsidiaries under review with developing implications. The ratings will remain under review until A.M. Best conducts further analysis and discussions with management.

Table 31 Financial strength ratings and credit ratings

	A. M. Best	Moody's	DBRS
Credit ratings of IFC	**a-**	**Baa1**	**A (low)**
Financial strength ratings of Intact's insurance subsidiaries	**A+**	**A1**	**n/a**
Financial strength ratings of former AXA Canada's insurance subsidiaries	**A**	**n/a**	**n/a**

9.5 Base shelf prospectus and medium-term note supplement

On July 5, 2011, we filed a final short form base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada that will allow us to offer up to $2.5 billion in any combination of debt, preferred or common share securities, subscription receipts, warrants, share purchase contracts and units over the following 25 months. This prospectus replaces a similar one filed in May 2009, which expired in June 2011. We also filed a supplement to our base shelf prospectus to establish a medium term note ("MTN") program that would allow us to issue up to $750 million in unsecured MTN. The Series 3 Preferred Shares and the Series 4 notes offerings were completed under the base shelf prospectus and the MTN supplement such that the amounts available under the respective prospectuses are $1.95 billion and $450 million. We filed these prospectuses to expedite our access to capital markets should the need arise.

9.6 Cash flows

Table 32 – Selected inflows (outflows)

(in millions of dollars)	Q4-2011	Q4-2010	Change	2011	2010	Change
Operating activities:						
Cash provided by (used in) operating activities	**94**	113	(19)	**529**	360	169
Investing activities:						
Business combination, net of cash acquired	**-**	-	-	**(2,546)**	-	(2,546)
Net cash inflows (outflows) from sales (purchases) of investments	**4**	(82)	86	**266**	196	70
Net purchases of brokerages and books of business and property and equipment	**(11)**	(28)	17	**(66)**	(79)	13
Financing activities:						
Net proceeds from issuance of debt	**-**	-	-	**797**	98	699
Proceeds from issuance of common shares	**(1)**	-	(1)	**910**	-	910
Proceeds from issuance of preferred shares	**-**	-	-	**485**	-	485
Common shares repurchased for cancellation	**-**	(37)	37	**(129)**	(341)	212
Dividends paid	**(53)**	(38)	(15)	**(178)**	(156)	(22)
Change in cash and cash equivalents during the period	**33**	(72)	105	**68**	78	(10)

During 2011 cash provided by operating activities, as well as the proceeds from the issuance of debt, subscription receipts exchanged for common shares, as well as issuance of preferred shares were mainly used for the acquisition of AXA Canada, the payment of dividends and the repurchase of common shares under the NCIB program.

9.7 Contractual obligations

Table 33 – Contractual obligations

		Payments due by period			
(in millions of dollars)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Debt outstanding[1]	**1,300**	-	400	-	900
Claims liabilities[2]	**4,247**	1,843	994	629	781
Operating leases on premises and equipment	**443**	98	141	94	110
Pension obligations[3]	**119**	28	49	14	28
Total contractual obligations	**6,109**	1,969	1,584	737	1,819

[1] Capital only
[2] Reported claims case reserves
[3] These amounts represent the annual mandatory funding required by OSFI, based on December 31, 2010 actuarial valuations.

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

Section 10 - Capital management

10.1 Capital management objectives

Our objectives when managing capital consist of balancing the need to:

- support claims liabilities and ensure the confidence of policyholders,
- support competitive pricing strategies,
- meet regulatory capital requirements,
- provide adequate returns for our shareholders, and
- maintain a leadership position in the Canadian P&C insurance industry.

Our capital is managed on a consolidated basis, as well as individually for each regulated subsidiary. Our federally chartered P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI, the AMF and the ICA. Provincially chartered subsidiaries are subject to the requirements set by the AMF and the Act respecting insurance (Quebec). OSFI and AMF have established a 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 we attain our objectives, we have established an internal target of 170% in excess of which, under normal circumstances, we will maintain our capital.

Total capital available and total capital required represent amounts applicable to our 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 classifying assets and liabilities into categories and applying prescribed risk factors to each category. We have 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.

MCT guidelines change from time to time and may impact our capital levels. We therefore monitor all changes, actual or planned very carefully. At this point in time, we do not foresee any significant impact to our capital levels from the implementation of new MCT guidelines recently published.

The following table presents our combined MCT ratio including all our Canadian insurance subsidiaries as at December 31:

Table 34 - Combined MCT

(in millions of dollars, except as otherwise noted)	2011[1]	2010
Total capital available	**3,285**	2,969
Total capital required	**1,668**	1,272
MCT %	**197%**	233%
Excess capital at 100%	**1,617**	1,697
Excess capital at 150%	**783**	1,061
Excess capital at 170%	**449**	807

[1] Estimated.

Our MCT level as at December 31, 2011 remained solid at an estimated 197%. The decrease from December 31, 2010 mainly reflects the decrease in excess capital due to funding of the AXA Canada acquisition, the integration and restructuring costs and the recording of the contingent consideration payable to AXA SA.

As at December 31, 2011, our P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements, as well as above internal targets.

We had a total of $435 million in excess capital over an MCT of 170% as at December 31, 2011, compared to total excess capital of $809 million as at December 31, 2010. The decline in excess capital position mainly reflects capital used to fund the acquisition of AXA Canada.

We maintain adequate excess capital levels designed to ensure we never breach the regulatory minimum requirements. Such levels may vary over time depending on our perception of risks and the potential impact on capital. For example, during periods of

high volatility in capital markets, we will maintain higher capital levels to absorb fluctuations in equity markets or interest rates. We will also keep higher levels of excess capital if we foresee growth or acquisition opportunities in the mid-term. Finally, we will return excess capital to shareholders firstly through annual dividend increases and through buy-backs. We intend to increase our dividends annually, albeit at a conservative pace to respect the volatility of the insurance business. We prefer to use buy-backs to return larger amounts of capital since they allow us to control the pace of execution.

10.2 MCT sensitivity

The MCT is impacted by many factors including changes in equity market performance, interest rates and underwriting profitability. Based on our estimated MCT of 197% as at December 31, 2011, the following table sets out the estimated immediate impact or sensitivity of our MCT ratio to certain sudden but independent changes in interest rates and equity market prices as at December 31, 2011. Actual results can differ materially from these estimates for a variety of reasons and therefore these sensitivities should be considered as directional estimates of the underlying factors.

Table 35 - MCT Sensitivity

	Interest rate [1] 1% increase	**Equity markets [2] 10% decline**
MCT Impact [(3)]	**(5)%**	**(3)%**

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

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

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

Annually, we perform Dynamic Capital Adequacy Testing on the MCT to ensure that we have sufficient capital to withstand significant adverse event scenarios. We review these scenarios each year to ensure appropriate risks are included in the testing process. The 2011 results indicated that our capital position is strong. In addition, our target, actual and forecasted capital position is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

Section 11 - Risk management

11.1 Introduction

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

Effective risk management rests on identifying, understanding and communicating all risks 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 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 and the processes for managing and mitigating them is outlined below.

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

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

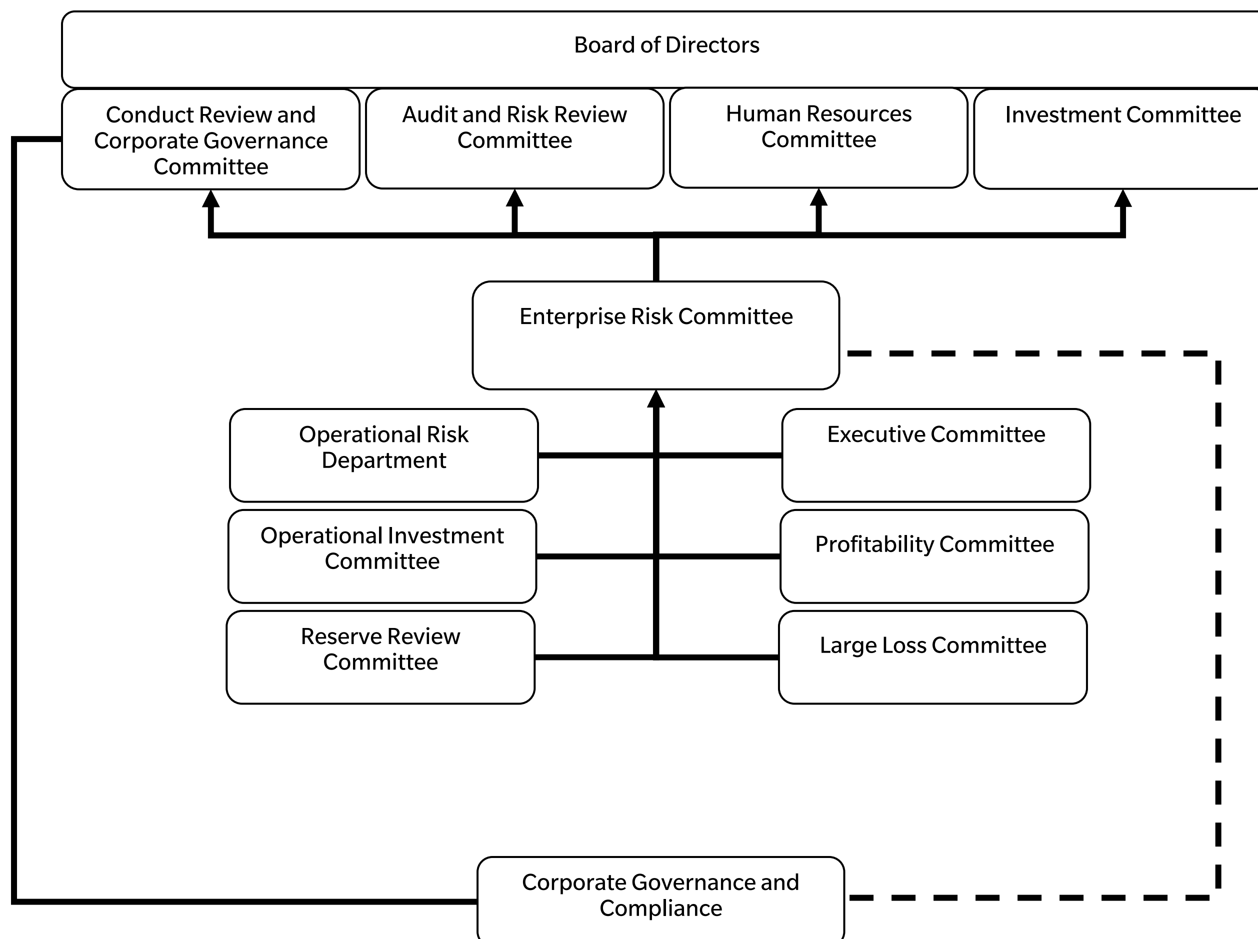
11.2 Risk management structure

The Board of Directors is ultimately responsible for overseeing the Company's risk-taking activities and risk management programs and is supported by the following committees to ensure that risks are being properly measured, monitored and reported:

– ***Audit and Risk Review Committee*:** this committee is composed exclusively of independent members of our Board of Directors and is chaired by an independent director. In addition to its audit committee functions, which include the review of financial information and the monitoring of internal controls, this committee reviews trends and key risk positions and exposures, risk management programs, practices and internal controls and compliance with key operational risk policies and limits.
– ***Conduct Review and Corporate Governance Committee:*** this committee is composed exclusively of independent members of our Board of Directors and is chaired by an independent director. This committee reviews, approves or makes recommendations to our Board of Directors with respect to related party transactions, compliance and market conduct programs and policies, including the resolution of conflicts of interests, and restrictions on the use of confidential information.
– ***Human Resources Committee:*** this committee is composed exclusively of independent members of our Board of Directors and is chaired by an independent director. This committee oversees the management of the Company in relation to human resources matters, including compensation of employees, management and executives as well as assessment of the Chief Executive Officer and senior executives and succession plan. This committee also addresses the compensation practices of the Company against the compensation practices itemized in the Financial Stability Board program, the best practices recommended by governance associations and regulatory requirements and in this regard assesses the risks of the Company's practices after receiving the Chief Risk Officer's report and recommendations.
– ***Investment Committee:*** this committee is composed of a majority of independent members of our Board of Directors with expertise in capital markets and related areas and is chaired by an independent director. The role of this committee is to advise the Company on the investment strategies that are appropriate in the context of the Company and its subsidiaries' activities as well as for the pension plans. The main functions of this committee are to recommend to the Board of Directors the adoption of investment policies aimed at supporting the Company and its subsidiaries in meeting their financial obligations while optimizing risk and return, and minimizing the potential for large losses.
– ***Enterprise Risk Committee*** *(see figure 1)*: this committee is composed of senior officers and is chaired by the Chief Risk Officer designated by our Board of Directors. It meets at least on a quarterly basis and oversees and endorses our risk management priorities, assesses the effectiveness of risk management programs, policies and actions of each key function of our business and reports on a quarterly basis to the Audit and Risk Review committee, and semi-annually to our Board of Directors. The committee evaluates our overall risk profile, aiming for a balance between risk, return, and capital, and approves risk policies. The committee is mandated to: (i) identify risks that could materially affect our business; (ii) measure risks from a financial or other impact standpoint, such as reputation; (iii) monitor risks; and (iv) manages risk in accordance with the risk tolerance level determined by our Board of Directors. Periodically, this committee may establish sub-committees to review specific subjects in greater detail and report back on its findings and recommendations. This allows the committee to access the expertise throughout the Company and to operate more efficiently in addressing key risks.
– ***Corporate Governance and Compliance Department*:** this department, under the direction of the Chief Legal Officer, acts independently from operations for various functions, including privacy matters, dealings with the Ombudsman office and public company matters, and reports directly to a committee of the Board of Directors for these functions. This department works closely with and reports any issues or risks it identifies in the course of its functions, to the risk management function.

In addition, the Company has other committees responsible for managing, monitoring and reviewing specific aspects of risk related to our operations, investments, profitability, insurance operations, security and business continuity. Further details on how these committees operate, ensure compliance with laws and regulations and report to the Enterprise Risk Committee follow.

Table 36 - Figure 1: Risk management structure



11.3 Corporate governance ensuring compliance with laws and regulatory requirements

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

- The Board of Directors and its committees are structured in accordance with sound corporate governance standards. Directors are presented with relevant information in all areas of the Company's operations to enable them to effectively oversee the Company's management, business objectives and risks.
- Disclosure controls and processes have been put into place so that relevant information is obtained and communicated to senior management and the Board of Directors to ensure that the Company meets its disclosure obligations while protecting the confidentiality of information. A decision-making process through the Disclosure Committee is also in place to facilitate timely and accurate public disclosure.

- Effective corporate governance depends on sound corporate compliance structures and processes. The Company has established an enterprise-wide Compliance Policy and framework including procedures and policies necessary to ensure adherence to laws, regulations and related obligations. Compliance activities include identification, mitigation and monitoring of compliance/reputation risks, as well as communication, education, and activities to promote a culture of compliance and ethical business conduct.
- The Board of Directors and the Audit and Risk Review Committee periodically receive reports on all important litigation, whether in the ordinary course of business where such litigation may have a material adverse effect, or outside the ordinary course of business.
- To manage the risks associated with compliance, regulatory, legal and litigation issues, the Company has specialized resources, reporting to the Chief Legal Officer that remain independent of operations. The Chief Legal Officer reports directly to the Chief Executive Officer and to the Board of Directors and its Committees on such matters, including with respect to privacy and Ombudsman complaints. The Company also uses third party legal experts and takes provisions when deemed necessary or appropriate.

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

11.4 Ensuring risk management in the operations

Our internal structure is designed to enable the risk management teams, together with operations, to build a sustainable competitive advantage by fully integrating risk management in our daily business activities and strategic planning. Intact believes that each of the employees and management teams is responsible for taking the appropriate action to mitigate risks and ensure compliance with all legal and regulatory requirements:

- Heads of departments have primary responsibility and accountability for the effective control of risks/challenges affecting their respective departments. They are responsible for the execution of the risk management policies set by the Enterprise Risk Committee.
- Risk management members exercise their functions to partner with and support heads of department in the execution of risk management activities. Risk management oversight functions are carried out independently from the management team that originates the risk exposures. Examples of typical activities include the following:
  - Overseeing and objectively challenging the execution of risk management activities;
  - Monitoring the key risks of the business;
  - Having the authority to escalate risk management issues to a higher level and vetoing high risk business activity;
  - Allocating specific accountability for risk responses;
  - Enforcing compliance with the risk policies.
- The Internal Audit department provides an independent review of the design and effectiveness of internal controls over the Company's business operational risks. In carrying out this work, this department provides specific recommendations for improving the governance, risk and control framework.
- The Corporate governance and compliance department reviews, analyzes and reports current and developing legal and regulatory requirements in order to ensure continued compliance.

11.5 Main risk factors and mitigating actions

The Company's main risk factors together with the Company's risk management practices used to mitigate these risks are explained below.

Investment related risks

Market risk

Movements in short-term and long-term interest rates, credit spreads, foreign exchange rates and equity prices cause changes in realized and unrealized gains and losses. Generally, the Company's interest and dividend income will be reduced during sustained periods of lower interest rates and will likely result in unrealized gains in the value of fixed-income securities the Company continues to hold, as well as realized gains to the extent the relevant securities are sold. During periods of rising interest rates, the fair value of the Company's existing fixed-income securities will generally decrease and its realized gains on fixed-income

securities will likely be reduced or result in realized losses. Changes in credit spreads would have similar impacts as those described above for changes in interest rates. Currently, interest rates are at the low end of the range over the last half century. In this context, purchases of fixed income securities will likely be at lower yields than several years ago putting downward pressure on investment income.

General economic conditions, political conditions and many other factors can also adversely affect the equity markets and, consequently, the fair value of the equity securities the Company owns and ultimately affects the timing and level of realized gains or losses. The financial crisis of 2008 provides an example of an event with a significant adverse impact on the Company's financial condition. During the crisis, several financial institutions failed or received government assistance and many others experienced significant distress. Most equity investments and some corporate fixed income securities declined significantly in value while sovereign government bond yields fell. Some of the Company's investments were negatively impacted by these events resulting in losses. The potential contagion of the European Sovereign Debt crisis is another example of an event that could materially affect the value of the Company's investments.

While our strategy is long-term in nature, it is reviewed periodically to adapt to the investment environment when necessary, especially in times of turbulence and increased volatility. Periodically, the Company employs several risk mitigation measures such as changes to its strategic asset mix, hedging of interest rate or equity risk and increased holdings in cash. These actions serve to reduce exposures in the investment portfolio and decrease the sensitivity of the MCT ratio to financial market volatility.

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

For example, a 100-basis-point increase in interest rates would increase income before taxes by approximately $7 million for the Company's AFS fixed income securities or preferred securities, as a result of marking to market the written call option liabilities embedded in the Company's redeemable preferred shares and the marking to market of derivatives positions. A 100-basis-point increase would also decrease OCI by approximately $188 million. Conversely, a 100-basis-point decrease in interest rates would decrease net income before income tax expense and increase OCI by the same amounts, respectively. The impacts described here are approximately linearly related to the change in interest rates.

Furthermore, a 10% increase in common shares and a 5% increase in preferred shares would decrease net income before income tax expense by $20 million, as a result of marking to market the written call option liabilities embedded in the Company's redeemable preferred shares. However, it would result in a linear increase of OCI by $187 million. Conversely, a 10% decrease in equity prices and a 5% decrease in preferred shares would increase net income before income tax expense and decrease OCI by the same amounts, respectively. The impacts described here are approximately linearly related to the change in the equity market.
The above sensitivity analyses were prepared using key assumptions as described below:

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

The Company also uses stress tests to determine the impact of various market scenarios on its financial and capital position. (See MCT monitoring discussion in Section 10 - *Capital management*).

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. The Company also monitors and reviews the duration of its fixed income securities and its policy liabilities to ensure any duration mismatch is within acceptable tolerances.

The rate of currency exchange may also have an unintended effect on earnings and equity when measured in domestic currency. Although the Company is exposed to some foreign exchange risks arising from securities in some of its US dollar-denominated assets, 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.

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 fixed income portfolios, preferred share portfolios, over the counter derivatives and, to a lesser extent, in its reinsurance recoverables and annuity agreements entered into with various life insurance companies.

The Company's risk management strategy is to invest in fixed income 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. See Tables 20 and 21 for more details on the breakdown of credit quality of fixed income securities and preferred shares. In addition, the Company sets limits on the total credit exposure across all assets classes including both on and off balance sheet exposures.

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. See Table19 for more details on the breakdown of investments by economic sector.

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. In addition, the Company may be subject to wrong-way risk arising from certain derivative transactions. Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

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 us. 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 Company enters into annuity agreements with various Canadian life insurance companies which have credit ratings of at least A- or higher, to provide for fixed and recurring payments to claimants. Under such arrangements, the Company derecognizes the liability from its audited consolidated balance sheet as the liability to its claimants is substantially discharged, although the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations.

Use of derivatives

The Company uses derivatives principally to mitigate certain of the above mentioned risks. 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.

Insurance related risks

Reserve adequacy risk

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

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

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

We continually refine our reserve estimates in an ongoing process as claims are reported and settled. Establishing an appropriate level of reserves is an inherently uncertain process. The following factors may have a substantial impact on our future actual losses and loss adjustment expenses experience:

– the amounts of claims payments;
– the expenses that we incur in resolving claims;
– legislative and judicial developments; and
– changes in economic conditions, including inflation.

To the extent that actual losses and loss adjustment expenses exceed our expectations and the reserves reflected in our audited Consolidated financial statements, we will be required to reflect those changes by increasing our reserves. In addition, government regulators could require that we increase our reserves if they determine that our reserves were understated in the past. When we increase reserves, our pre-tax income for the period in which we do so will decrease by a corresponding amount. In addition, increasing or "strengthening" reserves causes a reduction in our insurance subsidiaries' capital and could cause a downgrading of the financial strength ratings of our insurance subsidiaries. Any such downgrade could, in turn, adversely affect our ability to sell insurance policies.

Business cycle risk

The P&C insurance industry is cyclical, and we may witness changes in the appetite and underwriting capacity of our competitors, depending on their own loss experience and results. This would have different impacts on pricing and our ability to write new business. The industry's profitability can be affected significantly by:

- competition;
- availability of capital to support the assumption of new business;
- rising levels of actual costs that are unforeseen by companies at the time they price their products;
- volatile and unpredictable developments, including unnatural, weather-related and other natural catastrophes or terrorists' attacks;
- changes in loss reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop;
- changes in insurance and tax laws and regulations as well as new legislative initiatives;
- general economic conditions, such as fluctuations in interest rates, inflation and other changes in the investment environment, which affect returns on invested capital and may impact the ultimate payout of loss amounts;
- general industry practices.

The financial performance of the P&C insurance industry has historically tended to fluctuate in cyclical patterns of "soft" markets generally characterized by increased competition resulting in lower premium rates and underwriting standards followed by "hard" markets generally characterized by lessening competition, stricter underwriting standards and increasing premiums rates. Our profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on our results of operations and financial condition.

Catastrophic events risk

2011 has been particularly difficult for reinsurers, who had to deal with many catastrophes around the world. It started with two earthquakes in New Zealand and another one in Japan (followed by a huge tsunami) but they were also heavily impacted by other events such as wind storms in the U.S. and floods in Thailand. The occurrence and severity of these types of natural disasters may be affected by climate change and may take different forms, including hurricanes, wind storms, earthquakes, hailstorms, rainstorms, ice storms, floods, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, explosions, crashes and derailments. Despite the use of "models", the incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines. For example, the ice storm in Eastern Canada in 1998 or more recently the wildfires in Slave Lake in May 2011 caused P&C insurance losses in several lines of business, including business interruption, personal property, automobile and commercial property.

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

The Company's risk management strategy involves monitoring insured value accumulation and concentration of risks, catastrophe scenario modeling, and reinsurance. It also explains why the distribution of risk amongst an appropriate number of reinsurers is such a key strategy for the Company. See Section 11.6 for more details on the Company's reinsurance program

Climate change risk

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

To address this issue, the Company has launched several initiatives including pricing and product changes to reflect new climate realities, a home insurance action plan, a review of claims processes and a greater focus on consumer loss prevention and education.

Since 2010, the Company has been associated with the University of Waterloo in order to learn from climate change studies on the impact of such changes.

Reinsurance

We use reinsurance to help manage our exposure to insurance risks. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect our premium volume and profitability. The frequency of important events in 2011 clearly shows the impact it can have on the Reinsurers' situation and therefore on the conditions and support provided. Reinsurance companies may exclude some coverage from the policies that we purchase from them or may alter the terms of such policies from time to time. For example, following the terrorist attacks of September 11, 2001, some reinsurers excluded coverage for terrorist acts or priced such coverage at prohibitively high rates. These gaps in reinsurance protection expose us to greater risks and greater potential losses and could adversely affect our ability to write future business. We may not be able to successfully mitigate risks through reinsurance arrangements, which could cause us to reduce our premiums written in certain lines or could result in losses. We align as closely as possible the insurance and reinsurance terms and conditions to minimize these gaps.

As previously described, we are supported by a number of reinsurers who may be affected by difficult situations and results. This increases the potential adverse effect on our results of operations if one or more of our reinsurers are unable to meet their financial obligations. Although all of our reinsurers have, amongst other criteria, a minimum financial strength rating of "A-" from A.M. Best and/or S&P at the time of entering into reinsurance arrangements with us, these ratings are subject to change and may be downgraded. Although reinsurance makes the assuming reinsurer liable to us to the extent of the risk ceded, we are not relieved of our primary liability to our policyholders as the direct insurer. As a result, we bear credit risk with respect to our reinsurers. Despite our efforts to monitor the overall situation with our reinsurers, including a regular review of the accounts payable due to our organization, there is no certainty that our reinsurers will pay all reinsurance claims on a timely basis or at all. We evaluate each reinsurance claim based on the facts of the case, historical experience with the reinsurer for similar claims under existing law, and provide for reinsurance amounts deemed uncollectible in our reserves. Other details regarding reinsurance are also included at Section 11.6.

Competition risk

The P&C insurance industry is highly competitive and intense competition for our insurance products could harm our ability to maintain or increase our profitability, premium levels and written insured risk volume. We believe that the industry will remain highly competitive in the foreseeable future. We also believe that competition in our business lines is based on price, service, commission structure, product features, financial strength and scale, ability to pay claims, ratings, reputation and name or brand recognition. We compete with a large number of domestic and foreign insurers as well as with different Canadian banks that are selling insurance products. These firms may use business models different to ours and sell products through various distribution channels, including brokers and agents who sell products exclusively for one insurer and directly to the consumer. We compete not only for business and individual customers, employers and other group customers but also for brokers and other distributors of investment and insurance products.

In addition, we may not be aware of other companies that may be planning to enter the insurance market or existing insurers that may be planning to raise additional capital. Also, as it occurred in 2010, competitors may add to their offer or try to increase their market share by acquisition, which could have an impact on our capacity to better compete. Any new, proposed or potential legislative or industry development could further increase competition in our markets. We cannot be sure that we will be able to achieve or maintain any particular level of DPW in this competitive environment.

Underwriting ability risk

Our performance depends on our ability to reduce financial loss resulting from the selection of risks to be insured and management of contract clauses. Unfavourable results in these areas can lead to deviations from the estimates based on actuarial assumptions. The Company has adopted policies which specify the Company's retention limits and risk tolerance and its application depends on training and the discipline of our underwriting teams. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk. Moreover, our profitability and ability to grow may also be adversely affected by our mandatory participation in the Facility Association in Canada's automobile insurance markets.

Product and pricing risk

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

New products are reviewed by Senior Management and the risk is primarily managed by regularly analyzing the pricing adequacy of the Company's products as compared to recent experience. The pricing assumptions are revised as needed and/or the various options offered by the reinsurance market are utilized.

Operational and strategic risks

These risks are essentially resulting from inadequate or failed processes, people and systems or from external events. These include events such as unauthorized activity, internal and external criminal activity, and information security failure, among others.

We believe that managing the risks related to the Company's business activities significantly reduces losses resulting from failed processes, procedures or controls, inadequate systems, human errors, fraud or external events such as natural disasters. To manage these risks, the Company follows a specific framework that is composed of different steps including identification, measurement, monitoring and mitigation.

For early detection of and clear insight into the Company's key operational risks or any other related type of risks, the Risk Management team uses many tools including periodic risk review interviews with management and risk and control self-assessments of the Company's critical functions. It also monitors and measures the Company's risks on an ongoing basis through key risk indicators which enable management to proactively initiate effective actions. The Company has also developed clear incident reporting channels within the organization to systematically report, manage and monitor operational incidents which could lead to potential financial losses or reputation damage. Ongoing training and exercises provided to all employees also contribute to increasing the operational risk awareness culture within the organization and minimizing the severity and occurrence of incidents.

The effective implementation of the overall operational risk management program depends on management. Management is supported by the Risk Management department which assists in monitoring the risk processes and ensuring that appropriate actions are taken when necessary. The operational risk management department reports to the Enterprise Risk Committee. The committee has the oversight responsibility for all enterprise risks and risk governance within the organization. Finally, to ensure transparency, the committee provides regular updates of its operations to the Audit and Risk Review Committee and the Board of Directors.

Strategy implementation risk

In order to seek profitable growth and maximize shareholders' returns, we intend to invest significant resources in expanding our core businesses and implementing our strategies. We cannot be sure that we will continue to succeed in implementing our strategies. We may experience difficulty in executing our strategies because of, among other things, increased competition, difficulty in developing and introducing new products, adverse economic conditions, changes in regulatory requirements and difficulty in our relationships with our distribution networks and insured clients. To help mitigate these risks, the Company relies extensively on technology to improve the Company's capacity to deliver our services.

In executing our growth strategy, we intend to continue to expand our operations and business in part by acquiring additional P&C insurance businesses or companies that distribute P&C insurance products. The acquisition of AXA Canada in 2011 is a prime example of this strategy. However, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on our business, results of operations and financial condition. We cannot be sure that any acquired businesses will achieve the anticipated revenues, income and synergies. Acquisitions could also result in potentially dilutive issuances of equity securities. Failure on our part to manage our acquisition strategy successfully could have a material adverse effect on our business, results of operations and financial condition. In addition, the Company may make acquisitions or invest in businesses outside of Canada. These activities may incur additional risks including specific country risk. We cannot be sure that we will be able to identify appropriate targets, profitably manage additional businesses or successfully integrate any acquired business into our operations.

With respect to the acquisition of AXA Canada, the Company is faced with a number of integration risks including but not limited to:

- the inability to achieve planned synergies on expenses;
- challenges in harmonizing technological systems and processes;
- the inability to retain sufficient business or a deterioration in the profitability of AXA Canada's insurance results. Under certain adverse circumstances, this may lead to a write down of goodwill associated with the transaction; and
- a departure of key employees during the integration phase.

The Company mitigates some of the strategy implementation risks through formal processes and approvals which include:

- obtaining our Board of Directors' final approval of the medium term plan, which provides for strategic planning and capital allocation, and includes risk management analysis;
- having the financial and operational reports reviewed by the Audit and Risk Review Committee and our Board of Directors on a quarterly basis;
- having each of our business units develop detailed business plans, which are then executed by local management;
- having each significant acquisition reviewed and approved by our Board of Directors;
- oversight and management by the Enterprise Risk Management Committee; and
- maintaining high standards of conduct through distribution of our Code of Conduct to all new employees and through periodic reminders to all employees and training sessions.

Business interruption risk

We may also experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events, an example of which being a global flu pandemic (e.g. H1N1). Our operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. If our business continuity plans cannot be put into action or do not take such events into account, losses may increase further.

In order to maintain the integrity and continuity of the Company's operations in the event of a crisis, we have developed personalized alert and mobilization procedures as well as communication protocols. For example, emergency action plans, business continuity plans, business recovery plans, major health crisis plans, building evacuation plans and crisis communication plans have all been defined and are tested on an ongoing basis. This process is supported by a crisis management structure adapted to our Company's organization and to the type of events we may have to manage.

Distribution risk

Distribution risk is the risk related to the distribution of the Company's P&C insurance products. It includes the inherent risk of dealing with independent distributors, the risk related to new market entrants and the risk associated with the Company's multiple distribution channel strategy. We may also face the risk that one of our channels or business models would not be sustainable in a specific market or context.

We distribute our products primarily through a network of brokers and a great part of our success depends on the capacity of this network to be competitive against other distributors, including "direct" insurers, as well as our ability to maintain our business relationships with them while developing our distribution network strategy.

These brokers sell our competitors' insurance products and may stop selling our insurance products altogether. Strong competition exists among insurers for brokers with demonstrated ability to sell insurance products. Premium volume and profitability could be materially adversely affected if there is a material decrease in the number of brokers that choose to sell our insurance products. In addition, our strategy of distributing through the direct channel may adversely impact our relationship with brokers who distribute our products.

From time to time the Company issues loans or takes equity participation in certain brokers and by doing so, the Company exposes itself to financial risk and to potential relationship issues. In order to maintain strong relationships with brokers, each relationship is managed by officers in each of the main regions in which we operate. To mitigate the financial risk the Company generally receives guarantees and uses standard agreements which contain general security and oversight clauses. The Board of Directors participates in this oversight process by reviewing these loan and equity arrangements annually. For different considerations, the broker' channel has been in a consolidation mode for the last few years and we believe that this situation will continue for the next few years. The acquisition of brokers by others or even by insurers may impact our relationship with some of them and jeopardize our ability to grow our business.

The Company has established and maintains close relationships with its independent distributors by providing technology and training to help strengthen their market position. It closely monitors pricing gaps between its various channels and manages the different channels under different brand names including BrokerLink, its wholly owned broker network.

Regulation and legal risk

Our insurance subsidiaries are subject to regulation and supervision by insurance regulatory authorities of the jurisdictions in which they are incorporated and licensed to conduct business. These laws and regulations delegate regulatory, supervisory and administrative powers to federal, provincial and territorial insurance commissioners and agencies. Such laws and regulations are generally designed to protect policyholders and creditors rather than shareholders, and are related to matters including:

- personal auto insurance rate setting;
- risk-based capital and solvency standards;
- restrictions on types of investments;
- the maintenance of adequate reserves for unearned premiums and unpaid claims;
- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- the licensing of insurers, agents and brokers;
- limitations on dividends and transactions with affiliates; and
- regulatory actions.

We believe that our insurance subsidiaries are in material compliance with all applicable regulatory requirements. It is not possible to predict the future impact of changing federal, provincial and territorial regulations on our operations, and we cannot be sure that laws and regulations enacted in the future will not be more restrictive than current laws. Overall, our business is heavily regulated and changes in regulation may reduce our profitability and limit our growth.

In addition, these laws and regulations typically require us to periodically file financial statements and annual reports, prepared on a statutory accounting basis, and other information with insurance regulatory authorities, including information concerning our capital structure, ownership and financial condition including, on an annual basis, the aggregate amount of contingent commissions paid and general business operations. We could be subject to regulatory actions, sanctions and fines if a regulatory authority believed we had failed to comply with any applicable law or regulation. Any such failure to comply with applicable laws could result in the imposition of significant restrictions on our ability to do business or significant penalties, which could adversely affect our reputation, results of operations and financial condition. In addition, any changes in laws and regulations, including the adoption of consumer or other initiatives regarding contingent and other commissions, rates charged for automobile or claims handling procedures, could materially adversely affect our business, results of operations and financial condition.

In addition to the occasional employment-related litigation, we are a defendant in a number of claims relating to our insurance and other related business operations. We may from time to time be subject to a variety of legal and regulatory actions relating to our current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication;
- disputes regarding sales practices, disclosures, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with our agents, brokers or network providers over compensation and termination of contracts and related claims;
- regulatory actions relating to consumer pressure in relation to benefits realized by insurers;
- disputes with taxing authorities regarding our tax liabilities and tax assets; and
- disputes relating to certain businesses acquired or disposed of by us.

Plaintiffs may also continue to bring new types of legal claims against the Company. Current and future court decisions and legislative activity may increase our exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could have a material adverse effect on our results of operations and financial condition. Unfavourable claim rulings may render fair settlements more difficult to reach. We cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our businesses.

We may be subject to governmental or administrative investigations and proceedings in the context of our highly regulated sectors of activity. We cannot predict the outcome of these investigations, proceedings and reviews, and cannot be sure that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect our results of operations and financial condition. In addition, if we were to experience difficulties with our relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on our ability to do business in that jurisdiction and the price of the Company's common shares.

We are supported by an in-house team of lawyers and staff, and by outside counsel when deemed necessary or appropriate, in handling general regulation and litigation issues and are an active member of the major industry associations. Additionally, our government relations team ensures contact with the governments of the various jurisdictions in which we operate, and can be proactive in situations that could affect our business.

In addition, the profitability of automobile insurers can be significantly affected by many factors, including:

- regulatory regimes which limit their ability to detect and defend against fraudulent claims and fraud rings;
- developing trends in tort and class action litigation;
- changes in other laws or regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims handling procedures; and
- privacy and consumer protection laws that prevent insurers from assessing risks or factors that have a high correlation with risks considered, such as credit scoring.

General economic, financial market and political conditions

Our businesses and profitability may be materially adversely affected from time to time by general economic, financial market and political conditions. In periods of economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, individuals and businesses may choose not to purchase insurance products, may allow existing policies to lapse, or may choose to reduce the amount of coverage purchased. In addition to the demand for our insurance products being adversely affected, frequency or severity of claims could increase, resulting in lower earnings. General inflationary pressures may affect the costs of medical care, automobile parts and repair, construction and other items, and may increase the costs of paying claims.

In addition to the risk related to investments discussed previously, an economic downturn could have a significant impact on the financial condition of the Company's defined benefit employee pension plans. Consequently, this could impact the Company's financial condition.

Solvency risk

Regulatory authorities closely monitor the solvency of insurance companies by requiring them to comply with strict solvency standards based on the risk assumed by each company with respect to asset composition, liability composition, and the matching between these two components. The Company is required to submit regular reports to the regulatory authorities regarding its solvency, and publish its solvency ratio every quarter. The minimum solvency ratio targeted by the Company is 170%, which is higher than the regulatory MCT requirement of 150%. The appointed actuary must present an annual report to the Audit And Risk Review Committee and the Enterprise Risk Committee on the Company's current and future solvency and mitigating measures. In 2011, the Company adopted a capital management policy. The policy contains guidelines to help ensure that the Company maintains adequate capital to withstand adverse event scenarios and has documented procedures to take corrective action should any unanticipated conditions arise.

Reputation risk

Our insurance products and services are ultimately distributed to individual consumers and businesses. From time to time, consumer advocacy groups or the media may focus attention on our products and services, thereby subjecting us or our subsidiaries to periodic negative publicity. We also may be negatively impacted in relation to our information systems, security and technology, or if one of our subsidiaries engages in practices resulting in increased public attention to our businesses. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the P&C insurance industry as well as increased litigation. Such increase may further increase our costs of doing business and adversely affect our profitability by impeding our ability to market our products and services, requiring us to change our products or services or increasing the regulatory burdens under which we operate. The periodic negative publicity of insurance and related businesses may negatively impact our financial results and financial condition. To mitigate these risks the Board of Directors has created the Disclosure Committee which is composed of senior officers and chaired by the Chief Legal Officer. This committee oversees the Company's disclosure practices and procedures, its role includes maintaining awareness and understanding of corporate disclosure rules and guidelines, educating and informing employees about the Company's disclosure practices, determining whether corporate developments constitute material information and reviewing and approving all material disclosure releases or statements of Intact Financial Corporation. In addition, the Enterprise Risk Committee monitors the Company's operations to identify situations that can negatively affect the Company's reputation. If necessary, the committee approves policies and implement procedures to mitigate reputation risk.

Credit downgrade risk

Independent third party rating agencies assess the Company's ability to honour its financial obligations (the "issuer credit rating") and the insurance subsidiaries' ability to meet their ongoing policyholder obligations (the "financial strength rating").

The rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us.

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

Subsequent to the close of the acquisition of AXA Canada, Moody's Investors Service downgraded the Company's senior debt rating and long-term issuer rating to Baa1 from A3. Further downgrades may affect the Company's ability to raise capital or may result in an increase in the cost of raising capital with negative implications to shareholders and other stakeholders.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation associated with financial liabilities. To manage its cash flow requirements, the Company maintains a portion of its investments in liquid securities.

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.

In connection with the acquisition of AXA Canada, the Company has issued additional MTN. To manage the additional liquidity risk due to an increase in debt outstanding, the Company has issued longer term maturities and has staggered the maturities accordingly.

Limit on dividend and capital distribution risk

As a holding company, IFC is a legal entity and is separate and distinct from its operating subsidiaries, most of which are regulated insurance companies. Canadian insurance regulations limit the ability of our insurance subsidiaries to pay dividends and require our insurance subsidiaries to maintain specified levels of statutory capital and surplus. In addition, for competitive reasons, our insurance subsidiaries need to maintain financial strength ratings which require us to sustain minimum capital levels in our insurance subsidiaries. These restrictions affect the ability of our insurance subsidiaries to pay dividends and use their capital in other ways. The inability of our subsidiaries to pay dividends to us could have a material adverse effect on our business and financial condition, our ability to pay dividends and the price of securities issued by the Company.

Dependency on key employees risk

Our success has been, and will continue to be, dependent on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations.

The Company has developed a focused recruiting strategy to aggressively market careers and opportunities at Intact. The strategy includes an updated web site, focused external recruiting, campaigns, rebranding and targeted advertising. It also includes partnering with four universities on graduate recruiting as well as commercial and personal lines trainee program recruiting. Talent identification and development programs have been implemented to retain and grow existing talent and ingrain succession planning.

11.6 Reinsurance

In the ordinary course of business, we reinsure certain risks with other reinsurers to limit our maximum loss in the event of catastrophic events or other significant losses.

Our objectives related to ceded reinsurance are:

- capital protection;
- reduction in the volatility of results;
- increase in underwriting capacity;
- access to the expertise of reinsurers.

The placement of ceded reinsurance is done almost exclusively on an excess of loss basis (per event or per risk) as per practice, actuarial norms and regulatory guidelines. Under such programs, management considers that in order for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes significant insurance risk related to the underlying reinsured policies and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance. Furthermore, the reinsurance treaties call for timely reimbursement of ceded losses.

The reinsurers chosen to participate in the reinsurance program have a minimum rating of A- from A.M. Best or S&P at inception of the treaties. The financial analysis performed by the Company's specialized reinsurance brokers and other qualitative information are also considered in the selection of the Company's reinsurers. The treaties have a security review clause allowing the Company to change a reinsurer during the term of the treaties if its rating falls below the minimum required. Because of the importance of the Catastrophe program in place, a certain level of concentration exists with high-quality reinsurers but, diversification of reinsurers remain a key element and is analyzed and implemented to avoid excessive concentration in a specific reinsurance

group. A single catastrophic event such as an earthquake could financially weaken a reinsurer, so distribution of risk is an important reinsurance strategy for the Company.

At December 31, 2011, all of our reinsurance treaties are with unaffiliated reinsurance companies substantially all of which meet our financial strength rating requirements.

In line with industry practice, our reinsurance recoverable with licensed Canadian reinsurers ($276 million as at December 31, 2011, $190 million as at December 31, 2010) are generally unsecured as Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claims liabilities take priority over the reinsurer's subordinated creditors. Reinsurance recoverable with non-licensed reinsurers ($130 million as at December 31, 2011, $45 million as at December 31, 2010) are secured with cash, letters of credit and/or assets held in trust accounts of $183 million as at December 31, 2011 ($66 million as at December 31, 2010).

In order to reflect the new magnitude of the combined business portfolio and our capital base, we have made significant adjustments to our reinsurance coverage as well as in our net retention of risks.

Section 12 - Off-balance sheet arrangements

12.1 Securities lending

We participate in a securities lending program to generate fee income. This program is managed by our custodian, a major Canadian financial institution, whereby we lend securities we own to other financial institutions to allow them to meet their delivery commitments. As at December 31, 2011, we had loaned securities, which are reported as Investments in the accompanying audited Consolidated financial statements, with a fair value of $1,550 million (compared to $1,332 million as at December 31, 2010). Collateral is provided by the counterparty and is held in trust by the custodian for our benefit until the underlying security has been returned to us. The collateral cannot be sold or re-pledged externally by us, unless the counterparty defaults on our financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the loaned securities and amounts to $1,628 million at December 31, 2011 ($1,399 million as at December 31, 2010).

Section 13 - Accounting and disclosure matters

13.1 Significant accounting estimates and assumptions

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

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:

Valuation of claims liabilities

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

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business line and claim types. Large claims are usually separately addressed, either by being reserved at

the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

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 – *Employee future benefits* to the accompanying audited Consolidated financial statements.

Impairment

Goodwill and intangible assets

We determine 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 recoverable amount are discussed in Note 17 – *Goodwill and intangible assets* to the accompanying audited Consolidated financial statements.

Financial assets

We determine whether financial assets, other than those classified or designated as fair value through profit or loss, are impaired at each audited Consolidated balance sheets 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 judgements 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.

Measurement of embedded derivatives

We own 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. Judgement is also required to determine the time period over which the volatility is measured.

Measurement of income taxes

Management exercises judgment in estimating the provision for income taxes. We are subject to income tax laws in various provincial jurisdictions where we operate. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that our 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.

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* to the accompanying audited Consolidated financial statements.

13.2 Financial instruments

An important portion of our audited Consolidated balance sheet is composed of financial instruments. Our financial assets include investments (cash and cash equivalents, debt securities, preferred shares, common shares and loans) and premium receivables. Our financial liabilities include claims liabilities, financial liabilities related to investments and debt outstanding. Derivative financial instruments are mainly used to manage our exposure to market risks and credit risks (see Section 11.5). They consist mostly of forwards and futures, swaps, and credit derivatives.

- Forwards are used to mitigate the risk arising from foreign currency fluctuations and futures are used to alter exposure to interest rate fluctuations.
- Swaps are used mainly in conjunction with other financial instruments to synthetically alter the cash flows of certain of our investments.
- Credit derivatives are used mainly to alter credit exposure to specific bond issuers.

Financial instruments are required to be recognized at their fair value on initial recognition. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as FVTPL or AFS are carried at fair value, while all others are carried at amortized cost.

The fair value of financial instruments on initial recognition is normally the transaction price, being the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments are determined based on available information and categorized according to a three-level fair values hierarchy. The distribution of the Company's financial instruments between each of the fair value hierarchy levels is described in Note 8 – *Fair value measurement* to the audited Consolidated financial statements.

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

Refer to Note 3 – *Summary of significant accounting policies*, Note 7 – *Derivative financial instruments* and Note 8 – *Fair value measurement* to the accompanying audited Consolidated Financial statements for details on the classification and measurement of financial instruments

13.3 Future changes in accounting policies

We are currently analyzing the impact the following standards will have on our audited Consolidated financial statements:

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 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.

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 audited consolidated statement 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.

Joint arrangements

IFRS 11 – *Joint arrangements* replaces IAS 31 – *Interest in joint ventures* and SIC-13 – *Jointly controlled entities – non-monetary contributions by ventures* 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.

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.

Fair value measurement

In May 2011, the IASB issued IFRS 13 – *Fair value measurement* with a view to set 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.

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.

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.

13.4 Related-party transactions

We enter into transactions with associates and joint ventures in the normal course of business. All related-party transactions are with entities associated with our distribution segment. These transactions consist mainly of commissions for brokerage services and interest revenue from loans. These transactions are measured at the amount of consideration paid or received as established and agreed by the related parties. Management believes that such exchange amounts approximate fair value.

We also enter into transactions with key management personnel and post-employment plans. Our key management personnel include all members of the Board of directors and named executive officers. Key management personnel can subscribe to insurance products offered by the Company in the normal course of business. The terms and conditions of those operations are essentially the same as those applicable for our clients and employees. Transactions with post-employment plans comprise the contributions paid to these plans.

Note 25 - *Related party transactions* to the accompanying audited Consolidated financial statements provide additional information on related party transactions.

13.5 Disclosure controls and procedures

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

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2011. Management can therefore provide reasonable assurance that material information relating to the Company and its subsidiaries is reported to it on a timely basis so that it may provide investors with complete and reliable information.

13.6 Internal controls over financial reporting

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

Management has limited the scope of design of our disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) to exclude the controls, policies and procedures of AXA Canada, which was acquired by IFC on September 23, 2011. AXA Canada's contribution to our audited Consolidated financial statements for the year ended December 31, 2011 was 10% of consolidated revenues and 6% of consolidated earnings. Additionally, as at September 23, 2011, AXA Canada's total assets and total liabilities were approximately 39% and 34% of our consolidated total assets and total liabilities, respectively. Management is committed to removing this limitation within the timeframe permitted by regulation, which is within one year following the acquisition date.

To facilitate the adoption of IFRS, we have implemented a one-time control over the transition to IFRS. However, no significant changes were made to our ongoing internal controls over financial reporting during the period ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Section 14 - Investor information

14.1 Outstanding share data

The following table presents the outstanding share data as at the latest practical date of this MD&A.

Table 37 – Outstanding share data

(number of shares)	**February 7, 2012**
Common shares	**129,553,665**
Series 1 Preferred shares	**10,000,000**
Series 3 Preferred shares	**10,000,000**

Refer to our Annual Information Form for more detailed information on the rights of common shareholders.

Upon closing of the AXA Canada acquisition on September 23, 2011, we converted our Subscription Receipts, issued on June 9, 2011, into 20,125,000 common shares.

On July 12, 2011, we closed an offering of 10,000,000 non-cumulative rate reset Class A Series 1 Preferred Shares and on August 18, 2011, we issued 10,000,000 non-cumulative rate reset Class A Series 3 Preferred Shares. The Series 1 and Series 3 Preferred Shares are convertible into Non-cumulative Floating Rate Class A Shares Series 2 (the "Series 2 Preferred Shares") and Series 4 (the "Series 4 Preferred Shares"), respectively, subject to certain conditions, on December 31, 2017 and September 30, 2016, respectively and on December 31 and on September 30, respectively, every five years thereafter.

See Section 8.4 – *Shareholders' equity* for more information.

14.2 Dividends on common shares and on preferred shares

Common shares

On February 7, 2011, the Board of Directors increased the quarterly dividend by 8%, or six cents, to 40 cents per share on our outstanding common shares. The decision reflected our objective of returning value to shareholders, the strength of our financial position and quality of operating earnings. This is the seventh consecutive year we have increased our dividend.

Series 1 Preferred shares

The holders of Series 1 Preferred 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 Series 2 Preferred Shares. In addition, we have the option to redeem the Series 1 and Series 2 Preferred Shares on the same dates.

Series 3 Preferred shares

The holders of Series 3 Preferred 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 Series 4 Preferred Shares. In addition, we have the option to redeem the Series 3 and Series 4 Preferred Shares on the same dates.

14.3 Long-term incentive plans share units

The following table shows the outstanding units and fair value for each of the Company's performance cycles as at December 31, 2011.

Table 38 - Outstanding units and fair value by performance cycle

	Number of units	Per unit fair value at grant date (in $)	Amount (in millions of $)
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**

Refer to Note 22 - *Share-based payments* to the audited Consolidated financial statements for details.

14.4 Expected issuance date of our financial results for the next 12 months

The expected issuance date of our financial results is as follows for the next 12 months:

First quarter results , for the period ending March 31, 2012	**May 2, 2012**
Second quarter results, for the period ending June 30, 2012	**August 1, 2012**
Third quarter results, for the period ending September 30, 2012	**November 7, 2012**
Year-end results, for the period ending December 31, 2012	**February 6, 2013**

Section 15 - Selected annual and quarterly information

15.1 Selected annual information

The following table presents selected annual information for the year ended:

Table 39 – Selected annual information

	IFRS		Canadian GAAP
(in millions of dollars, except as otherwise noted)	2011	2010	2009
Total revenues	**5,531**	4,788	4,241
Net underwriting income	**273**	193	54
Net income (loss) from continuing operations	**457**	498	127
Net income	**465**	498	127
EPS – basic and diluted (dollars)	**3.96**	4.32	1.06
From continuing operations	**3.89**	4.32	1.06
Cash dividends declared per share (dollars)			
Common shares	**1.48**	1.36	1.28
Class A			
Series 1 Preferred Shares	**0.25**	-	-
Series 3 Preferred Shares	**0.19**	-	-

The following table presents selected annual information as at:

Table 40 – Selected annual information

	IFRS		
(in millions of dollars, except as otherwise noted)	December 31, 2011	December 31, 2010	January 1, 2010
Investments	**11,828**	8,653	8,057
Total assets	**19,753**	12,075	11,311
Debt outstanding	**1,293**	496	398
Shareholders' equity	**4,341**	2,969	2,917

Refer to Note 29 – *First-time adoption of IFRS* to the accompanying audited Consolidated financial statements for the details of our IFRS adoption.

15.2 Selected quarterly information

Table 41 – Selected quarterly information

(in millions of dollars, except as otherwise noted)	Q4-2011	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010
Written insured risks (thousands)	**1,508**	1,251	1,379	946	1,054	1,247	1,369	944
DPW	**1,576**	1,226	1,354	943	1,060	1,206	1,318	914
Total revenues	**1,730**	1,329	1,247	1,225	1,196	1,225	1,220	1,148
Net premiums earned	**1,616**	1,121	1,075	1,068	1,092	1,067	1,054	1,019
(Favourable) unfavourable prior year claims development	**(38)**	(31)	(72)	(81)	(53)	(25)	(39)	(75)
Net underwriting income (loss)	**118**	65	33	58	22	37	66	69
Combined ratio	**92.7%**	94.2%	97.0%	94.6%	98.0%	96.6%	93.7%	93.2%
NOI	**152**	111	95	101	80	90	119	113
Net income from continuing operations attributable to shareholders	**76**	101	123	157	107	109	141	141
Net income	**84**	101	123	157	107	109	141	141
EPS basic and diluted (dollars)	**0.62**	0.87	1.12	1.42	0.95	0.96	1.22	1.19
From continuing operations	**0.55**	0.87	1.12	1.42	0.95	0.96	1.22	1.19
NOIPS (in dollars)	**1.14**	0.97	0.87	0.91	0.71	0.79	1.04	0.95

Our results for the third and fourth quarters of 2011 reflect the acquisition of AXA Canada on September 23, 2011.

See discussion on seasonality of the business in Section 6 - *Business developments and operating environment*.

Section 16 - Non-IFRS financial measures

Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies in our industry. These Non-IFRS financial measures are used by management and financial analysts to assess our performance.

- NOI, pre-tax NOI, NOIPS and OROE exclude the impact of integration and restructuring costs, change in fair value of contingent consideration, market-based yield effect, as well as the amortization of intangible assets recognized in business combinations.
- AEPS and AROE exclude the impact of integration and restructuring costs, change in fair value of contingent consideration, as well as the amortization of intangible assets recognized in business combinations.
- The market based yield represents the annualized total pre-tax investment income (before expenses) divided by the average fair values of equity and fixed income securities held during the reporting period.

We believe that these metrics more accurately reflect our underlying business performance.

Table 42 – Reconciliation of operating income (net and pre-tax) and NOIPS to net income

(in millions of dollars, except as otherwise noted)	Q4-2011	Q4-2010	2011	2010
Net income	**84**	107	**465**	498
Less net income from discontinued operations	**(8)**	-	**(8)**	-
Add net income tax expense	**40**	29	**137**	139
Add net investment losses (deduct gains) excluding FVTPL fixed-income securities (table 11)	**6**	(50)	**(140)**	(161)
Add market yield effect (table 12)	**-**	8	**17**	15
Add amortization of intangible assets recognized in business combinations	**5**	2	**13**	9
Add integration and restructuring costs	**42**	-	**71**	-
Add change in fair value of contingent consideration	**41**	-	**41**	-
Pre-tax operating income	**210**	96	**596**	500
Add tax impact	**(58)**	(16)	**(136)**	(98)
NOI	**152**	80	**460**	402
Less preferred share dividends	**(5)**	-	**(8)**	-
NOI to common shareholders	**147**	80	**452**	402
Divided by weighted-average number of common shares (millions)	**130**	113	**115**	115
NOIPS	**1.14**	0.71	**3.91**	3.49

Section 17 - Cautionary note regarding forward-looking statements

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

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: the Company's ability to implement its strategy or operate its business as management currently expects; its ability to accurately assess the risks associated with the insurance policies that the Company writes; unfavourable capital market developments or other factors which may affect the Company's investments and funding obligations under its pension plans; the cyclical nature of the P&C insurance industry; management's ability to accurately predict future claims frequency; government regulations designed to protect policyholders and creditors rather than investors; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; the Company's reliance on brokers and third parties to sell its products to clients; the Company's ability to successfully pursue its acquisition strategy; the Company's ability to execute its business strategy; synergies arising from, and the Company's integration plans relating to the AXA Canada acquisition; management's estimates and expectations in relation to resulting accretion, internal rate of return and debt-to-capital ratio after closing of the AXA Canada acquisition; various other actions to be taken or requirements to be met in connection with the AXA Canada acquisition and integrating the Company and AXA Canada, as well as the sale of AXA Canada's Life Insurance Business to SSQ, Life Insurance Company Inc.; the Company's participation in the Facility Association (a mandatory pooling arrangement among all industry participants) and similar mandated risk-sharing pools; terrorist attacks and ensuing events; the occurrence of catastrophic events; the Company's ability to maintain its financial strength and issuer credit ratings; the Company's ability to alleviate risk through reinsurance; the Company's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); the Company's reliance on information technology and telecommunications systems; the Company's dependence on key employees; general economic, financial and political conditions; the Company's dependence on the results of operations of its subsidiaries; the volatility of the stock market and other factors affecting the Company's share price; and future sales of a substantial number of its common shares.

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